

# Globalization

*Opportunities and Challenges*

*“I do not want my house to be walled on all sides and my windows to be stuffed. I want the culture of all lands to be blown around my house as freely as possible. But I refuse to be blown off my feet”*

Mahatma Gandhi

# What is Globalization?

*“Globalization is the phenomenon of new incredibly over-powering and coercively integrating global system of linkages across political and geographical borders, and which is characterized by shrinking space and time, rapidly disappearing borders, accelerated inter-dependence of peoples world over, unprecedented mobility of persons, things, trade and capital, and information in the borderless world.”*

# Dimensions of Globalization

- Economic : Trade, Financial, Monetary
- Social : Movement of labour
- Cultural : Educational
- Environmental
- Technological

# Evolution of Globalization

- Pre-industrial Revolution
- Industrial Revolution
- Post First World War : Isolation
- Post Second World War : General Agreement on Tariffs and Trade (GATT)
- Post 1990s : World Trade Organization (WTO)
- Post 2015 : Emerging isolation

# Factors Leading to Intensive Globalization

- Collapse of communism
- Receding threat of war
- Economic interdependence
- Mutual benefit
- Technology and internet

# World Trade Organization

# Why WTO?

- The rules of GATT were not being applied to two important trade sectors : Agriculture and Textiles
- Trade in Services had grown into an important component of international trade
- No protection to intellectual property rights (IPR)
- A shift in the trade policies of developing countries from import substitution to policies encouraging export oriented growth
- Breakdown of communism
- Adoption of market oriented reforms



# Immediate Positive Outcomes of WTO

- An improve framework of multilateral rules
- Improvement in access to foreign markets for both goods and services

# Improved Framework of Rules

- GATT and its associate agreements which applied to trade in goods
- GATS (General Agreement on Trade in Services) which applies to trade in services
- Agreement on Agriculture
- TRIMS (Trade Related Investment Measures)
- ASMC (Agreement on Subsidies and Countervailing Measures)

# Four Basic Rules

- Protection to domestic industries through tariffs
- Binding of Tariffs
- Most Favoured Nation (MFN) treatment
- National Treatment

# Rules Governing Use of Subsidies

Agreement on Subsidies and Countervailing Measures (SCM) aims at prohibiting or restricting the use of subsidies that have trade distorting effects

Types of Subsidies :

- A. Prohibited Subsidies: Subsidies that aim at encouraging the use of domestic rather imported goods (Developing countries were given a grace period of 8 years)
- B. Permissible Subsidies :
  - 1. Non-Actionable : Subsidies granted on the basis of objective criteria that are economic in nature and horizontal in application and do not favour certain enterprises over others (e.g. subsidies to industries in backward areas)
  - 2. Actionable : Subsidies which cause adverse effects to the interest of other members

# Remedies Available to Affected Countries

A. Prohibited Subsidies: If bilateral consultations fail, the matter could be brought before Dispute Settlement Body (DSB)

B. Actionable Subsidy : Same as A

C. Countervailing duties cannot be levied until and unless the Committee on Subsidies and countervailing Measures comes to the conclusion that such a subsidy has caused damage to the domestic industry

# Counter Action by Importing Countries

A. Safeguard Action

B. Levy of Anti Dumping and Countervailing Duties

# Safeguard Action

Agreement on Safeguard authorizes the importing countries to restrict imports for temporary periods by imposing increased tariffs or quantitative restrictions

**Pre-requisites for Restrictions:** Restriction only *after investigation* by *competent authorities* and after establishing that *increased quantities* of exports are causing *serious injury* to domestic industry

**Who can initiate action?** : By the government itself or by an industry whose collective output constitutes a major portion of domestic production of the imported product

# Anti Dumping

The following conditions have to be fulfilled for establishing dumping:

1. Goods are being sold at a price less than the one in exporting countries
2. There is injury to the domestic industry
3. There is a causal relationship between goods that are being dumped and injury to the industry.



# Trade Related Investment Measures (TRIMS)

*What it prohibits?*

- Extending more favourable treatment to domestic products in comparison to imports : a) Purchase or use of products of domestic origin or from domestic service (local content requirement); b) Limiting purchase or use of imported products to an amount related to the volume or value of the local products it exports (trade balancing requirement)
- Restricting access to foreign exchange to an amount of foreign exchange attributable to the enterprise
- Specifying exports in terms of the volume or value of local production

# General Agreement on Trade in Services (GATS)

- Across the border movement of services embodied in goods such as consultants and diskettes
- Establishment of commercial presence
- Movement of natural persons
- Consumer movement to the country of importation as in case of tourism

# Problems with GATS

- The Agreement does not call for across the board liberalization
- The principle of National Treatment has to be negotiated for each sector

# Agreement on Agriculture

## *Elements*

- Market Access : Tarification of Non-Tariff Barriers (NTB); Reduction of Tariffs; Minimum Access
- Domestic Support : Green Box, Blue Box and Amber Box Measures
- Export Subsidies

# Trade Related Intellectual Property Rights (TRIPS)

- Patents
- Copyright and related rights
- Trade Marks
- Industrial designs
- Layout designs and integrated circuits
- Trade Secrets
- Geographical indications

# Patents

- Provide property rights to inventions but to be registered as patent: it must be new; it must involve an innovative step; it must be capable of industrial application
- Patents can be for products and process

# Geographical Indication

- To inform the consumer that a good has the “quality, reputation or other characteristic” which is attributable to its geographical location (e.g. champagne)
- This is a collective right as opposed to a trademark
- Agreement mandates that countries should not permit GI registrations containing a misleading indication of the geographical origin of the goods

# Dispute Settlement Body (DSB)

- Implementation of the Report : The party found breaching the obligations has to promptly comply with the recommendations of the panel or appellate body. Where compliance cannot or does not take place, request for compensation can take place.
- Retaliatory Action: Non-compliance could lead to authorization by DSB for retaliatory actions like raising the tariff, suspending concessions or other obligations



# Issues for Consideration

- Was globalization inevitable?
- Is globalization reversible?
- Is globalization beneficial : politically, economically, socially, culturally, environmentally? Has globalization benefitted?
- Is globalization equitable?
- Is there an option not to globalise?
- Has India benefitted : politically, economically, socially, culturally ?
- What is the way forward?
- What could be the role of civil servants in a globalized world?

# Global Impact of Globalization

# Impact of Globalization

- There are countless indicators that illustrate how goods, capital, and people, have become more globalized.
- The value of trade (goods and services) as a percentage of world GDP increased from 42.1 percent in 1980 to 62.1 percent in 2007.
- Foreign direct investment increased from 6.5 percent of world GDP in 1980 to 31.8 percent in 2006.
- The stock of international claims (primarily bank loans), as a percentage of world GDP, increased from roughly 10 percent in 1980 to 48 percent in 2006.
- The number of minutes spent on cross-border telephone calls, on a per-capita basis, increased from 7.3 in 1991 to 28.8 in 2006.
- The number of foreign workers has increased from 78 million people (2.4 percent of the world population) in 1965 to 191 million people (3.0 percent of the world population) in 2005.

# Globalization and Technology

- Technology is now the forefront of the modern world creating new jobs, innovations, and networking sites to allow individuals to connect globally. The timeline below shows the rapid transformation of how technology has accelerated within the last 20 year
- **18 years ago:** Internet commercialized
- **17 years ago:** first mobile phone with Internet connectivity
- **15 years ago:** Google named the search engine of choice by PC magazine
- **12 years ago:** Blackberry launched
- **9 years ago:** Facebook launched
- **7 years ago:** Twitter launched
- **6 years ago:** iPhone, the first of the smart phones, introduced
- **5 years ago:** Groupon introduced
- **2 years ago:** 17 million smart tablets sold — estimated that 100 + million by 2014
- **Every 60 seconds** (so it seems): new apps, tailored to users' specific needs created

# Globalization and Environment

- Should environmental protection stop economic development, especially when the world economy is still recovering from the recession?
  - How does new technology influence the environmental movement at large?
  - Faced with a mobilized generation, will politicians be more willing to listen to their concerns on the environment?
  - How will new concerns about limited space and increasing urbanization influence environmental policies?

# Globalization and Culture

*“The powers that be have long believed that the world is divided into two spheres of influence: commerce and government. Now organizations representing the cultural sphere — the environment, species preservation, rural life, health, food and cuisine, religion, human rights, the family, women’s issues, ethnic heritage, the arts and other quality-of-life issues — are pounding on the doors at world economic and political forums and demanding a place at the table. They represent the birth of a new “civil-society politics” and an antidote to the forces pushing for globalization.”*

Jeremy Rifkin

# Globalization and Health

- How globalization is promoting both the rapid spread and the effective treatment of highly contagious diseases.
- The growing debate over the use and future of genetically modified organisms (GMOs).

# Impact on India of Globalization



# Initial Steps Towards Globalization

- Dismantling of Industrial Licencing
- Opening the economy for Foreign Direct Investment
- Removal of Quantitative Restrictions (QRs)
- Abolition of MRTP Act
- Reduction of Custom Duty
- Enabling access to international capital

# Impact of Globalization

- GDP that had grown from US \$ 88 billion in 1962 to 316 billion in 1990, grew at a much faster pace to 2263 billion in 2016
- Per Capita GDP that stood at US \$ 363 in 1990 grew to 1709 in 2016
- Gini Coefficient grew from 0.45 to 0.51 indicating an increase in inequality

# Impact of Globalization

- Import as a percentage of GDP grew from the lowest of 3.71 in 1972 to the highest of 31.26 in 2012. Up to 1993, the percentage was below 10 but post 1993 it has ranged between 10 and 31
- Indian exports grew from US \$ 18 billion IN 1990-91 to US \$ 310 billion IN 2014-15. Imports grew from US \$ 24 billion to US \$ 447 billion. Thus deficit grew from \$ 6 billion to \$ 137 billion
- Export as percentage of imports came down from 66.2 in 1990-91 to 61 in 2012-13
- Current Account Balance as percentage of GDP became worse from (-)3.2% in 1990-91 to (-)4.8 in 2012-13

# Impact of Globalization

- Access to television in urban India grew from 20% in 1990 to 90% in 2009. And now to every household.
- Internet access to 627 million in 2019
- Mobile telephone with 791 million in 2019

# Challenges (External)

- Increasing imports
- Increasing competition in export markets
- Intervention of multi-nationals : producing inappropriate products, oligopolistic practices, influencing critical decisions, exclusive technology
- Sudden flight of capital
- Pressure from powerful trading partners
- Non Tariff (Labour and Environment) and Technical Barriers to Trade
- Agricultural Subsidies
- IPR : Cost of medicines

# Challenges (Internal)

- Cost of capital
- Availability of capital
- Fiscal regime
- Availability of land
- Labour problems and Laws
- Poor infrastructure
- Delay in clearances

# Way Forward

- Forge common platform with similarly placed countries
- Develop expertise in conjunction with industry to tackle trade related issues internationally
- Identify goods (like meat, poultry) and services (Engineering, technology, education, health and tourism) with inherent strengths for exports and build support around them
- Identify markets (Africa, Latin America) and develop strategies for investments and exports
- Ensure strict implementation of Aggregate Measure of Support in letter and spirit by developed countries in the context of agriculture
- Improve conditions within the country to enable competitiveness and quality of Indian products and services

# Role of a Civil Servant

- Clarity in understanding of concepts like globalization, liberalisation, privatization and disinvestment.
- Defining one's role in making our products and services more competitive
- Develop expertise
- Engage with stake holders



# Thank You

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