Paper: 08, International Business Operations

Module:06, Impact of Globalization on International Business

e-Pathshala पाठशाला

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Items	Description of Module
Subject Name	Management
Paper Name	International Business Operations
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Pre- Requisites	Globalization, International Business
Objectives	To study the basic concepts of globalization and its impact
Keywords	Globalization

QUADRANT-I

Module : Impact of Globalization
1. Learning Outcome
2. Introduction
3. Impact of Globalization
4. Effect of Globalization on Indian Economy
5. Positive effect of globalization
6. Negative impact of Globalization
7. Summary

1. Learning Outcome:

After completing this module the students will be able to:

- To understand the concept of Globalization
- To understand the impact of globalization on Indian Economy
- Positive and negative effects of Globalization on Indian Economy

2. Introduction

Globalization means linking the economy of a country with the economies of other countries by means of free trade, free mobility of capital and labour, etc. It also means inviting multinational corporations to invest in domestic economy.

"Globalisation may be defined as a process associated with increasing openness, growing economic interdependence and deepening economic integration in the world economy."

Globalisation implies opening of economy to foreign investment, removing obstacles to the entry of multinational corporations (MNCs), carrying out massive import liberalisation by bringing down import duties considerably, promoting international trade, etc. With the globalisation in India, MNCs are allowed to enter in number of crucial sectors to which their entry was previously restricted or banned. Globalisation assumes that domestic economy should have close link with the world economy. As a result, there will be unrestricted flow of goods and services, technology and expertise among different countries of the world. There will be increased cooperation of domestic economy with different economies across the world. Capital and technology will flow from the developed countries of the world towards developing nations like China and India.

MNCs are playing an important role in the process of globalisation. Now there is increased movement of investment, technology, goods and services among different nations. Different countries of e world have come in close contact with one another. Now movement of people among different nations has increased. With the improvement in transportation and communication, more people move from one nation to another in search of better jobs, better education, tourism, medical treatment and other opportunities, etc. The ultimate aim of globalisation is to look upon the world as a 'global village.' Thus, globalisation is the process of integrating the domestic economy with the world economy. Globalisation mainly includes:

(i) Reducing tariff and non-tariff barriers across different nations.

(ii) Allowing free flow of capital among different nations.

(iii) Allowing free flow of technology across different nations.

(iv) Allowing free movement of labour among different nations.

19.2.1 Definitions of Globalization:

There are several ways to define globalization. Some of the definitions can be stated as under:

(1) In the words of Rubens Ricupero, Secretary-General of UNCTAD. "Globalisation is the integration of the world economy as a result of three main forces: (i) increase in trade in goods and services (ii) increase in the investment of transnational companies and the consequent change in the nature of production. Production is becoming no longer national but as a process that takes place in different countries, and (iii) international monetary transactions".

(2) According to eminent economist Deepak Nayyar, "Globalisation may be defined as a process associated with increasing openness, growing economic interdependence and deepening economic integration in the world economy. "

(3) According to International Monetary Fund, "Globalisation means growing economic interdependence of different countries through increasing cross-border transactions in goods and services and of international capital flows, and also through widespread diffusion of technology. "

In short, above definitions highlight the following features of globalisation:

(i) Integration of domestic economy with global economy.

(ii) Opening up of the economy to foreign capital, foreign technology and foreign competition.

(iii) Free world trade with liberalised approach towards exports and imports. Elimination of tariffs and quotas.

(iv) Expansion of multinational corporations. (v) Free flow of international capital.

The Effects of Globalisation on Business

The effects vary from one part of the world to another and from one area of business to another. Communications infrastructure is most important in digital world and so its businesses, but not all countries have got one. There is also the 'non-traded' sector i.e goods and services which are not traded internationally. Following factors can be assessed as key factors affected by globalization:

- ***Competition***

Globalization leads to increased competition. This competition can be related to product and service cost and price, target market, technological adaptation, quick response, quick production by companies etc. When a company produces with less cost and sells cheaper, it is able to increase its market share.

Customers have a large multitude of choices in the market and this affects their behaviors: they want to acquire goods and services quickly and in a more efficient way than before. They also expect high quality and low prices. All these expectations need a response from the company, otherwise sales of company will decrease and they will lose profit and market share. A company must always be ready for price, product and service and customer preferences because all of these are global market requirements.

- ***Meeting consumer expectations and tastes***

Consumers all over the world are better informed, have higher incomes and therefore higher and more challenging expectations. These force marketers to meet higher standards. Marketers have to research more extensively to understand changing consumer behaviour.

- ***Economies of scale***

Selling into a global market allows for enormous economies of scale, although not all industries benefit from these.

- ***Choice of location***

Businesses are now much freer to choose where they operate from, and can move to a cheaper and more efficient location. This increased movement of businesses and jobs has, to some extent, forced governments to compete with each other in providing an attractive and low-cost location.. Inputs vary in price across the world, and businesses now have more freedom of movement in moving to get hold of those cheaper. One limitation on this is that managers won't always move to some countries if living conditions are unpleasant or even dangerous.

- ***Multi-national and multi-cultural management***

This is a major challenge to businesses and their managers. A multi-national business environment is more complex with more variables, and so is more difficult to manage. A multi-cultural employment policy leads to employees of many different nationalities, languages, religions and cultures in different offices across the globe.

These employees react in quite different ways to incentives, to motivation and it is very difficult to find managers who are sensitive to all these different factors. It is very easy to inadvertently give offence and demotivate the workers.

- ***Globalisation of markets***

National borders are becoming less and less important. Markets stretch across borders and MNCs have taken advantage of this. There are issues of languages, culture still, Consumers are more alike, but by no means are the same. Many businesses have made expensive mistakes by not taking local variation sufficiently into account. Marketing, in particular, is a minefield because of its dependence on language. The marketing books are full of stories, often very amusing, of how businesses got, wrong.

- **Knowledge/Information transfer**

Information is a most expensive and valuable production factor in the current environment. Information can be easily transferred and exchanged from one country to another. If a company have a chance to use knowledge and information then it means that it can adapt to this global changing. This issue is similar with the technology transfer issue in global markets. The rapid changing of the market requires also quick transfer of knowledge and efficient using of that knowledge and information.

Globalisation of Indian business

Globalization, liberalization and privatization were the three cornerstones of India's New Economic Policy defined in 1991. The year 1991 marks the beginning of a new era in the Indian economy. The new objective to be pursued by the policy makers, strategists and executives was to make India the largest free market economy of the 21st century. In pursuit of this objective, the Indian economy was to be integrated with the world economy through a programme of structural adjustment and stabilization. While the stabilization programme included inflation control, fiscal adjustment and BOP adjustment, the structural reforms included trade and capital flows reforms, industrial deregulation, disinvestment and public enterprise reforms and financial sector reforms. The programme of economic reforms has not been entirely successful and as a result, the globalization process of the Indian economy has not gathered momentum. Indian business continues to face a number of difficulties and obstacles in their effort to globalize their business. These obstacles are as follows:

- Government Policy And Procedures: Government policy and procedures in India are extremely complex and confusing. Swift and efficient action is a pre-requisite for globalization- which sadly missing. The procedures and practice continue to be bureaucratic and hence a speed breaker in the globalization effort.
- High Cost Of Inputs And Infrasructural Facilities: The cost of raw materials, intermediate goods, power, finance, infrastructural facilities etc. in India is high which reduces the global competitiveness of Indian business. The quality and adequacy of infrastructural facilities in India is far from satisfactory. Further the technology employed by Indian industries and the style of operation is generally out dated.
- Resistance To Change: The pre-reform era (1951- 1991) breeded lethargy, created rigid structures, systems, practices and procedures and generally instilled a laid back attitude. These factors are a hindrance to the processes of modernization, rationalization and efficiency improvement. Technological change is generally perceived to be employment reducing and hence resisted to the extent possible. For instance, information technology was introduced in India in the early eighties. However, computerization process of nationalized banks began only in the mid nineties. Excess labour is particularly employed in the public sectors in areas such as banking, insurance, and the railways and Indian industry in general. As a result, labour productivity is low and cheap labour in many a cases turns out to be dear.
- Small Size and Poor Image: Grand Indian firms are known to be global pygmies. A look at the fortune 500 list would reveal all to you. On a global scale, Indian firms are found to be small in size with low availability of resources. Indian firms there for cannot compete successfully in the international market. Indian products suffer from a poor image in the international market for both reasons valid and otherwise. Indian firms continue to miss consumer focus both domestically and internationally. The

value-money equilibrium is missing in Indian products. Further, Indian firms are do not have the where- withal to keep up to the delivery schedule, accepts large orders and match up to international specifications.

- Growing Competition and Poor Spend: Indian firms are not only up and against competition from developed countries but also emerging Asian powerhouses such as South Korea and China. Continuous improvement in quality and usefulness and competitive costs with competitive pricing can only keep you afloat and in order to remain afloat, one has to spend quite a lot on R & D. both public and private sector outlays on research in India is deliberately low when compared to the developed countries.
- Non – Tariff Barriers: Member nations of the World Trade Organizations are bound to progressively reduce tariff rates across the board over a definite period of time so that level playing field is created in global trade. Tariff barriers are therefore not of much concern. What concerns developing nations in particular, are non- tariff barriers imposed by the developed countries. Issues such as child labor content in some of the products exported by India to the developed nations had cropped up and remain unresolved.

Advantages of Globalisation:

For successful globalization, countries need to chalk out strategies and policies to open up the doors for the inflows of foreign direct investment (FDI). The FDI by the MNCs brings with it flow of foreign exchange/ foreign capital, inflow of technology, real capital goods, managerial and technical skills and know- how. Globalization can easily promote exports of the country by exploiting its export potentials in a right way. Globalization can be the engine of growth by facilitating export- led growth strategy of developing country. Globalization can provide sophisticated job opportunities to the qualified people and check ‘brain drain’ in a country. Globalization would provide varieties of products to consumers at a cheaper rate when they are domestically produced rather than imported. This would help in improving the economic welfare of the consumer class.

Under globalization, the rising inflow of capital would bring foreign exchange into the country. Consequently, the exchange reserve and balance of payments position of the country can improve. This also helps in stabilizing the external value of the country’s currency. Under global finance, companies can meet their financial requirements easily. Global banking sector would facilitate e banking and e-business. This would integrate countries economy globally and its prosperity would be enhanced.

19.6 Disadvantages of Globalization

Globalization is never accepted as unmixed blending. Critics have pessimistic views about its ill- consequences. When a country is opened up and its market economy and financial sectors are well liberalized, its domestic economy may suffer owing to foreign economic invasion. A developing economy hence lacks sufficient maturity; globalization may have adverse effect on its growth.

Globalization may kill domestic industries when they fail to improve and compete with foreign well-managed, well-established firms. Globalization may result into economic imperialism. Unguarded openness may become a playground for speculators. It may lead to unemployment, poverty and growing economic inequalities.

Effects of Globalisation on Indian Economy

1 Positive Effects of Globalisation

(1) Increase in Foreign Trade:

As a result of foreign trade policies adopted in the wake of globalisation, India's share in the world trade has gone up. In 1990-91, India's share in world trade was 0.53 per cent. In 1995-96, it rose to 0.60 per cent. In 2009-10 it further increased to 1.78 per cent. Above table shows that as a result of globalisation of India's foreign trade, there has been some increase in India's share in world trade. Share of India's exports in India's GDP has also been constantly rising. In 1990-91, it was 6 per cent of GDP that rose to 15.54 per cent in 2009-10.

Table: India's Share in World Trade

Year	India's Percentage Share In
1990-91	0.53
1995-96	0.60

2005-06	1.00
2007-08	1.50
2008-09	1.64
2009-10	1.78

(Source: Economic Survey, 2010-11)

Above table shows that as a result of globalisation of India's foreign trade, there has been some increase in India's share in world trade. India's share in global merchandise trade stood at 2.0% in 2015*. Share of India's exports in India's GDP has also been constantly rising. In 1990-91, it was 6 per cent of GDP that rose to 15.54 per cent in 2009-10. GDP rose to an average of 6.9 in 2013-14 and to 7.5 in 2015**.

*Source : World Trade Organization.

** Source: tradingeconomies.com

(2) Increase in Foreign Investment:

As a consequence of globalisation, there has been a considerable increase in foreign direct investment as well as foreign portfolio investment.

(a) Foreign Direct Investment (FDI) : Foreign direct investment is made by foreign companies in order to establish wholly owned companies in another country and to manage them or to purchase shares of companies in another country for the purpose of managing such companies. The main characteristic of foreign direct investment is that native companies are managed by the foreign companies or new companies are set up in India by foreign companies. In this type of investment, it is the foreign investor who takes risk and is solely responsible for profit/loss of such company.

(b) Portfolio Investment: Under this type of investment, foreign companies/foreign institutional investors (FIIs) buy shares/debentures of native companies, however management and control remain vested with the native/domestic companies themselves.

There is significant increase in foreign investment in India. In the year 1990-91, total foreign investment (FDI and Portfolio investment) was US$ 103 million. In the year 2007-08, amount of foreign investment increased to US $ 62,106 million. Due to global slowdown, inflow of foreign investment in 2008-09 has reduced to US $ 23,983 million. In 2009-10 again inflow of foreign investment has increased to US $

70,139 million. FDI inflow into India increased to US$ 55 bn in 2015-16, as compared to US$ 45 bn in 2014-15. Because of significant increase in foreign investment, India began to experience a surplus balance of payments and a very remarkable improvement in foreign exchange reserves.

(3) Increase in Foreign Collaborations:

Globalisation has promoted collaboration of foreign companies with many Indian companies. These collaboration agreements can be technical collaboration, financial collaboration or both. In financial collaboration, foreign companies provide financial resources, while in technical collaboration modern foreign technology is provided by foreign companies. Foreign companies are setting up many enterprises in India in collaboration with Indian companies.

(4) Increase in Foreign Exchange Reserves:

As a result of globalisation of Indian economy, foreign exchange reserves have also increased substantially. In 1991, foreign exchange reserves of India amounted to Rs. 4,388, crore which in March, 2011 increased to Rs. 13,43,188 crore (US $ 301.84 billion). Thus, there has been an increase of 306 times in foreign exchange reserves of India.

(5) Expansion of Market:

Globalisation has expanded the size of market. It has permitted Indian business units to expand their business in the whole world. Now multinational corporations have no national boundaries. Indian companies like Infosys, Tata Consultancy, Wipro, Tata Steel, Reliance, etc. are doing their business in many countries.

(6) Technological Development:

Globalisation has enabled the inflow of foreign technology, which is very superior and advanced. Now Indian business units use this modern technology.

(7) Brand Development:

Globalisation has promoted the use of branded goods. Now not only durable goods are branded but products like garments, juices, snacks, foodgrains, etc., are also branded. Foreign brands are very popular among Indian consumers. Brand development has led to quality improvement.

(8) Development of Capital Market:

Globalisation has helped in development of Indian capital market. Now many foreign investors invest in Indian Capital market. Recently, there has been substantial increase in inflow of foreign direct investment and portfolio investment.

(9) Development of Service Sector:

Globalisation has helped in growth of service sector. With the entry of foreign companies, tremendous improvement has been witnessed in various services like telecommunication, insurance, banking, etc. Now mobile phones are very cheap and popular in India.

(10) Increase in Employment:

Globalisation has promoted employment opportunities. Foreign companies are establishing their production and trading units in India. It has increased employment opportunities for Indians, e.g. many Indians are presently employed in foreign insurance companies, mobile companies, etc.

(11) Reduction in Brain Drain:

As a result of globalisation, many multinational corporations have set up their business units in India. These MNCs provide attractive salary package and good working conditions to efficient, skilled Indian engineers, managers, professionals, etc. Now Indians get good employment opportunities in India. It has resulted in reduction in brain drain.

(12) Improvement in Standard of Living:

As a result of globalisation, the standard of living of Indian population has improved. Now Indians get better quality goods at low prices. Globalisation has resulted in reduction of prices of many products particularly electronic items like television, AC, mobile phones, refrigerator, etc. Now middle-income group also uses these luxury products, which were earlier used by rich class only.

Negative Effects of Globalisation

(1) Loss to Domestic Industries:

As a consequence of globalisation foreign competition has increased in India. Now Indian industrial units have to compete with foreign industrial units. Because of better quality and low cost of foreign goods, many Indian industrial units have failed to face competition and have been closed. Small and cottage industries are worst hit by this increased competition.

(2) Unemployment:

Foreign companies operating in India use capital intensive technology. Even some Indian companies use imported capital-intensive technology. With the increasing use of computers and automatic machines, employment avenues are reduced.

(3) Exploitation of Labour:

Globalisation is exploiting unskilled workers by giving lower wages, less job security, long working hours. Labourers have to work even in these conditions because bad job and less wages are better than no jobs.

(4) Demonstration Effect:

With the easy availability of foreign goods, demonstration effect has increased among Indians. Now many consumers are using luxury products by imitating others. It has promoted tendency of wasteful consumption in India. This increasing wasteful expenditure has in turn reduced saving and capital formation.

(5) Increase in Inequalities:

Globalisation has increased inequalities in our economy. Globalisation has benefitted MNCs and big industrial units but small and cottage industries are adversely hit by it. It has increased income inequalities in India.

(6) Dominance of Foreign Institutions:

With globalisation dominance of foreign institutions has increased in India. Globalisation has helped foreign companies in enlarging their market share. For example, in Indian cold drink market, a large share is controlled by Pepsi and Coca-Cola, which are foreign companies.

Political Impact of Globalisation

Globalisation has multidimensional character covering economic, social, political and cultural aspects. The main political impact of globalisation is as follows:

(1) Improvement in Cross-border Relationship:

Globalisation has increased interaction among different nations of the world. It has made the whole globe one market. It has improved the relations among different nations.

(2) Changing Role of Bureaucracy:

Globalisation and liberalisation have resulted in procedural simplification. It has reduced government intervention in the economic activities. Earlier, bureaucracy was a hurdle in the path of development, but now it is a booster, accelerator and facilitator in the development process.

(3) Growth in Capitalism:

Globalisation has promoted capitalism across the world. Even countries like

China and Russia who were great advocators of socialism have adopted capitalism.

(4) Changing Role of Government:

Prior to globalisation, government had to participate in economic, political, social activities, but with globalisation, government has reduced its role in the economic sector. Now private sector, MNCs play an important role in the economic sector. Now government can concentrate on other sectors like health, education, safe drinking water, environmental protection, infrastructure, defence, etc.

(5) Increase in Efficiency of Public Sector Units:

With the globalisation, privatisation and liberalisation, the efficiency of public sector units has increased. With increase in competition and threat of privatisation, now public sector units are under pressure to cut down wasteful expenses and increase productivity and efficiency

19.9 Obstacles in the Path of Globalisation

(1) Bureaucratic Hurdles:

Business units have to face many bureaucratic hurdles in the form of much documentation, lengthy and cumbersome procedures, etc. Many foreign investors hesitate to invest in Indian economy due to excessive administrative hindrances.

(2) Unstable Government Policy:

In India, there are frequent changes in ruling party. As a result, the economic policies of government are not stable. Frequently changing economic policies discourage long-term investors to invest in Indian economy. Moreover, there is lack of transparency in the working of government which also raises doubt in the minds of foreign investors.

(3) Backward Technology:

In Indian industries, level of technology is poor and low in comparison to advanced nations. Research and development of technology is also very poor in India. Due to backward technology, Indian products are of poor quality. Indian companies find it very difficult to expand their business in foreign nations due to poor quality products.

(4) Poor Infrastructure:

In India, infrastructural facilities are very poor in comparison to developed nations.

MNCs hesitate to invest in India due to poor infrastructure. Lack of strong infrastructure also creates hindrance in expansion of Indian companies in other nations. Like lack of sufficient port facilities is a great hindrance in export-import transactions.

(5) Small-sized Business Units:

In India, most of the business units are family owned. Their business activities are mainly confined to local or regional level. They cannot think of expanding their business activities to other nations.

(6) Lack of Global Vision:

In India, very few entrepreneurs have global vision. Most of the entrepreneurs have narrow vision. They do not have global orientation. They avoid risk involved in foreign business and remain confined to local or at the most national level.

(7) Increasing Global Competition:

Indian goods have to face tough competition in the global market from the products of other nations. Increasing global competition has made it very difficult for Indian exporters to sell their products in global market.

(8) Tariff and Non-tariff Barriers Imposed by Developed Nations:

Developed countries have imposed various tariff and non-tariff barriers to the imports from developing countries like custom duties, quantitative restrictions, packing regulations, safety norms, etc. This has adversely affected exporters of developing nations to sell their products in developed countries.

Summary

New and ever improving communications technology has spread throughout the world, allowing international marketing campaigns to be coordinated all from a domestic base. The internet and mobile phones have opened up entirely new international industries with endless potential. Globalisation has changed the way people shop. Consumers are better able to shop around for good deals and are prepared to buy from overseas without necessarily viewing products first hand.

Globalisation has also increased market competition, in turn increasing the importance of effective international marketing. Many organisations cannot rely on the fact that they are the only player in a long held domestic market; there are new competitors from overseas appearing all the time.

Transport and distribution systems are more efficient than ever before, making it easier, faster and cheaper for businesses to get their products to consumers. Electronic transfers have also made making and receiving international payments faster and more secure.

Finance is more readily available to both consumers and organisations, thanks to the globalisation of many financial providers. Investors are interested in spreading their investments over a wider range of markets to reduce their overall level of risk. An increased availability of capital makes it easier for organisations to finance their international marketing efforts.