Globalisation

Meaning of Globalisation

Globalisation is the integration of the economy of a country with the world economy. It aims to encourage foreign trade and private and institutional foreign investment. It creates various policies which try to turn the world into one.

Factors Enabling Globalisation

Technology

Technology is one of the factors which have led to globalisation and have played a major role in the outspread of products and services across countries.

- Technological innovations in telecommunications—mobile, fax, computers and the Internet—have helped people living in different geographical locations to communicate with each other. This has also helped various companies in administration and expansion of their business in many countries located in different time zones.
- Computers have enabled many companies to store infinite data, which has helped in the marketing of various products and services across countries. Through the Internet, one can obtain information on any topic. Instant messages and electronic mail can be sent within seconds. This has completely revolutionised the working of several companies.
- Through technological advancements in transport systems, goods across long distances were delivered at great speed and low cost.

Liberalisation

When the government removes various restrictions and barriers such as taxes on import, it is called liberalisation. The process of liberalising trade and industry from unwanted government controls and restrictions results in an increase in the import and export of goods and commodities.

- Main objectives of the liberalisation policy:
    - To increase international competitiveness of industrial production, foreign investment and technology
    - To increase the competitive position of Indian goods in international markets
    - To improve financial discipline and facilitate modernisation
    - To decrease the debt burden of the country

- Liberal policies initiated by the government since 1991 are
    - The Indian government removed the barriers on foreign trade and investment. It enabled the foreign companies to set up their production units in India. Similarly, Indian companies established offices abroad.

- Special economic zones (SEZs) are being set up by the government to provide world-class facilities such as education, electricity, water, transport, storage and recreation. Production units in SEZs are initially exempted from taxes for a period of five years.
- Labour laws are more flexible and rules to protect workers' rights are ignored. Workers are hired for short periods to overcome the pressure of work.

Positive Impacts of Globalisation on the Indian Economy

- Increased investments in Indian markets by MNCs have led to the growth of the Indian economy. In many fields such as automobiles, smartphones, soft drinks, fast foods and garments, MNCs have created a vast choice of products for consumers.
- Local companies supplying raw materials to MNCs have developed and prospered. Many Indian companies such as *Tata Motors* and *Ranbaxy* have become multinational companies themselves.
- Globalisation has opened many new opportunities for companies in the service sector, especially IT companies. These companies offer their cheap but efficient consulting services to many nations. This has also created millions of jobs in India.
- Technology has been transferred to developing countries. It has enabled the production of quality goods in the international market. During the post-reform period, Indian export share in the international market has increased from 0.5% to 1%. Because of the flow of MNCs' capital in foreign currency, the availability of foreign exchange increased to a great extent. Foreign investment has increased from US $6 billion in 1990–91 to US $125 billion in 2004–05.
- Outsourcing is the major outcome of the globalisation process. A company hires regular services mostly from outside the country or within the country such as BPOs or call centres, banking services, teaching and maintenance of accounts. Many multinational corporations are outsourcing their services to India at cheaper rates. In the post-reform period, India has provided global outsourcing with the availability of skilled manpower at low wage rates. In India, outsourcing has generated new employment opportunities which lead to a growth in the GDP and increased the foreign reserve in our economy.

Negative Impacts of Globalisation on the Indian Economy

- Growth has been witnessed only in few selected areas in the service sector such as hospital services, information and technology, and telecommunication.
- To earn maximum profits, MNCs employed Indian workers at extremely low wages. Only in urban areas, the standard of living has improved. Their income and the quality of consumption also increased. This has led to inequalities of income in the country.
- To deal with the pressure of competition from MNCs, many Indian companies have begun to employ workers on a temporary basis so that they do not have to pay the workers for all 12 months of a year. This has resulted in companies making large profits, but workers not getting their share of benefits.

Multinational Corporations

A multinational corporation is a large company which carries on its productive and business activities in more than one country. It is also called a transnational corporation as its operations extend beyond the boundaries of the nation in which it was initiated. Example: MNCs working in India are *Johnson and Johnson* and *Coca-Cola* and Indian MNCs include *Tata Steel* and *Reliance Industries*.

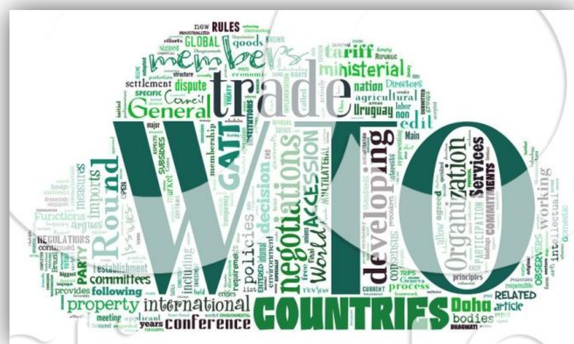
MNCs are spreading their production across countries in many ways. Large MNCs set up production units jointly with local companies in a country. Many a times, MNCs buy local companies and then start expanding their production activities. They provide advanced technology and managerial services to the enterprises established by them. Through these MNCs, technology has been transferred to developing countries. It has enabled them to produce quality goods and make them available in the international market. Thus, it paves the way to boost exports. Because of the flow of the MNCs capital in foreign currency, the availability of foreign exchange increases. This in turn enables the country to make payments for imports. Thus, MNCs are playing an important role by spreading their production across countries.

MNCs set up or control production by investing large amounts of money in a country's economy. They set up their production units close to the markets, where labour is available at low cost. They work jointly with some local companies where infrastructural facilities are adequate and enhance production in developed cities. Hence, the backward areas remain backward and create regional disparities.

World Trade Organization

The World Trade Organization (WTO) is an organisation with 160 member nations (2014) and aims to liberalise international trade. At the international level, the WTO has pressured developing countries to liberalise trade and investment.

Objectives of the WTO



- The main aim of the WTO is to implement the new world trade system.
- To promote world trade in a way that it benefits every country.
- To ensure that developing countries secure a better balance in sharing the advantages, resulting from the expansion of international trade, corresponding to their developmental needs.
- To remove all the restrictions to an open world trading system and introduce international economic renaissance because world trade is an effective instrument to faster economic growth.
- To enhance competitiveness among all trading partners to benefit consumers and help in global integration.
- To expand and use the available resources to the maximum level.
- To improve the standard of living for the global population and speed up economic development of member nations.

The Agreement on Trade Related Investment Measures (TRIMS) under the WTO calls for introducing a national treatment of foreign investments and for removal of quantitative restrictions. These restrictions were largely identified in developing countries which were creating barriers in the free flow of foreign capital. Some TRIMS agreements which were not consistent with the General Agreement on Tariffs and Trade (GATT):

- The proportion of domestic sale in foreign trade.
- Trade balancing requirements which states that the imports would not cross the limit in comparison to exports.
- Trade and its payment are made with the balance of foreign exchange.

Achievements of the WTO

- The WTO has changed the trade scenario of the entire world.
- It has revolutionised changes in media, transport and communication.
- It has created free trade and services without any restrictions.
- The WTO has ensured an increase in the export of agricultural products.
- It has resulted in the increase in the industrial efficiency and improvement in the quality of domestic products.
- The WTO has removed the barrier to foreign investment.