Globalisation.

By the term 'Globalisation' we mean, opening up of the economy for the world market by attaining international competitiveness. Thus, (globalisation means increasing integration between different economies of the world) and thereby the gap between different nations is reduced. This is achieved by removing all restrictions between different nations is reduced. This is ~~acieived~~ achieved by removing all restrictions between nations on the movement of —

(1) Goods. (2) Services (3) Capital & (4) Technology.

However, globalisation of the economy offers both challenges and opportunities for the developing economies.

Objectives of New Economic Reforms :

The major objectives of New Economic Policy can be summed up as follows :

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1. To consolidate on the past gains.
2. To strengthen the growth impulses in the economy.
3. To make our production units more efficient and highly productive.
4. To increase the competitive ability of our production units.
5. To make use of global resources for our own progress and development.

What do you mean by Globalisation? Briefly explain the steps towards globalisation initiated by the govt. of India.

Ans: Globalisation refers to a process of deepening economic integration, increasing economic openness and growing economic inter dependence between the countries in the world economy. From economic point of view globalisation happens through three channels - ~~trade~~

i) Trade in goods and services.

ii) Movement of capital.

iii) Flow of finance.

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The first step in the direction of globalisation was liberalisation in trade of goods and services which led to an unprecedented expansion of international trade between 1950-70. This was followed by the liberalisation of regimes for foreign investment leading to a surge in international investment which began in the late 1960s. This had two dimensions —

1. Deregulation of the domestic financial sector in the industrialist countries.
2. The introduction of convertibility on capital account in the BOPs.

Globalisation in India.

Globalisation in India is generally taken to mean integrating the economy of the country with the world economy. These, inturn, implies opening up the economy to foreign direct investment by providing facility to foreign companies to invest in different economic activities in India. The need of this globalisation process were shown in the early 1980s itself as many concessions were granted to foreign capital, MNCs were allowed to enter a number of crucial sectors to which there entry was previously restricted, provisions of FERA were not strictly enforced, import liberalisation process was accelerated considerably and downward adjustment in the exchange rate of the rupee was resorted to.

However, the real thrust to the globalisation was provided by the NEP introduced by the govt. of India in July 1991 at the behest of the IMF and the world bank.

The stabilisation and structural adjustment programme of the IMF & World bank had the following three components —

i) Stabilisation which basically implies cutting down fiscal deficit and the rate of growth of money supply.

ii) Domestic liberalisation which consist of relaxing restrictions on production, investment, prices and increasing the role of market signals in guiding resource allocation.

iii) External sector liberalisation or relaxing restrictions on international flow of goods, services, technology and capital. Globalisation is identified with external sector liberalisation.

Steps towards / Policy initiatives towards Globalisation.

i) Exchange Rate Adjustment and Rupee Convertibility

The most important major for integrating the economy of a country with the global economy is to make its currency fully convertible, i.e. allow it to determine its own exchange rate in the international market without official intervention. This measure has to be accompanied by lifting of exchange control measures.

in a phased manner. As a first step to this measure, the IMF insisted on devaluation of the Indian rupee. Accordingly the govt. of India made a two step downward adjustment of 18-19%. in the exchange rate of the rupee on 1st July and 3rd July 1991.

In the subsequent years, the govt. of India has progressively moves towards full convertibility. India achieved full convertibility on current account on 13 August 1994 when the RBI accepted obligations under Article VIII of the IMF under which India is committed to forsake the use of exchange restriction on current international transactions as an instrument in managing the BOPs.

ii) Import Liberalisation. In line with the proposals laid down by the world bank, the 1992-97 export-import policy allowed the free import of all the items including capital goods, accept a short negative list. The supplementary trade policy announced on 13 August 1991 decanalised the import of twenty items. In addition, the govt. has reduced the maximum rate of import duty over the years. The 1993-94 budget had reduced the maximum rate of import duty from 110% to 85%. The successive budgets have reduced it further in stages. The peak import duty on non agricultural goods is now only 10%.

In addition to the reduction of import duties, India, as a member of WTO, had also committed itself to the phasing out of quantitive restrictions over a 6 year period begining 1997. However, this period was further reduced following the Dispute Settlement body of the WTO against India on an appeal made by the USA. Moreover, as a part on the agreement on

~~strip~~ TRIPs, the ~~patents~~ Patents (Amendment) act 1999 was passed to provide for Exclusive Marketing Rights. This was followed by the adoption of the patent amendment act 2002, 2005.

The argument in favour of import liberalisation is that competition from import with improved efficiency, quality and technology besides making international quality capital goods and inputs available to our export industries. 32

iii) Opening up to foreign capital. In order to attract foreign capital, the govt. of India thrown open the doors to foreign investors. In 1991, the govt. announced a specified list of high technology and high investment priority industries wherein automatic permission was granted for direct foreign investment upto 50%. foreign equity. The limit was raised from 51% to 71% & subsequently to 100%. for many of this industries. At present FDI is permitted upto 100%. on the automatic route in most sectors subject to sectoral rules/ regulations, applicable.

Many other majors have also been announced from time to time for instance —

i) foreign companies have been allowed to use their trade marks in India and carry on any activity of a trading, commercial or industrial nature.

ii) Repatriation of profits by foreign companies has been allowed.

iii) foreign companies (other than banking companies) wanting to borrow money or accept deposits are not now required to obtain permission from the RBI,

iv) foreign companies can now deal in immovable property in India.

v) 100% foreign equity participation has been allowed for setting up power plants in the country etc.

Effects of Globalisation.

i) Effects of external sector. The process of globalisation initiated in 1991 and the far reaching changes in industrial and other policies have lead to considerable changes on the external sector front. The finance minister in his budget speech in 1994-95 claimed the following immediate achievements on the external front —

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a) Our foreign currency reserves, which had fallen almost to nil rose substantially on March 1995.

b) Though imports also grew in line with the revival of the economy, yet the BOP situation is comfortable.

c) Liberalisation and openness have actually increased our self reliance. Exports now finance over 90% of imports, compared to only 60% in the later half of the 1980s.

d) International confidence in India has been resorted. As a result, foreign direct and portfolio investment has increased rapidly in the last 3-4 years.

However, in 1995-96, the current account deficit rose to 1.7% of GDP from the level of 1% in 1994-95.

During 2007-08, current account deficit rose $15.7 billion because of a massive trade deficit of $91.5 billion. However, there was a surplus of $107.9 billion in the capital account with the result all the foreign exchange reserve reaches its highest level of $92.2 billion (highest in any year during the entire planning period).

Things turned adverse in 2008-09 because of global recession. As a result of this recession, capital inflows declined sharply and at the same time the economy was experiencing current account deficit. Stronger recovery in India, ahead of the global recovery along with positive sentiments of global investors about India's growth prospects, encourage a revival in capital flows during 2009-10.

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In the entire post reform period excepting 3 years 1995-96, 2008-09 and 2011-12 when there was a reserved draw down. there was substantial accreation to foreign exchange reserves in all other years. As a result the stock of foreign exchange reserve rose from only \$ 1.1 billion in June 1991 to as high as \$640 billion at the end of 12 Nov. 2021.

ii) Effects on the Indian Enterprises. The process of globalisation in India has lead to an unequal competition i.e. a competition between giant MNC's and dwarf Indian enterprises. The unequal competition stems from the following reasons —

a) The Indian enterprises suffer from the size disadvantages as they are very small as compare to the MNCs.

b) The Indian corporate sector during the pre reform period operated in a protectionist environment who can't compete in the global competition.

c) The cost of capital for Indian buisness is much higher than MNC's.

d) Indian firms continued to suffer from handicaps developed under the earlier regime of controls.

e) High, multiple and cascading indirect taxes at the local level, which are not applicable to foreign imports result in making Indian goods uncompetitive.

On account of all these reasons, the process of globalisation unleast in 1991 has created a new world — a world in which not only there has been an inflow of substantial foreign capital, but domestic corporate sector for the first time saw itself as a target rather than the beneficiary of the ~~highten~~ heightened activities of the foreign investors.

Unit - II

External Sector (B)

- International Monetary Fund (IMF)

The IMF is an international monetary institution. It is established by 44 nations under 'Bretton Woods Agreement of July, 1944'.
At present, 189 member countries of IMF.

- Objectives of IMF

The IMF was established to avoid the economic mistakes of the 1920s and 1930s. The main objectives of the fund are —

(1) To establish monetary co-operation amongst the various member countries.

(2) To eliminate instability of foreign exchange rate.

(3) To eliminate exchange control with a view to give encouragement to follow international trade.

(4) To establish multi-lateral trade and payments system in place of the Bi-lateral Trade agreement which obstructed the free flow of international trade.

(5) To achieve balanced economic growth of the member countries.

(6) To reduce the dis-equilibrium in the balance of payments of the member countries.

Functions of IMF

(1) The funds helps the member countries to estimate the short period dis-equilibrium in their balance of payments. The funds does this either by selling or by lending foreign currencies to the member countries concerned.

(2) The fund also helps the member countries to remove the long period dis-equilibrium in their balance of payments.

(3) The fund gives advice to the member countries on economic and monetary matters.

(4) The fund also grants technical assistence to the member countries.

(5) Another important function of IMF is to maintain liquidity of its resources. Member countries borrow from the fund by giving their own currencies in exchange.

Recently, the fund has setup two new departments —

(1) The central Banking service departments which gives the member countries the services of its specialized experts to run and manage their central Bank.

(2) The fiscal affairs departments that gives useful advice to the member countries on fiscal matters.

giving them investment capital.

The functioning of the fund hasnot met the complete success because — (Limitations).

(a) The fund hasnot be able to establish complete stability in the par value of different currencies.

(b) The fund hasnot succeeded in eliminating the various restriction on foreign trade.

(c) The fund hasnot succeded in solving the problem of American dollars.

- World Bank/ IBRD

World Bank is a development bank which provides loans, policy advice technical assistence and knowledge sharing services to the low and middle income countries to reduce poverty. It was founded in 1944 within headquarter ~~of~~ in washington. There are 184 member countries in the World Bank. World Bank is composed of five organs. These are —

(1) International finance Corporation (IFC)
(2) International Development Association (IDA)
(3) International Bank for Reconstruction and development (IBRD)
(4) Multi-lateral investment Guarantee Agency (MIGA)
(5) International Center for Settlement of Investment Disputes (ICSID).

- Membership of the World Bank

The members of the IMF automatically become the members of the World Bank. If a country resigns his membership, it is required to pay back all loans with interest within due date. If any country violates the rules, it cannot continue to be a member of the bank.

- Organisation of World Bank

The Organisation of the World Bank consists of —

1. Board of Governers
2. Board of Executive Director
3. Advisory Committee.
4. The loan Committee.
5. The president and others members of the staff.

All the powers of the bank are vested in the board of governors which is the supreme policy making body of the bank.

- Objectives of the World Bank

1. To help in the reconstruction and development of member countries by facilitating investment of capital for production purposes including the restoration and reconstruction of an economy devasted by war.

2. To encourage the development of productive resources in developing countries by supplying them investment capital.

Date:

(3) To promote private foreign investment through guarantees and participation in loans and other investment made by investors.

(4) To bringout an easy ~~transaction~~ transition from a war economy to a peace time economy.

(5) To promote the long term balance growth of international trade and the maintenance of balance of payments equilibrium to member country.

(6) To help in rising productivity, the standard of living and conditions of labour in the member countries.

- World Trade Organisation (WTO)

The WTO started functioning from 01.01.1995. It is an international organisation with headquarter with Geneva. It has been set up as a result of multi-lateral agreement among the member nation. The present membership of WTO is 153 countries. Initially, it had only 104 countries.

- Objective of WTO

(1) To promote international trade in goods and services.

(2) To ensure that trade among countries of the world is conducted in an open, uniform and non-discriminatory manner.

Unit – II

- Functions of WTO

(1) WTO facilitates the implementations, administration and operations of the multi-lateral trade agreements and also provide the framework for the implementation, operations of plurilateral administration.

(2) WTO provides the forum for the negotiation among its member concerning their multi-lateral trade relations.

(3) The WTO administers the understanding of rules and procedures governing the settlements of disputes.

(4) WTO administers the trade policy review mechanism.

(5) With a view to achieving greater co-operation in global economic policy making, WTO co-operate, as appropriate, with the IMF and IBRD (World Bank) and its affiliated agencies.

- Impact of WTO on Indian Economies

WTO has been instrumental in giving big post to the wave of liberalisation and globalisation, that is sweeping the world.

Like other developing countries, India has also benefited out of its membership of the WTO. Some of the important benefits are briefly summarised below –

① India gets an opportunity to trade freely with other member nations.

② Removal of restrictions and barriers also help India to improved technology from advanced nations.

③ Because of WTO, many of the fears and apprehensions of the multinational cooperations and foreign investors have been removed. As a result, there is a free flow of capital and investment to India.

However, WTO impose some serious limitations on us. Among them we may specifically mention the following:—

① Developed countries of the world tend to gain more than the developing countries. Developed countries gain, at a times, at the cost of the developing countries. This is because —

ⓐ Developed countries trade in huge volumes.

ⓑ A large part of the world trade takes place among the developed countries themselves.

② Many of the laws and policies of the WTO are so designed as to protect the interest of the developed countries. This is often at the cost of the developing economy. For instance, unrestricted trade and open imports may—

ⓐ Result in unhealthy competition for our many industries.

ⓑ Force these industries to close down.

ⓒ This results in widespread unemployment. This will be disastrous for our economy and society.

(3) Many rules prescribed by the WTO are not related to trade in goods and services among the member nations. They deal with the subjects outside the relation. For instance, Agreement on Agriculture concluded by the WTO puts restrictions on the provisions of subsidies food grains in India.

(4) It amongst to an unwanted interference in the domestic policies of the member nation.

In short, WTO is good to promote liberalisation and globalisation. But we donot have to allowed this way to swip us of our ground. We have to guard against this and take adequate steps to protect our interest.

IMF Vs World Bank

Although both IMF and World Bank have shared some common characteristics, however they remain distinct. The most obvious distinction is that World Bank is a development institution while, IMF is a cooperative institution. Not only that each of them has their own purpose, distinct structure, membership decision making, tasks, sources of funding, recipients of funding etc.

(1) Purpose → The establishment of IMF contributes to different purposes. IMF acts as a voluntary and co-operative institution. It maintain the economic welfare of its member nations. IMF is required to

maintain the orderly monetary system that will sustain economic growth throughout the world.

World Bank also has different purposes and responsibilities. The international community assigned World Bank as IBRD. Its primary role and responsibility is for financing economic development. The World Bank wants to help the developing countries to enhance the progress of the social and economic circumstances.

(2) Size of Structure → The IMF is small and has no affiliates or subsidiaries. It has only about 2300 staff members. Most of them work at headquarters in washington. There are only three small offices in Paris, Geneva & United nations in New York.

On the other hand, the World Bank is larger than the IMF and its structure is more complex. It has over 7,000 staff members which are three times larger than IMF. Most of the staffs work at headquarters at Washington. Not only that, it also maintains about 40 offices throughout the World.

(3) Decision Making Power → In the IMF the member nations wants to make decisions, it needs to base on its quota. If it has higher quota, then it can have higher decision making power. The amount of quota mentioned here is determined by the reserves, BOPs and national income of the member's nations.

Lending Procedure of the World Bank

The World Bank advance loans to members in the following three ways —

(1) Loans out of its own funds

The Bank collects contribution from its member out of this fund the bank advances loans to the needy member country. The bank insist upon the fullfilment of certain conditions before advancing loans to member country.

(2) Loans out of borrowed capital

Sometimes the Bank borrows fund from another member country for the purpose of giving loans to the needy members. The Bank pays interest to the member countries from which it has borrowed funds for a specified period of time.

(3) Loans through Bank Guarantee

Sometimes, the Bank encourage the private investors of a country to lend their funds to another country by guaranting the repayment of loans.