

PAPER I - INDIAN ECONOMY & INDIAN FINANCIAL SYSTEM

Module A: INDIAN ECONOMIC ARCHITECTURE

Chapter 6: Globalisation - Impact on India

Topics in this chapter

- Globalisation and its Advocacy,
- Globalisation and its Impact on India,
- Fair Globalisation & the Need for Policy framework,
- Globalisation in reverse gear - The Threatened Re-emergence of Protectionism

6.1 GLOBALISATION



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Globalisation is defined as a rise in economic integration among nations. It means that the economies of different countries are becoming more connected and dependent on each other.

The concept of globalisation is not new; it dates back to the 18th century. However, major global events like **World War I, the Great Depression, and World War II** forced a retreat from globalisation. During this period, many countries raised trade obstacles to protect their own economies.

The term "globalisation" was popularized again in the mid-1980s by the **Organisation for Economic Co-operation and Development (OECD)**.

The **World Trade Organization (WTO)** describes globalisation as the development towards "unrestricted cross-border flows of goods and services, capital, and labour force."

In India, the concept of globalisation was formally introduced with the '**new economic policy**' in 1991-92.

6.2 GLOBALISATION AND ITS ADVOCACY

The term "globalisation" refers to the increasing interconnectedness of the world's economies, cultures, and populations. This connection is the result of:

- Cross-border trade in goods and services.
- The flow of technology.
- The flow of investment, people (labour), and knowledge across borders.

There is strong evidence that when countries globalise, their citizens benefit in many ways. They get more exposure to a broader range of goods and services at reduced costs, more and better-paying jobs, improved health, and



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higher overall living standards. The wider acceptance of globalisation is due to factors like increased investment, the spread of technology, strong institutions, and an educated workforce.

Advocacy for Globalisation

Proponents (supporters) of globalisation believe that it offers many benefits, especially for developing countries.

- **Economic Growth:** They believe it helps developing countries to catch up to developed ones through increased manufacturing, economic diversification, and overall economic development, which leads to higher living standards.
- **Job Creation:** When companies from developed countries make cross-border investments and transfer technology to developing countries, it brings new jobs.
- **Increased Trade:** Trade initiatives promote cross-border trade by reducing supply-side and trade-related barriers.
- **Social Justice:** Supporters also argue that globalisation has enhanced social justice on a worldwide basis. Activists report that it has drawn attention to human rights issues that might have otherwise gone unnoticed.

6.3 GLOBALISATION AND ITS IMPACT ON INDIA

The arrival of globalisation after the reforms of 1991 caused significant changes in the Indian economy. It had a major impact on India's economic policy, production methods, and consumer behaviour. Globalisation also had an influence on its culture.

The entry and expansion of foreign investment in various sectors helped propel the Indian economy's development. Following the 1991 reforms, the



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average growth rate of the Indian economy was much higher than in the decades before. Exports were seen as an engine of growth, and many new technologies were introduced, which boosted productivity in the long term.

The main effects of globalisation on India include:

- Increased per capita income.
- Better employment opportunities.
- A far wider range of choices for consumers.
- New opportunities for agricultural exports. It encouraged India to invest in farm mechanization and commercial farming to compete in the global market.

6.4 FAIR GLOBALISATION & THE NEED FOR POLICY FRAMEWORK

Fair Globalisation is a concept that promotes creating opportunities for all, while also ensuring that the benefits of globalisation are shared equally among everyone.

The key ideas behind fair globalisation are:

- **Mutual Understanding:** It requires mutual understanding and dialogue among governments and organizations to promote social cohesion.
- **Protecting Citizens' Interests:** Government measures must safeguard the interests of all citizens, including workers. Their rights must be effectively protected.
- **Three Pillars:** Fair globalisation must be supported by the three interdependent pillars of **economic development, social development, and environmental protection**.
- **Equal Opportunity:** It must provide equal opportunity and access to all nations, while also recognizing that different countries have different strengths and developmental needs.



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- **Meeting Needs:** Addressing the wants and needs of all people is the foundation of a more equitable globalisation.

6.5 GLOBALISATION IN REVERSE GEAR - THE THREATENED RE-EMERGENCE OF PROTECTIONISM

During times of economic and geopolitical crisis, globalisation has always taken a hit. This is because World Trade Organization (WTO) regulations allow governments to use trade protection measures to preserve their national interests within certain limits.

Deglobalisation and Protectionism

- **Deglobalisation:** This is the process of reducing dependency and integration among countries around the world. It is used to describe periods in history when economic trade and investment between countries collapse.
- **Protectionism:** This is when a government enacts laws that restrict or prohibit international trade. Protectionist measures are often used to try to protect home producers and workers from foreign competition.

There are three main forms of protectionism:

1. **Tariffs:** Taxes on imported goods.
2. **Import Quotas:** Limits on the quantity of goods that can be imported.
3. **Non-tariff Barriers:** Other rules and regulations that make it difficult to import goods.

Protectionism can lead to a decline in trade, a rise in prices for consumers, and the need for governments to provide subsidies to the protected industries. While some jobs in these industries may be saved, jobs in other industries are likely to be lost.



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The Shift Away from Globalisation

Despite its importance in building a better world, a gradual shift away from globalisation is currently taking place. This shift is primarily supported by a number of unprecedented events in recent years, such as:

- **Brexit** (The UK's exit from the European Union).
- The withdrawal of the US from the **Trans-Pacific Partnership**.
- The **US-China Trade Disputes**.
- The recent **COVID-19 Pandemic**.
- The **Russia-Ukraine conflict**.

The limited role of the WTO's 'Dispute Settlement Mechanism' has also played a critical role in this shift. There has been a rise in **populism**, the principle that countries would be better off pursuing inward-looking policies rather than outward-looking ones. As author Michael O'Sullivan has rightly said in his recent book, "The Levelling: What's Next After Globalisation," globalisation is already behind us.

These inward-looking policies, which prioritize domestic production, offer packages to help domestic companies grow, increase domestic investments, and promote protectionism to support the country from unfair trade competition, clearly demonstrate the effect of a **strategic retreat from globalisation**.



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