

Globalization and India

- What is globalization?
- What led to globalization?
- Economic Impact of Globalization.
 - GDP growth, Trade, FDI
- Impact on Firms and Workers
- Social Impact of Globalization
 - Poverty, Inequality, Cultural
- Globalization and Financial Crisis

What is Globalization?

“Globalization is the growing integration of economies and societies around the world.”

(World Bank)

“A dynamic process of global economic integration characterized by increasing freedom in the movement of labor, goods, services, technology, and capital”

(De la Dehesa, 2000).

Globalization is Not New.

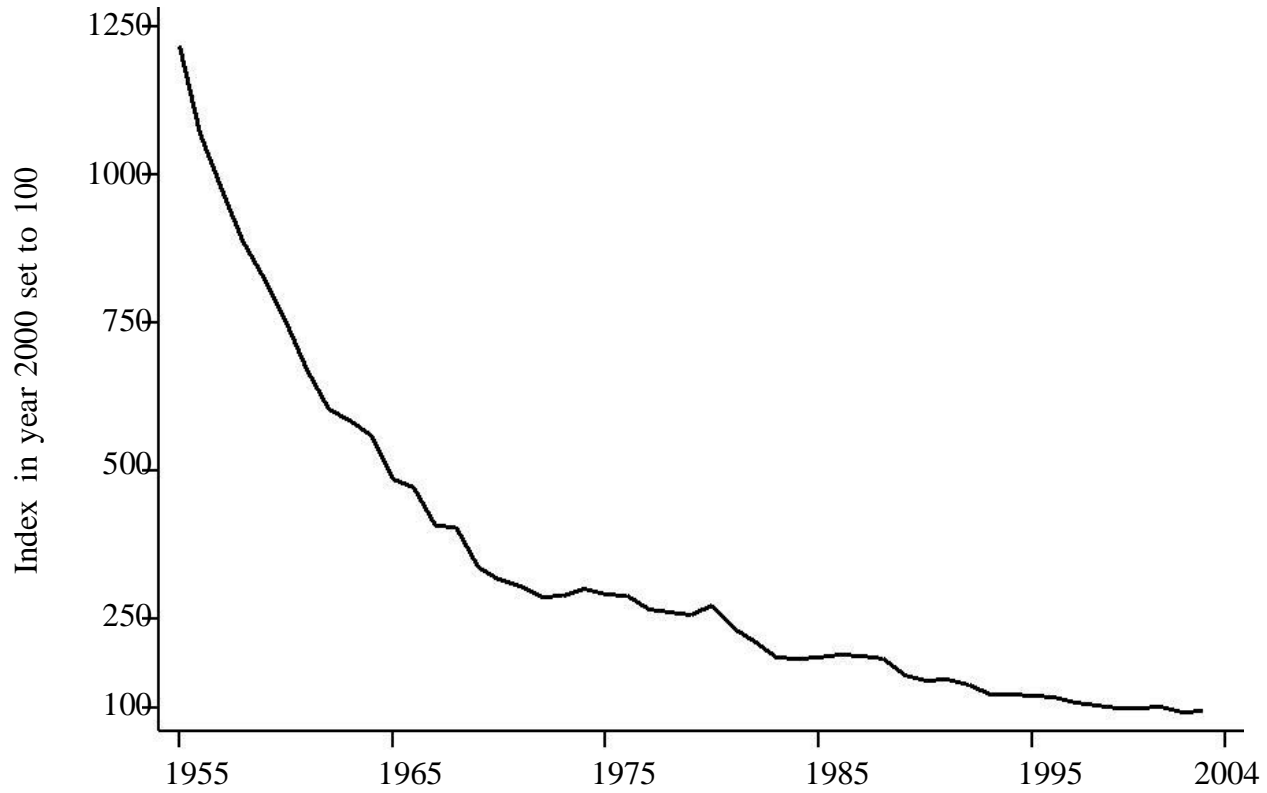
Many of the features of the current wave of Globalization is similar to those prevailing before the First World War in 1914. It is now “farther, faster, cheaper, and deeper than ever before” (Thomas Friedman 2002)



People and Later Corporations were buying and selling to each others in lands at great distances (example: Silk Route through Central Asia and Europe).

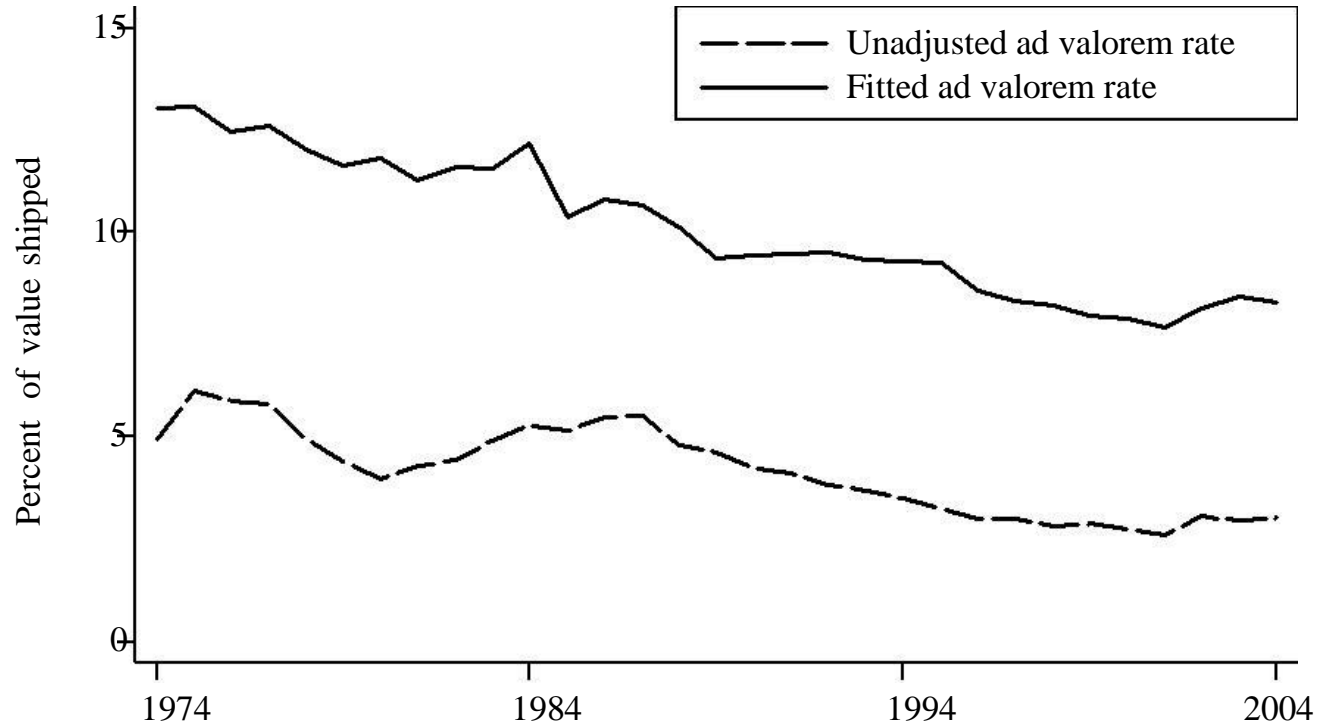
What led to Globalization?

Worldwide Air Revenue per Ton-Kilometer



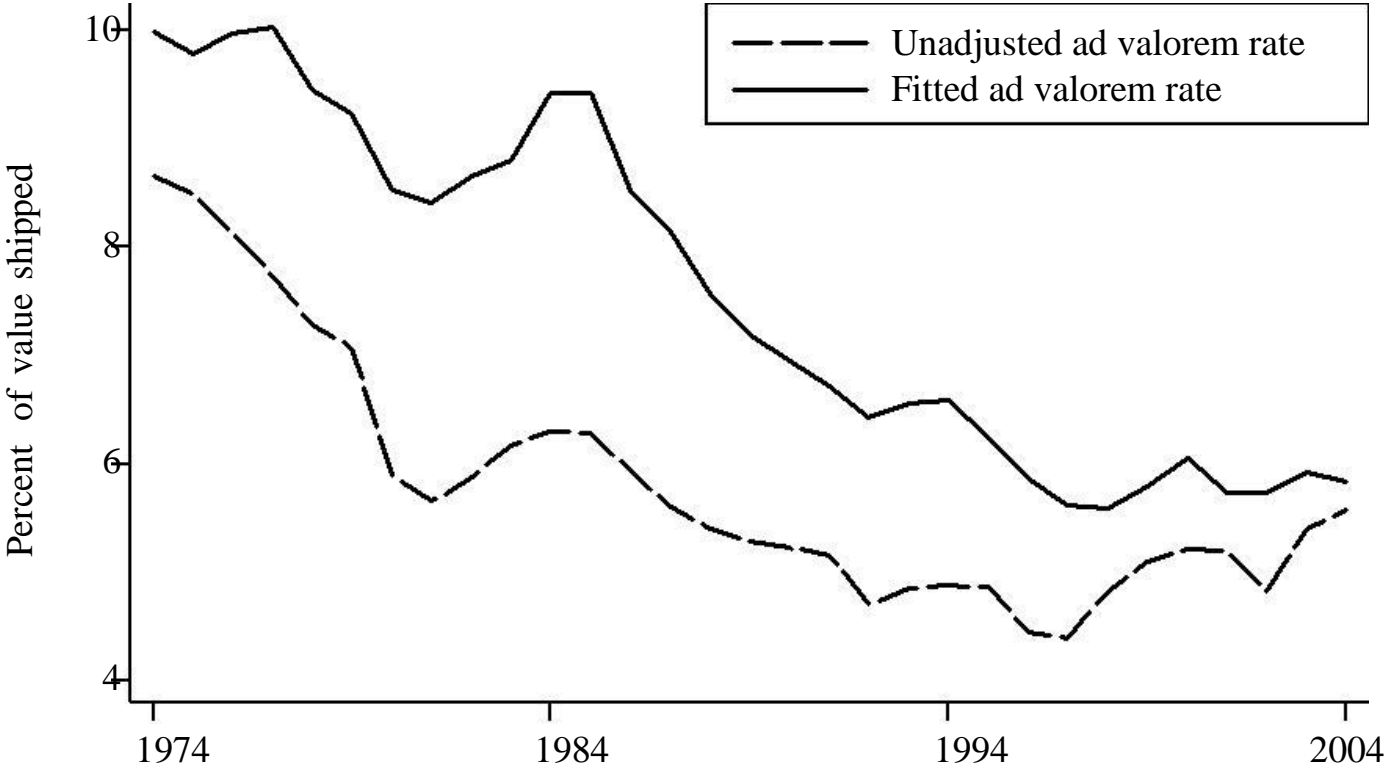
Source: International Air Transport Association, *World Air Transport Statistics*, various years.

Ad Valorem Air Freight



Source: David Hummels 2007, *Journal of Economic Perspective*, Vol 21, Number-3.

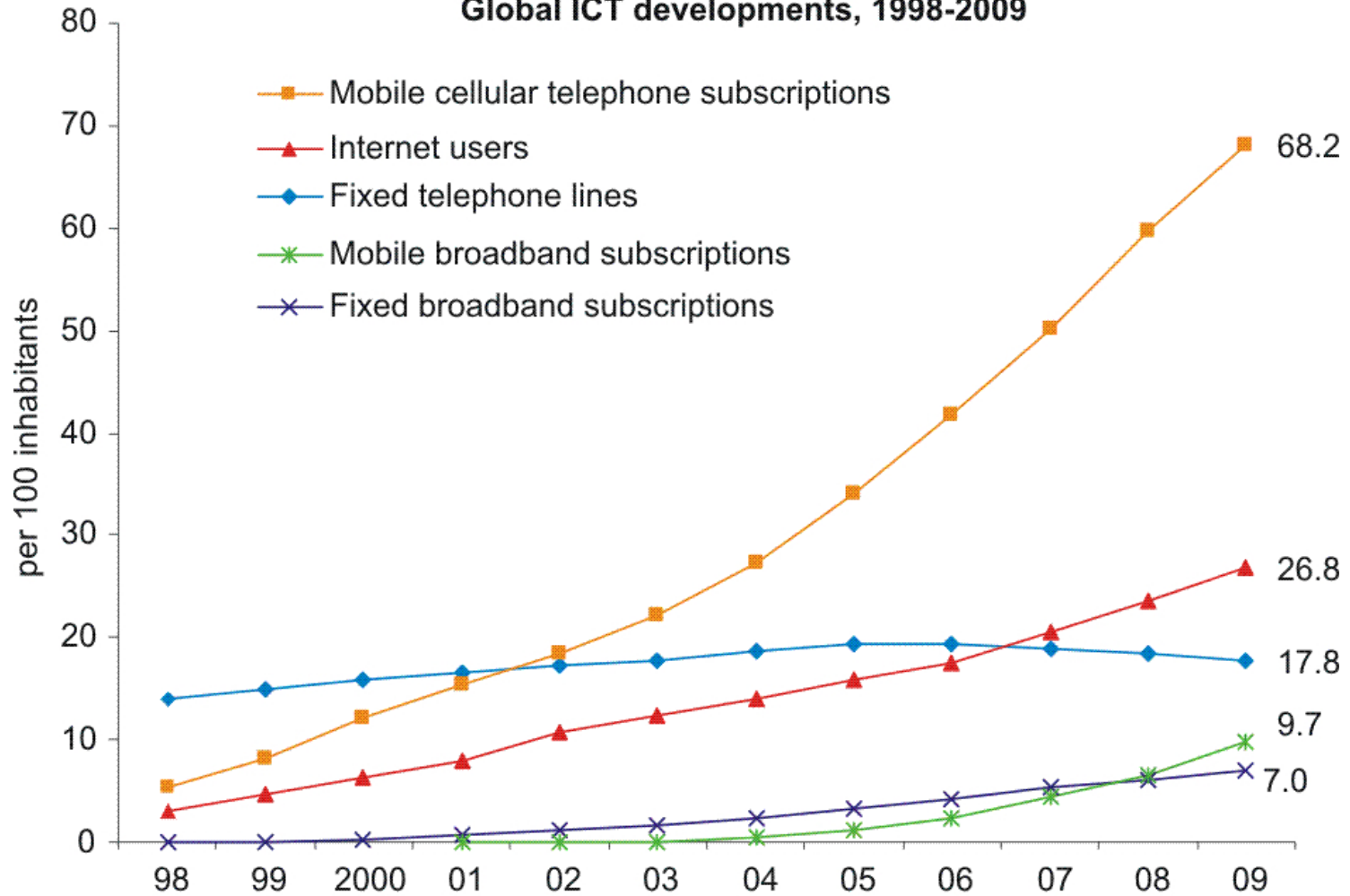
Ad Valorem Ocean Freight



Source: David Hummels 2007, *Journal of Economic Perspective*, Vol 21, Number-3.

Global ICT development

Global ICT developments, 1998-2009



Source: ITU World Telecommunication/ICT Indicators database.

Policy Changes

- Developed Countries: initiated because of particular social, economic, and political circumstances.
- Developing Countries: The changes have been induced through adjustment programs advocated by the World Bank or the IMF.
- India: Indian industries developed in an environment that protected both industry and labor. The policies started to change in the mid-1980s and finally, with the initiation of the World Bank – IMF advocated structural adjustment program in 1991.

Policies on Liberalization and Deregulation

- Withdrawal of Import Licenses
- Reduction of Import Duties
- Encouragement of Foreign Investment

- Abolition of Industrial Licensing
- Increasing Involvement of the private sector

Withdrawal of Import Restrictions

- In 1991, imports were restricted by a narrow list of freely imported items.
- Items not in the positive list are to be imported only with permits following a rigorous process.
- In 1992, the policy shifted to have a negative list of items that cannot be freely imported. The negative list was subsequently reduced.

Table 1 Average tariffs and peak tariffs for industrial products 1990-2008 (Percentage)

Tariff Year	Simple	Weighted	Peak tariffs (%)
1990	81.69	49.55	Exceeded 200
1992	57.45	27.89	150
1997	30.08	19.92	85
1999	33	28.61	35
2001	31.06	24.76	30
2004	27.87	20.95	25
2005	15.38	11.97	15
2007	13.22	8.6	12.5
2008	9.1	5.91	10
2009	9.43	7.21	

Source: World Integrated Solutions and various Economic Surveys

Foreign Investment Limits

- In the first three decades after independence the foreign investment was rigidly controlled.
- The Foreign Exchange Regulation Act 1973, restricted foreign shareholding to 40%.
- The policy started to change in 1985, but major changes started in 1991/1992. The limit of 40% was raised to 51% in many industries. Proposals up to 100% required approval.
- The upper limit for foreign equity participation under automatic approval was raised from 51 to 74 in 1997.
- Recent changes allowed 100% FDI in many industries like medical device, telecommunication, single-brand retail.

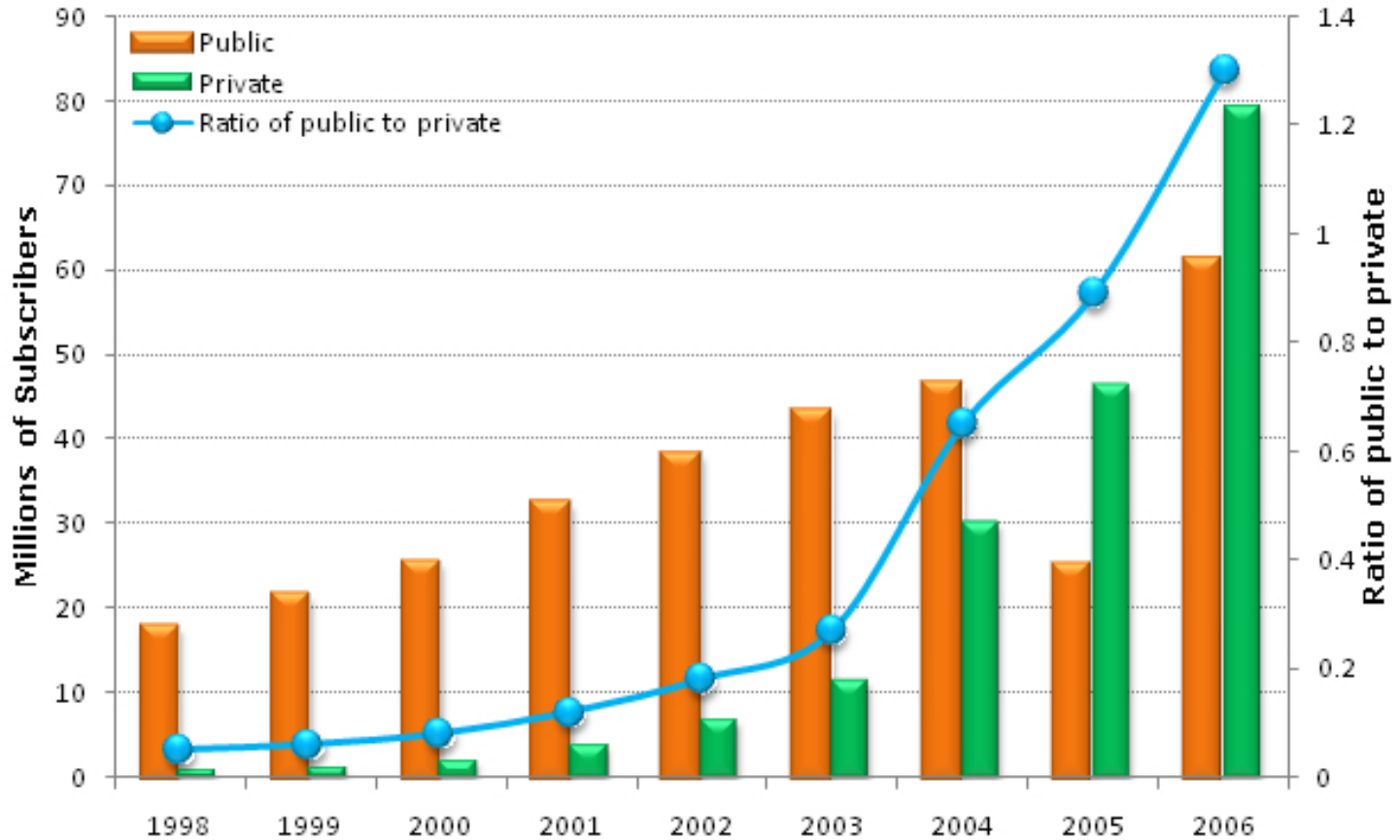
Industrial licensing

Industrial licensing is governed by industries (Development and Regulation) act 1951. A license was required to start or expand any industrial activity.

New Changes abolished all industrial licensing, irrespective of the level of investment, except for 18 industries related to security and strategic concern.

Later, this list was trimmed, and as of now license is required only for 6 items listed in Annexure II. These are: Alcoholic drinks, Tobacco Manufacturing, Electronic Aerospace and defense equipment, Explosives, Hazardous Chemicals, and Pharmaceuticals.

India's Telecommunication Industry in India



Multinational Corporations in India

- In 1951, 12 Indian Business Families dominated Indian Industrial Landscape.
- Even in 1997, their companies represented majority of the top 100 companies in India.
- By 2000, the Indian markets were flooded with well known products, and 3000 MNCs.
- Compared to Foreign Investment per year in 1967-79, it was 20 times more per year in 1980-90, and 40 times more in 1991-2000.
- Only six of the largest 50 MNCs in 1959 were Non-American. By 1993, 60% of the largest 100 MNCs were Non-American representing 15 countries.

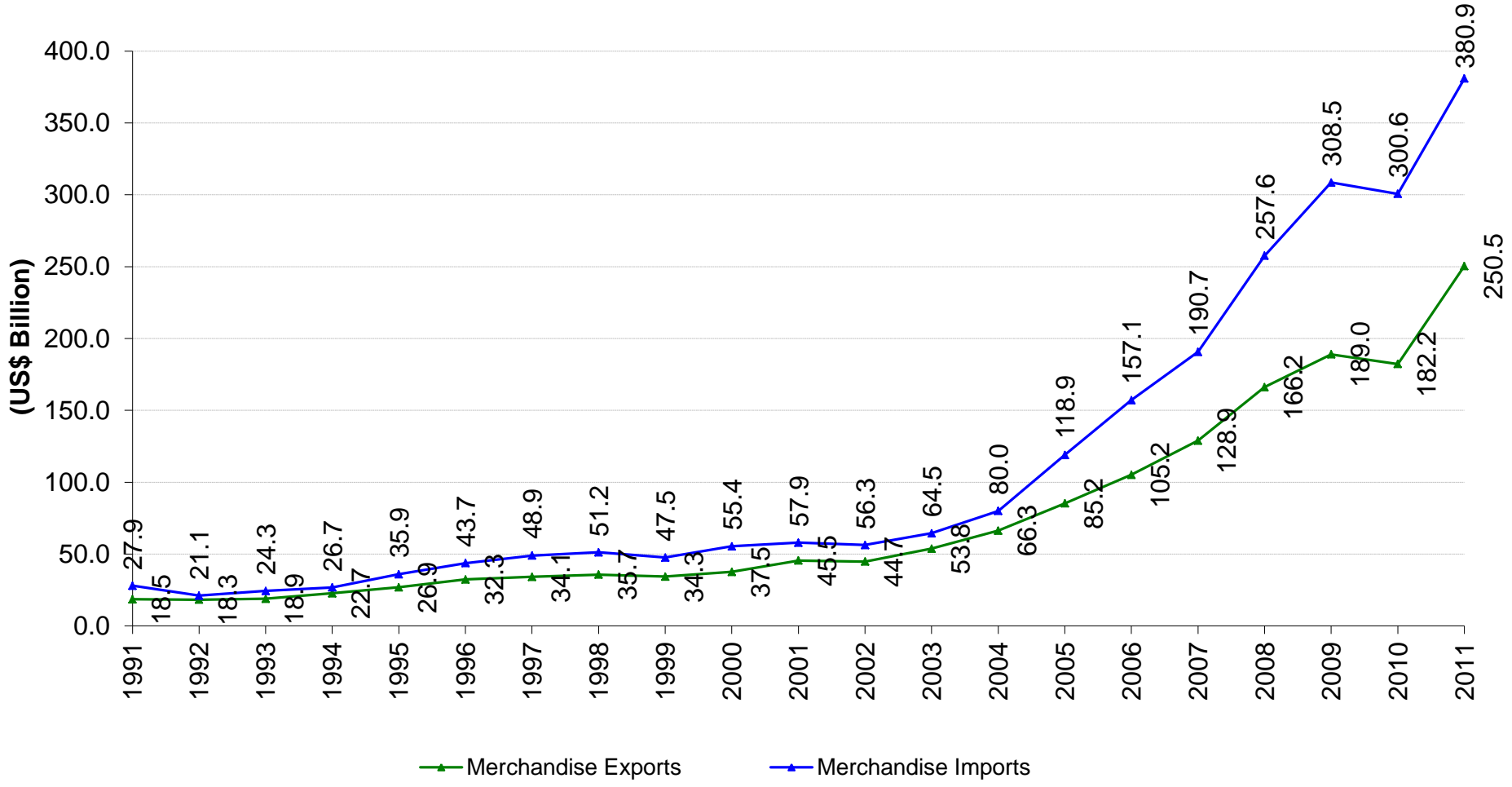
What led to Globalization?

- Continuously falling transportation costs.
- Advances in Information and Communication Technology.
- Diffusion of Knowledge and Technology.
- Policies of Liberalization and Deregulation adopted by the governments.
- Expansion of Multinational Corporations.
- International Efforts to Reduce Trade Barriers (GATT, NAFTA, EU)

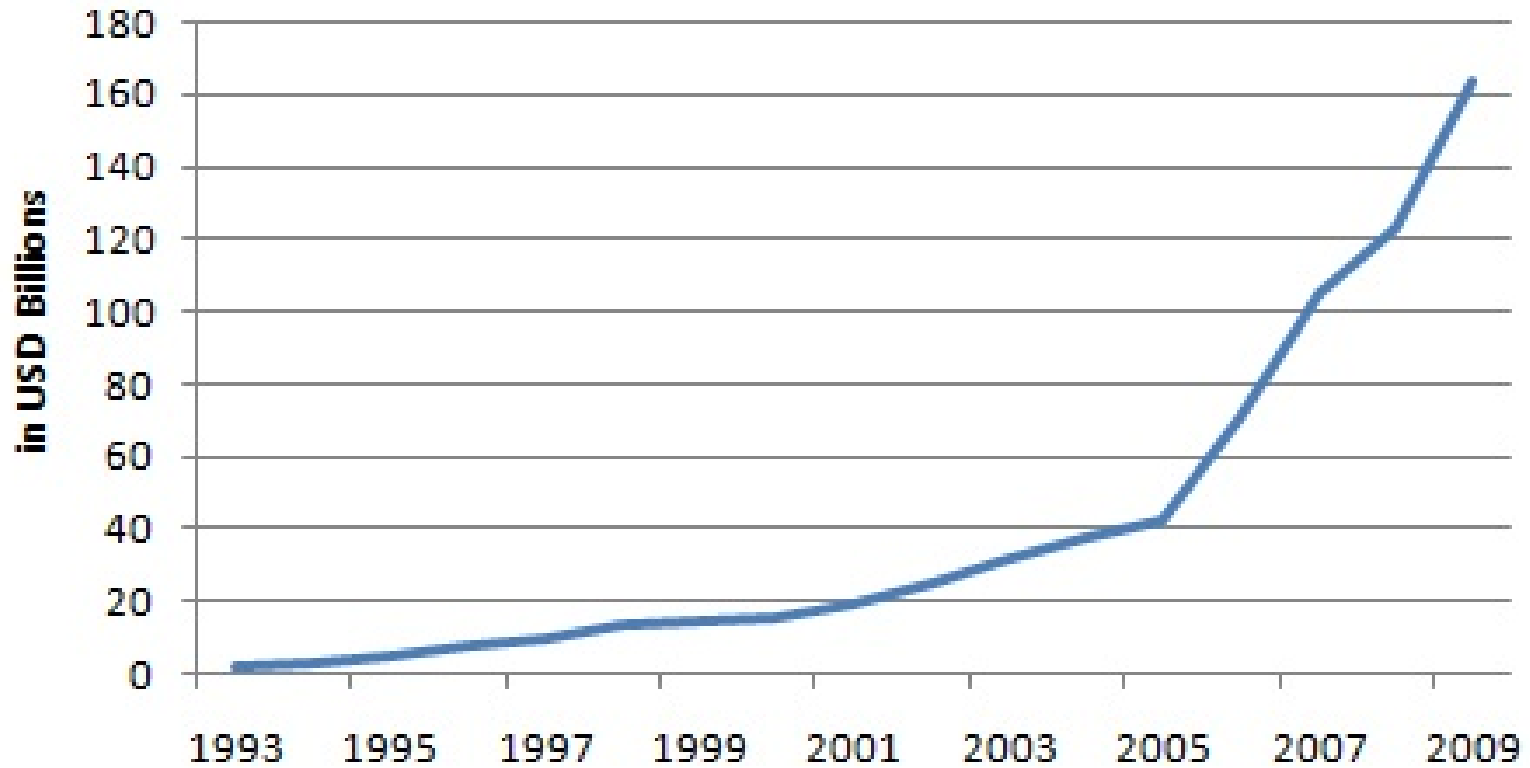
The Results

- Increased Competition

EFFECT ON TRADES



FDI (inwards) in India



Historical Gross Inflow of FDI to India from 1948 to 2014

Sl. N o.	Year (End of the March)	Inflow of FDI (Rs. in Crores)	Cumulative increase
1	1948	256	256
2	1964	565.5	821.5
3	1974	916	1737.5
4	1980	933.2	2670.7
5	1990	2705	5375.7
6	2000	18486	23861.7
7	2010	123378	147239.7
8	2014	147518	294757.7

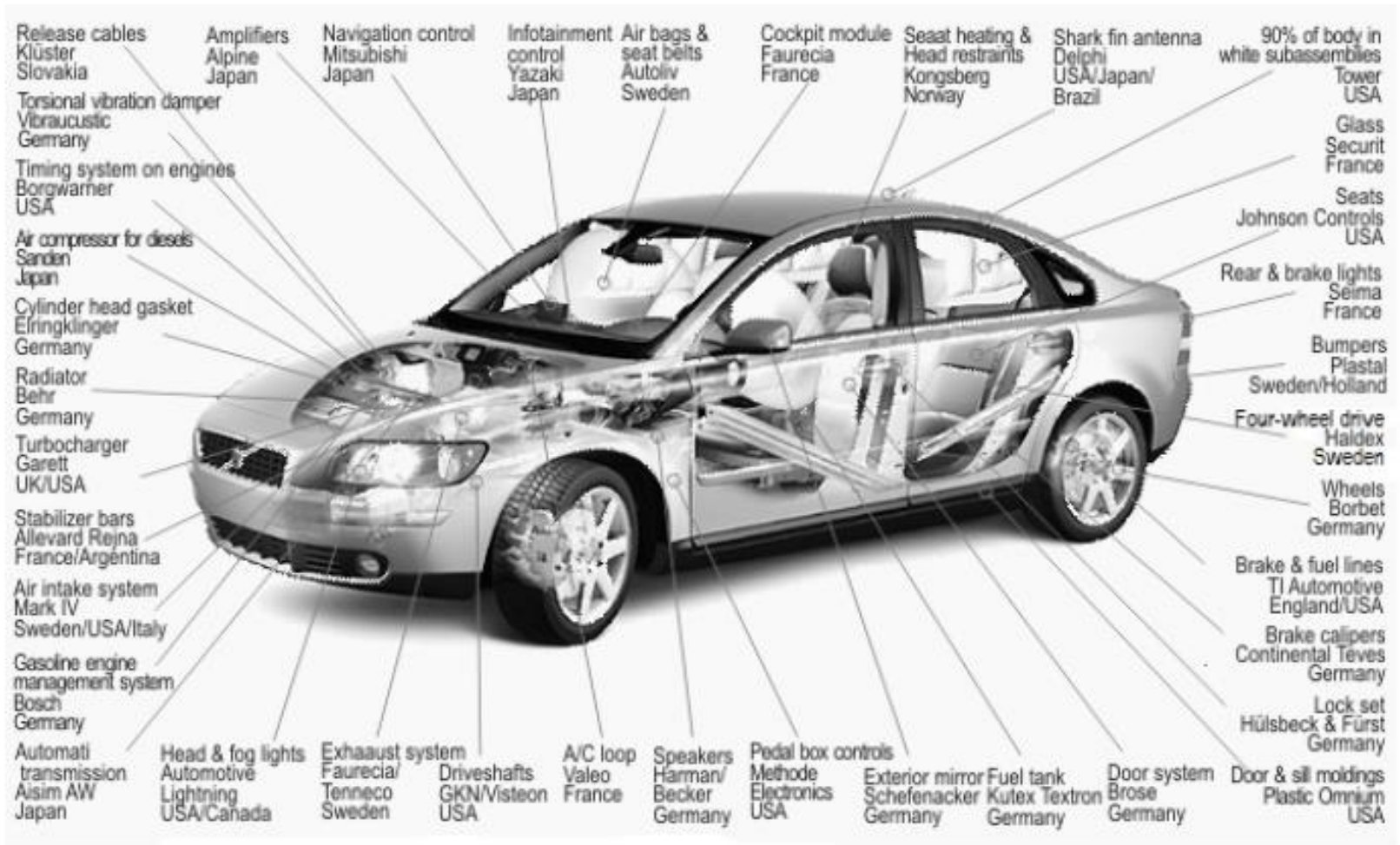
GDP Growth: The Turnaround

- From 1950 to 1980, Indian real GDP grew at an annual average rate of 3.6 per cent (1.5 per cent in per capita terms).
- From 1990 to 2007 the growth rate averaged 6.4 per cent (4.1 per cent in per capita terms).
- The shift to a higher growth path during the course of the 1980s is referred to as the Indian growth turnaround.
- Fast growth in India since the early 1980s has placed it amongst the top rapidly growing economies in the world.

Globalization

– Influence on Firms and Workers

New Global Value Chain: VOLVO- S40



Sources: Volvo Car Corporation ; Automotive News Europe/Supplier Business ; Jan Edling

The Changing Contexts

- Economic Context: Economic Reforms
- Technology Change
- Social and Political Contexts
- Labour policy Changes
- Shift in Capital- Labour power Balance
- Changes in Managerial Belief and Practices
- Cultural Changes

A Story: Indian Oxygen 1935-2015

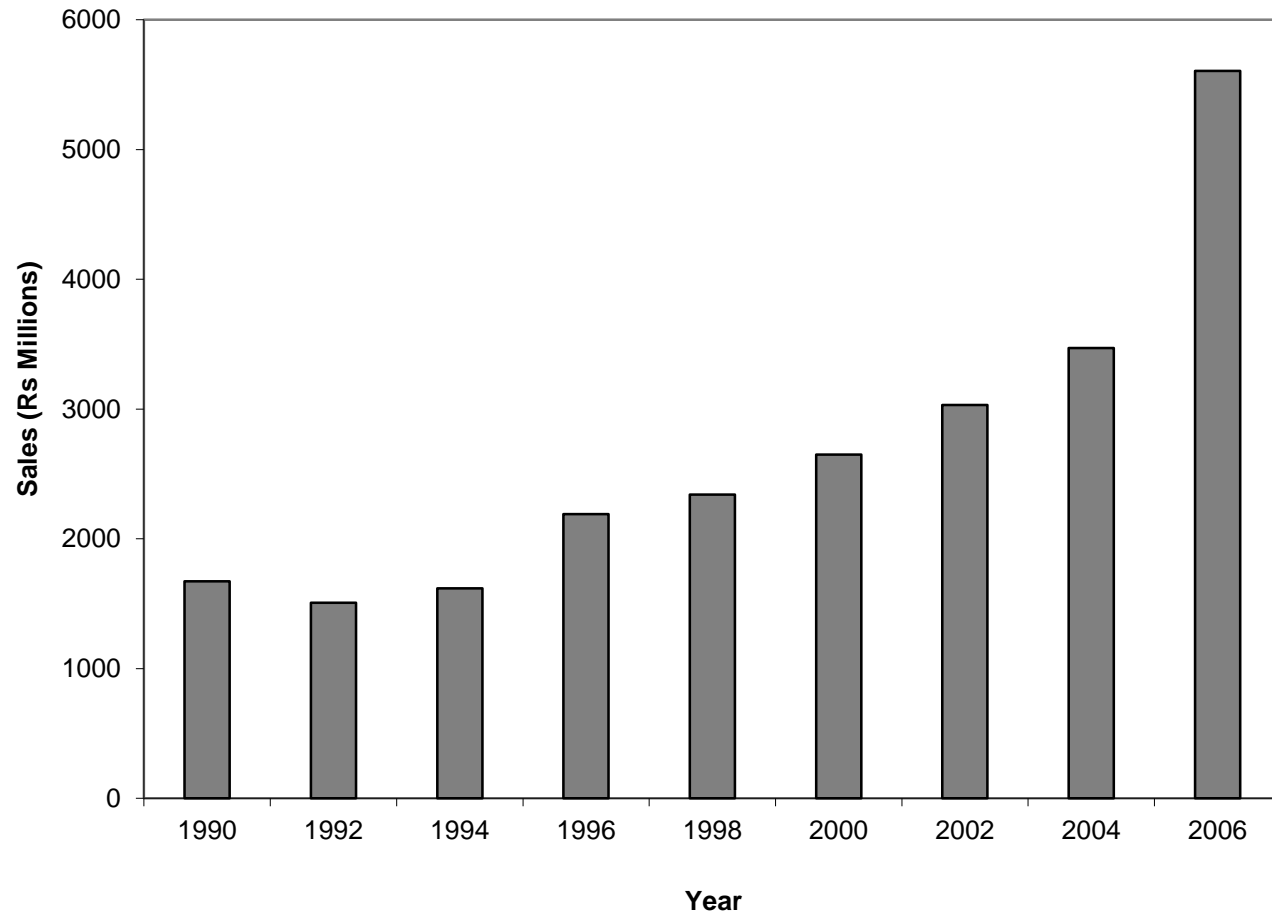
- 1935: Indian Oxygen & Acetylene Company Established (private limited)
- 1959: Listed Shares in CSE
- 1980: BOC Shareholding 39% (FERA 1973),
- 1990s: Increased BOCs shareholding to 55%
Subsequently increased to 90%
- 1995: IOC became British Oxygen Ltd.
- 2006: BOC became a member of Linde Group
- 2013: BOC India rebrands as Linde India

Restructuring: IOC to BOC

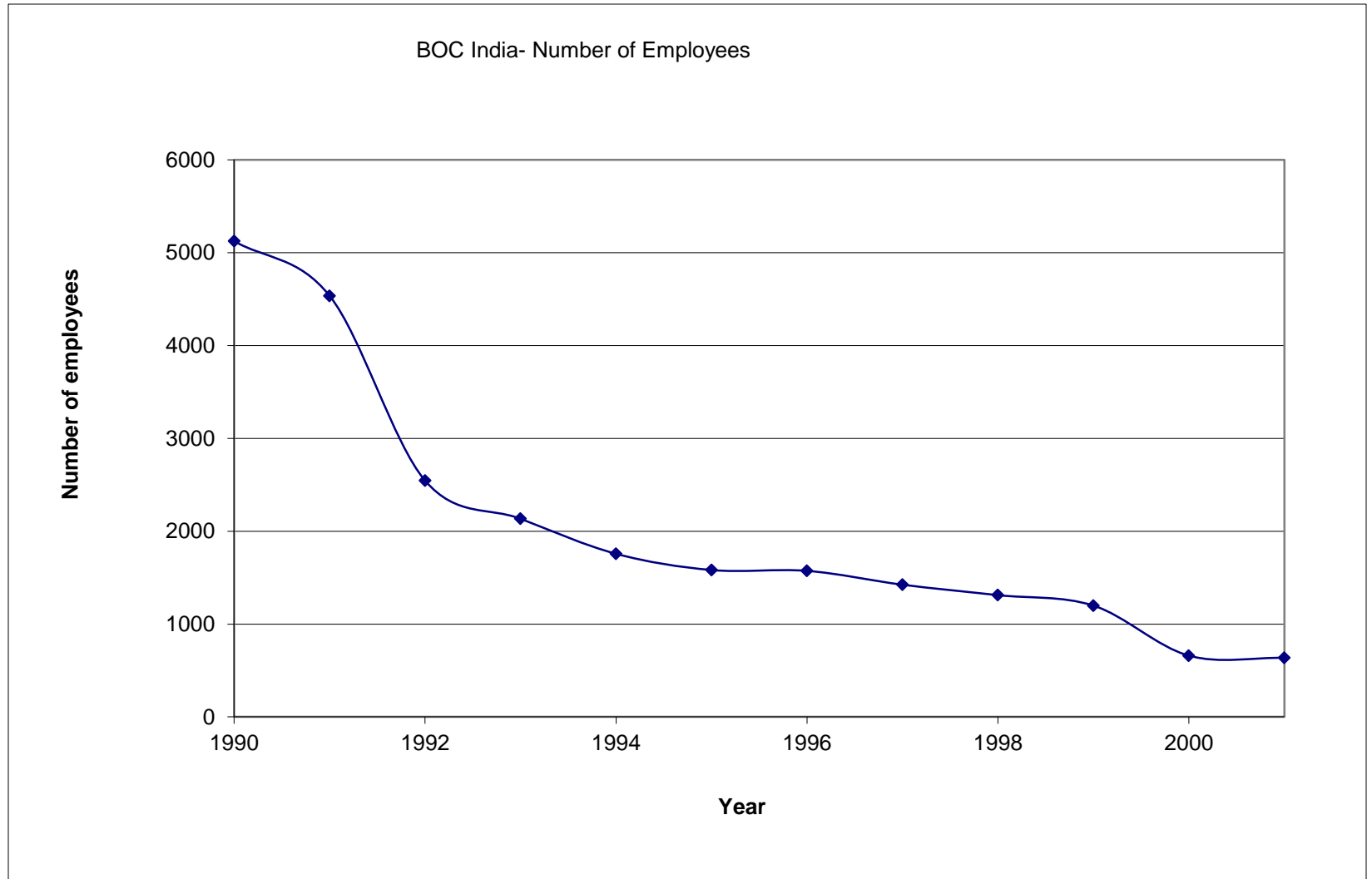
- *Prior to the eighties, the company managers were content and confident with the status quo.*
- *The situation started to change in the 1980s; Indian Oxygen saw its fortunes decline precipitously.*
- *In the years leading to 1990, Indian Oxygen, with 5,000 employees, had a technology 20 years behind its parent British company.*
- Foreign Investment – Major Change in Technology-
Restructuring of Organization
- *Ghatakpur plant with 60 tons of gas capacity had 300 employees, now Jamshedpur with capacity of 1,290 tons need 20 employees.*

Restructuring of Firms

Figure 5.1: BOC India - Sales Growth



Restructuring of Firms



IMPACT ON SOCIAL SECTOR

Poverty: All-India Headcount Ratios (Per cent)

	1987-88	1993-94	1999-00
Rural Official estimates	39.4	37.1	26.8
Adjusted estimates:	39.4	37.1	30.0
Revising the poverty lines	39.4	33.0 (-6.4%)	26.3 (-6.7%)
Urban Official estimates	39.1	32.9	24.1
Adjusted estimates:	39.1	32.9	24.7
Revising the poverty lines	22.5	17.8 (-4.7%)	12.0 (-5.8%)

Source: Planning Commission, Press Releases (March 11, 1997, and February 22, 2001), Angus Deaton and Jean Dreze, 2002 (EPW)

Poverty- Inequality:

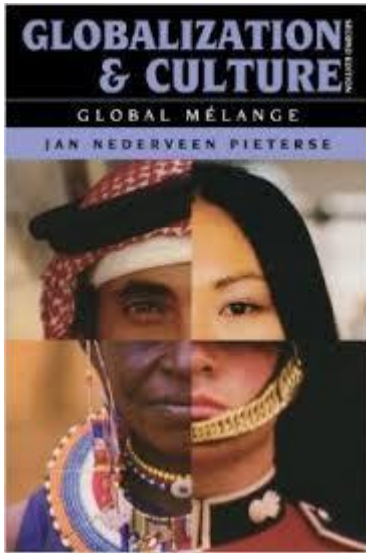
Summary by Angus Deaton and Jean Dreze 2002

- There is consistent evidence of continuing poverty decline in the nineties, in terms of the headcount ratio.
- The picture is not much difference in terms of poverty gap.
- The growth patterns in the nineties are characterized by major regional imbalances (western and southern better).
- Increasing Rural-Urban disparities and increasing inequality amongst occupational groups.
- Increasing diversity when we look beyond expenditure based indicators to living standards in broader perspective.
- One should not see these changes only as an impact of liberalization.

Reforms: Poverty – Inequality

- The poverty alleviation rate is around same as it was back in 1991 and even in pre-independence India (0.8 per cent)
- The ratio between the top and bottom ten per cents of the population has doubled during this period.
- According to the Organization for Co-operation and Economic Development, this doubling of income inequality has made India one of the worst performers amongst emerging economies in terms of inequality. (Colin Todhunter, Global Research, October 30, 2013)

Cultural Globalization



- **Cultural globalization** refers to the transmission of ideas, meanings and values around the world in such a way as to extend and intensify social relations.

Sociocultural exchanges



Cultural diffusion

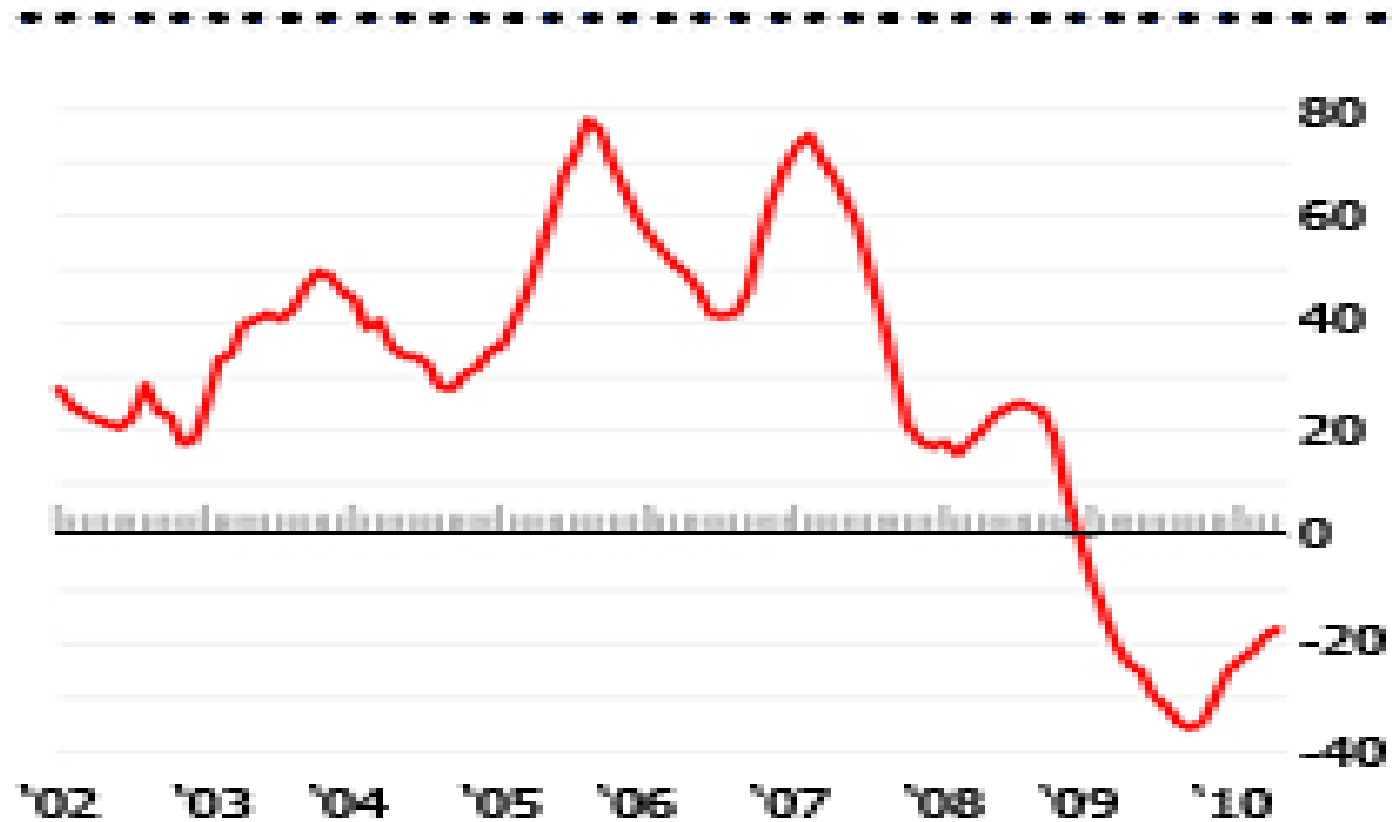
Globalization and Financial Crisis

Globalization – Economic Crisis

- **East Asian Financial Crisis 1997:** The Asian financial crisis resulted from the sudden flight of large amounts of capital from Asian countries that lacked adequate systems of prudential regulation, and whose foreign exchange rate proved disastrously brittle.
- **Global economic crisis 2008:** The crisis engulfed the entire world and many blame globalization as being the root cause of the crisis. After the American Investment Bank, Lehmann Brothers filed for Bankruptcy in September 2008, the entire global financial system was at the risk of collapse because of the integrated and interconnected nature of the global economy.

UAE

House Price Change, Annual (%)



■ Nominal

Source: Blagovest

Markets shiver as Greece looks set to default today

□
□

GREEK BANKS, MKT SHUT FOR A WEEK	
<p>➤ Greek PM closes banks, stock market for a week; imposes ATM withdrawal limit of €60 a day</p> <p>➤ Greek debt crisis dragging from 2010, when lenders IMF, European Central Bank and European Commission imposed harsh austerity riders</p> <p>➤ Economy shrank over 5 yrs, joblessness rose as anger grew</p> <p>➤ Left with two choices – accept tougher conditions to access rescue loans or quit</p>	 <p>Eurozone – PM calls surprise referendum on July 5</p> <p>Impact on India</p> <p>➤ Short-term impact on markets likely but economy to remain largely unaffected</p>

- On Sunday 28th June 2015, Greek voters said “NO” to Europe’s latest bailout offer.
- Banks were closed. Last week people could takeout only 60 Euros at a time.
- Global stock markets were down on Monday.
- Indians thought that there may be capital outflow.
- BSE Sensex dropped by more than 600 points in early trade, but then settled the day lower by 167 points.

Aug 25 2015 : The Times of India (Kochi)

Global Crash, Made In China

□
□

- **On 24th August 2015 – Black Monday**
- **Worst Ever: Sensex Plunges 1,625 Pts (- 6%),**
- **Rs 7L Cr Investor Wealth Wiped Out**
- **Shanghai Index lost by 8%**
- **Hong Kong, Japan Indices fell by 4-4.5%**
- **5,000 Cr was FII Outflow.**
- **Re Loses 82p, At New 2-Year Low Of 66.65\$**

Globalization – Economic Crisis

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Globalization – Economic Crisis

- **Many experts pointed to the fact that the crisis that was made in the US had impacted all the countries merely because the processes of globalization have meant that if the US sneezes, the rest of the world catches a cold.**
- However, it would not be fair to say that globalization alone is responsible for the crisis and individual governments had a role to play in ensuring that their economies were well regulated and insulated from global shocks.

**CRISIS OF GLOBAL CAPITALISM
- OPEN SOCIETY ENDANGERED**

- GEORGE SOROS 1998

The Crisis of Global Capitalism

- George Soros 1998

- ❖ We live in a global economy that is characterized not only by free trade in goods and services but even more by the free movement of capital. But the system is deeply flawed (p.102)
- ❖ The development of global economy has not been matched by global society (p. 102).
- ❖ Although governments retain power to interfere in the economy, they have become increasingly subject to the forces of global competition. The dismantling of the welfare state is a relatively new phenomenon, and its full effect has not yet been felt (p. 112).
- ❖ Price of stock has become much more important, Social goals, such as providing employment , have to take second place (p. 115).

The Crisis of Global Capitalism

- George Soros 1998

- Credit is extended against collaterals ... creditworthiness is in the eye of the creditor. International credit is unstable because it is not as well regulated as domestic credit
- While the global financial markets are expanding, the valves open, but if and when the flow of fund is reversed they stand in the way, causing the system to breakdown.

Who is George Soros ?

- He is one of the 30 richest persons in the world.
- On 16th September 1992, his fund short sold \$10 billion Pound, in a single day there was a profit of \$1 billion. The profit from the transaction was almost \$2 billion.
- He is famously known as the "the man who broke the Bank of England."
- Soros was also cited by some as the "trigger" behind the Asian financial crisis in 1997, as he had a large bet against the Thai baht.
- Soros donated more than \$10 billion to various philanthropic causes.

Thank You