meaning and factors enabling Globalisation, WTO, impact of Globalisation – technology and liberalisation (removal of trade barriers)

WTO (main objectives) favourable impact of the globalisation – starting of MNC's and benefits to Indian Companies.

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India met with a severe foreign crisis in 1991. Foreign exchange reserves fell to the lowest level that was not adequate (a) to pay to imports for more than 2 weeks and (b) to pay the interest that need to be paid to international lenders. Indian Government then approached the World Bank and International Monetary Fund (IMF) for loan. While granting a loan of $7 billion, these international agencies put certain conditions on India. These included.

→ Removing restrictions on the private sector
→ Reducing the role of the Government in many areas and,
→ Removing trade restrictions.

India agreed to these conditions and announced the reform policy popularly known as New Economic Policy. Liberalisation, Privatisation and Globalisation are the three components of this policy.

Three Main Components of New Economic Policy (1991)

- **Liberalisation** : It refers to end of license, quota and many more restrictions and controls which were put on trade and industry before 1991
- **Privatisation** : It refers to giving greater role to private sector and reducing the role of public sector.
- **Globalisation :** It refers to integration of Indian economy with the economies of the world.

1. GLOBALISATION

Globalisation means integrating our economy with the world economy. In other words, it implies interaction of the domestic economy relating to production, trading and financial transactions with other countries of the world.

- In this process, we become economically interdependent at the global or international level. This takes place at various levels.
- We can produce goods and services and sell them in other countries.
- Similarly, foreign investors can set up enterprises in India, produce goods for sale within the country, or export them.
- Globalisation includes not only movement of capital but also labourers from one country to another.

Globalisation means the speed up of movements (of human beings) goods and services, capital, technologies all over the world. One of the effects of globalisation is that it promotes and increase interaction between different regions and populations around the globe.

Objectives of Globalisation in India

(1) The aim of globalisation in India was to promote business opportunities in the country, generate employment and attract foreign investment.

(2) To make use of global resources for country's own development.

(3) It aims at bringing the market closer than before.

(4) It aims at providing a vast free choice.

CASE FOR GLOBALISATION

Globalisation results in manifold advantages which are mentioned below:

(i) **Removal of Inefficiency:** Globalisation removes inefficiency among industries/firms which become careless in the absences of globalisation.

(ii) **Increase in Productivity:** Globalisation of underdeveloped countries will improve the allocative efficiency of resources, reduce the capital output ratio and increase the labour productivity. It increases the inflow of capital and updated technology into the country. It tends to reduce relative prices of manufactured goods and improve the terms of trade in agriculture.

(iii) **Competition:** It encourages foreign competition which will lead to reduction in prices and improvement in the quality of goods. Uneconomic import substitution will go away slowly. And cheaper imports of particularly capital goods will reduce the capital output ratio in the manufacturing sector.

(iv) **Improvement in Banking and Financial Sectors:** The efficiency of banking and financial sectors will improve with the opening of these sectors to foreign banks.

In short, globalised economies can grow faster than inward looking economies. Countries are able to work together towards common goals.

Features of Globalisation

Integration of National Economy
↓
Free Market Economy
↓
Economic Interdependence
↓
Free movements of products
↓
Free flow of factors of production
↓
Global Competition
↓
Multinational Corporations (MNCs)
↓
Facilitates by Global Organisation
↓
Expansian in volume of World Trade
↓
Mergers and Acquisitions

2. FACTORS ENABLING GLOBALISATION

The main factors that led to the development of globalisation are as follows :

(a) **Technology:** Technology has stimulated the globalisation process most. It has enabled the globalisation process in the following ways:

(i) Improvement in the transportation technology has made faster delivery of goods across long distances possible and that too at lower cost.

(ii) Improvement in information and telecommunication technology has proved more remarkable. The invention and the use of computers, internet, mobile phones, fax etc. have made contact with each other around the world quite easy. Now we may have access to any information within no time.

(iii) Information and communication technology has also played a crucial role in spreading out production of their services. For example, a news magazine for London readers can be printed in New Delhi with the help of Internet technology.

(b) **Liberalisation:** *Liberalisation implies liberating trade and industry from unwanted government controls and restrictions.*

Liberalisation contains two things:

(a) To allow private sector to run those industries which were earlier reserved for public sector and

(b) Relaxation in the rules and regulations made for the private sector.

- The basic ideology behind liberalisation is that the economic decisions regarding productive resources and their allocation are taken on the basis of market forces. This curtails the intervention of the state in economic activities as far as possible. Liberalisation, thus, leads to free market economy. It results in the optimal and efficient utilisation of resources by competitive operation of markets.
- It raises the level of aggregate demand by reducing product prices. Further, it raises the levels of output and employment.

Next to technology, liberalisation has played a crucial role for promoting globalisation. Global production and trade are greatly promoted by liberalisation, that is, removal of tariffs, capital controls and other state imposed restrictions on the movement of resources between nations. Globalisation requires supporting regulatory frameworks. Relaxation in tax laws, labour legislation and environmental codes can greatly encourage global investment.

Liberalisation Measures in India

In the early years of planning, India imposed barriers on foreign trade and foreign investment. This policy was based on the belief that such types of restrictions are necessary to protect the interests of domestic producers. Further, India wanted to become self-reliant due to which it promoted investments in public sector undertakings. The government took following measures to promote liberalisation.

(1) Lifting of Trade Barriers. Since 1991, the government decided that competition with foreign producers would improve the performance of domestic producers.

The policy of liberalisation is also known as the New Economic Policy (NEP) because the government has taken a U-turn in its policy that remained in course for more than four decades.

Thus, barriers on foreign trade like removal of quantitative restrictions on imports, cut in custom duties, export duties and barriers on foreign investment were removed to a large extent. This meant that goods could be imported and exported easily and also foreign companies could set up factories and offices here.

(a) These barriers were removed because India wanted to integrate the economy with other countries.

(b) The removal of barriers were sought to achieve rapid economic development of the country.

(c) Government wanted Indian industry to compete with foreign companies.

(2) Special Economic Zones. As a result of liberalisation of trade and investment, the government of India established several **Special Economic Zones (SEZs)** where world class infrastructural facilities like electricity, roads, transport, storage, water, recreational and educational facilities were made available to foreign companies. Moreover, those foreign companies who set up their units in such economic zones are provided relaxation in taxes for an initial period of 5 years.

(3) **Relaxation in Foreign Exchange Controls**. Foreign exchange controls were relaxed permitting liberal transactions in foreign currencies on current account.

Trade Barriers

Trade barriers refer to the policies which restrict free trade to protect domestic industries/producers from foreign competition. Imposing import duties (i.e., tax on import of goods) or quantitative restrictions on foreign goods are called trade barriers.

How do Trade Barriers Protect Domestic Industries?

For example, suppose Government of India imposes import duty (called tax barrier) on Chinese toys. Due to this import duty, the price of Chinese toys in Indian market would increase and hence the import of toys from China would come down. This would protect Indian toy manufacturers. Similarly, quotas (i.e., quantitative restrictions) can be fixed for the import of certain goods.

(4) **Flexibility in Labour Laws**. Foreign companies were allowed flexibility in labour laws so that they could employ workers for short periods (on temporary basis) and hence, cut-off the cost of production. Employer has to not give social security benefits to workers such as gratuity. Companies can exploit the conditions of surplus labour and hence can pay minimum wages.

(5) **Make in India**. Recently the Government has launched a massive programme called 'Make in India' inviting foreign investors to come to India and utilise the potential of cheap labour and land costs to set up industry. The foreign investors are being offered incentives to invest in India.

Impact of Liberalisation on the Indian Economy

(i) Due to abolition of licensing system under liberalisation policy, the establishment of new units has now become easy.

(iii) The policy of liberalisation allowed the entry of MNCs into Indian market. This increased competitive environment in the domestic market.

(iii) Before liberalisation, it was a producers' market. Now after liberalisation, it has become a consumer's market. A variety of brands of each product are now at available at competitive prices in the market. The consumer have now become selective.

3. IMPACTS OF GLOBALISATION

Let us now evaluate the impacts of globalisation on the Indian economy under the following two heads.

3.1 Positive Impacts

(i) **Growth Rate :** The growth rate of GDP increased from 5.6 per cent during 1980-91 to 8.2 per cent during 2007-12.

(ii) **Technology**. Modern technologies and management services are being provided by MNCs in India.

(iii) **Inflow of Foreign Capital**. The inflow of foreign currency in the country has increased as MNCs bring capital in foreign currency. During the reform period, country's foreign exchange reserves have increased from US $ 6 billion in 1990-91 to a record level of US $ 633 billion in 2021. And foreign direct investment which was about US $ 100 million in 1990-91 increased to US $ 76 billion in 2020-21.

(iv) **Competition**. The entry of MNCs has promoted competition in the domestic market. This has proved very beneficial for the Indian companies as well as consumers. Tata Motors, Infosys, Ranbaxy, Asian Paints and Sundaram Fastners are some of the Indian companies which have benefitted from the increased competition. Globalisation has also helped these large Indian companies to emerge as multinationals. These MNCs have expanded their business globally creating employment opportunities for Indian people abroad. They earn valuable foreign exchange.

(v) **Benefits to Consumers.**

- We have a wide variety of goods and services before us in the market.
- The latest models of the digital cameras, mobile phones and televisions made by leading manufacturers of the world are available in the market.
- Today, Indians are buying cars produced by nearly all the top companies in the world.
- A similar explosion of brands can be seen for many other goods.

(vi) **New Employment Opportunities**. Outsourcing has emerged as a major business activity outsourcing means hiring of services by MNCs from external sources. In outsourcing, a company hires regular service from external sources, mostly from other countries, which was previously provided internally or within the country. Because of the growth of the fast modes of communication, particularly the growth of information technology, many of the services like voice-based business processes [popularly known as **BPO** (Business Process Outsourcing) or **call centres**], record keeping, accountancy, banking services, etc., are being outsourced by companies in developed countries to India. With reasonable degree of skill and accuracy, India is capable of providing these services at a cheaper cost.

Thus globalisation has created new employment opportunities in the country.

3.2 Negative Impacts

(i) Globalisation is posing a big threat to small producers as they cannot withstand the competition arising from MNCs.

(ii) Standards of living have improved only in urban areas. It has increased the income and quality of consumption of only high income groups. Poverty is still widespread in the country.

(iii) The growth has been concentrated only in some selected areas in the service sector such as telecommunication, information technology, finance, entertainment, travel and hospitality services, real estate and trade. Globalisation has bypassed the agricultural sector which provides livelihoods to millions of people in the country.

(iv) Technological changes occurring in India have resulted more loss of jobs than they have created.

(v) There are constant fluctuations in prices due to greater integration of the global commodities market.

Impacts of Globalisation on the Indian Economy

Positive Impacts	Negative Impacts
• Multinationals (MNCs) provide new jobs and skills • MNCs bring foreign exchange to local economies. • Consumers enjoy a greater choice of goods. • India's IT Sector has been booming in recent year. • India becoming attractive investment hub.	• Operates mostly in the interest of the rich countries who dominate world trade. • MNCs drive local companies out of business • Disparity between rural and urban India • Unemployment due to use of highly advanced techniques of production.

The Struggle for a Fair Globalisation

The above-mentioned positive and negative impacts indicate that globalisation has not benefitted everyone. The best use of new opportunities has been made mostly by people having education, skill and wealth. Thus, it is very important to have fair globalisation to create opportunities for all and also to ensure that the benefits of globalisation are shared better. Government policies must protect the interests of all the people of the country.

Government should ensure that labour laws are properly implemented and the workers get their rights. Small producers should be supported to improve their performance till they become strong enough to compete.

Besides this, the government can use trade and investment barriers and can also negotiate at the WTO for 'fairer rules'. Along with other developing countries, it can fight against the domination of developed countries in the WTO.

4. WORLD TRADE ORGANIZATION

World Trade Organization (WTO) is an international body under the United Nations. It was set up in 1995 to promote trade among member countries. Its headquarter is located in Geneva (Switzerland). India became its member on January 1, 1995. Presently there are 164 member countries of this organisation. All the member countries are required to adopt laws and policies in order to comply with the WTO rules.

Foreign Trade — An important Component of Globalisation

- Foreign trade implies exchange of goods and services across the countries. Hence, it is an important component of globalisation.
- Foreign trade helps to expand the size of market for producers across the countries.
- It works to integrate market globally.

4.1 Functions of WTO

The WTO was set up to perform the following functions :

(i) Monitoring WTO trade agreements

(ii) Handling of trade disputes

(iii) Providing technical assistance and training to developing countries and

(iv) To co-operate with other international organisations.

4.2 OBJECTIVES OF WTO

The main objectives of WTO are as follows :

(i) To promote multilateral trade, i.e., trade among many nations.

(ii) Progressive liberalisation and elimination of tariffs and other barriers to trade in goods as well as services.

(iii) To promote world trade so that every member country is benefitted.

(iv) To expand and utilise world resources in the most optimum manner.

(v) To enhance competition among all trading partners so as to benefit the consumers.

Though WTO is supposed to allow free trade for all, in practice, it is seen that the developed countries have unfairly retained trade barriers. On the other hand, WTO rules have forced the developing countries to remove trade barriers. For example in USA, farmers get huge sums of money from the government for production and for exports to other countries. Due to this, farmers are able to sell their products at very low prices to other countries. However, developing countries have lifted trade barriers as per WTO rules. Thus WTO is not fair to developing countries.

Steps needed to be taken

(i) Rules and regulations should be uniform for all the countries.

(ii) Ensure that the developed countries do not retain trade barriers unfairly.

(iii) Labour laws should be implemented properly.

5. MULTINATIONAL CORPORATIONS

The emergence of multinational corporations is one of the most important outcomes of the globalisation process. MNCs have a stronghold in the Indian economy. They have promoted competition in the Indian economy which has resulted in lower prices.

5.1 What is meant by an MNC?

An MNC is a large company that owns or controls production and marketing operations in two or more countries.

An MNC is different from other companies. The MNCs set up offices and factories for production in regions where they can get cheap labour and other resources. This is done so that the cost of production is low and the MNCs can earn greater profits. The MNCs do not produce all the goods on their own and at one single place. Its activities are spread across other countries. Consider the following example.

Suppose a large MNC produces industrial equipment. The company designs its products from the Research and Development (R&D) centres in the United States of America. Then, it gives orders for the production of components to the manufacturing units located in China as per specified designs. These components are assembled in Mexico and Eastern Europe and the finished products are sold all over the world. Customer care related services of these products are carried out in the call centres located in India.

In the above example, research is carried out in the USA because the country has Research centre and goods are manufactured in China because of cheap manufacturing location. Mexico and Eastern European countries are useful for their closeness to the markets in the USA and Europe. The company has set up company's customer care centre in Bengaluru because India provides cheap skilled engineers and workers. Had the MNC produced the complete product in its own country which ensures a very high salary structure, difficult labour laws, costly land and limited human capital, the cost of production would have been 3–4 times higher. In this way, MNCs not only sell their products globally but also produce them globally.

Features of MNCs

- The parent company of an MNC is located in one country and its subsidiaries are working in many countries.
- Most MNCs are of giant size. They have huge capital base.
- The MNCs have advanced technology.
- MNCs are different from other companies. Their activities are spread across the countries while other companies are local in their existence.

5.2 Interlinking Production Across Countries

Generally, MNCs have set up production units where

(a) it is close to the markets.

(b) skilled and unskilled labour is available at low cost.

(c) the availability of other factors of production is assured.

(d) government policies look after their interests.

After considering all the above-mentioned factors, MCNs set up their factories and offices for production.

The money spent by MNCs on the purchase of assets such as land, buildings, machines and more equipments is called **investment** from the point of view of MNCs. Investment made by MNCs in other countries is called **foreign investment**.

5.3 Three Different Ways of Investment by MNCs

There are mainly three ways by which MNCs are spreading and interlinking productions. These are discussed below.

1. Joint Ventures. Of different countries, MNCs may prefer to set up production jointly with some of the local companies. Local companies are benefitted in two ways :

- First, MNCs can provide money for additional investments like buying new machines for faster production.
- Second, MNCs might bring with them the latest technology for production.

2. Taking Over Local Companies. The most common route for MNC investments is to buy up local companies and then to expand production. The MNCs with huge capital base can quite easily do so.

For example, Cargill Foods, an American MNC, has taken over Parakh Foods, an Indian company. Cargill has taken over all the four oil refineries of Parakh Foods and thus has become the largest producer of edible oils in India. Similarly, Thums Up of Parle Group was taken over by Coca Cola.

3. Placing Orders. There is another way in which MNCs control production. Large MNCs in developed countries place orders for production with small producers and then sell them under their own brand names after some quality checks and improvements. For example, garment, footwear, sport items, etc., are produced by a large number of small producers around the world on behalf of MNCs. These products are produced by the MNCs and then MNCs sell them under their brand name all over the world.

In India if you see carefully on the labels, many of the goods sold under names of American companies are made in China, many garments of European brands are made in Bangladesh and many Japanese brands are made in Korea.

Thus, we see that there are a variety of ways in which the MNCs are spreading their production either through merger of companies or through joint ventures or placing supply orders to the small producers of different countries. In this way MNCs play the role in interlinking production across countries.

SUMMARY

1. Globalisation means integration of an economy with the world economy.
2. **Liberalisation:** Liberalisation implies liberating the trade and industry from unwanted government controls and restrictions.
   - Globalisation results in free flow of goods and services, capital, technology and labour across the countries.
   - Two main factors that led to the development of globalisation are technology and liberalisation.
   - For liberalisation the government took following measures :
     (i) Lifting of trade barriers
     (ii) Setting up Special Economic Zones
     (iii) Providing flexibility in labour laws
     (iv) Promoting 'Make in India' programme
   - **Impacts of Globalisation**

     Positive Impacts :
     (i) Rise in growth rate
     (ii) Transfer of technology
     (iii) Inflow of foreign capital
     (iv) Competitive environment in the domestic market
     (v) Availability of variety of goods and services to consumers at affordable prices
     (vi) New employment opportunities
   - **Negative Impacts :**
     (i) Loss to small producers
     (ii) No benefit to low income groups
     (iii) Decline on the agriculture sector
     (iv) Constant fluctuations in prices
3. World Trade Organisation (WTO) is an international body under the United Nations and it was set up in 1995 to promote trade among member countries.
4. Though WTO is supposed to allow free trade for all, in practice, it is seen that the developed countries have unfairly retained trade barriers.
5. **Multinational Corporations:** A Multinational Corporation is a big company whose headquarter is located in one country and its trading and manufacturing activities are spread over many other countries.
   Many MNCs are presently operating in our country. They have emerged in India as a result of the globalization process. MNCs provide both capital and modern technology. They bring capital in foreign currency. Because of better technology, quality products are produced which find easy market internationally. With the entry of MNCs in India, our consumers are most benefitted, who get global brands at competitive rates.

QUESTIONS

MULTIPLE CHOICE QUESTIONS

1. Globalisation shall result in
   (a) lesser competition among producers
   (b) greater competition among producers
   (c) greater competition among buyers
   (d) destruction of large-scale producers