


Subject: Management

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 **-Content for Post Graduate Courses**



Paper: 12, BUSINESS ENVIRONMENT

Module: 10, GLOBALIZATION AND ITS IMPACT



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Items	Description of Module
Subject Name	Management
Paper Name	Business Environment
Module Title	Globalization and its impact
Module Id	Module No.-10
Pre- Requisites	Basic knowledge of global business.
Objectives	To study the impact of globalization
Keywords	Indian Economy, Economic Reforms, Globalization, India

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1. Learning Outcome
2. Introduction
3. Features
4. Importance of globalization
5. Impact of globalization
6. Forces behind Globalization
7. Summary
8. Case study

1.

Learning Outcome:

After reading this lesson, you should be able:

- To understand various features of globalization.
- To comprehend the importance and impact of globalization across various facets.

2. **Introduction**

In the year 1991, the Indian economy witnessed mammoth economic reforms. The Indian economy was running in deep crisis at that time. Both inflation and fiscal deficit were very high, foreign exchange reserves were depleting coupled with capital outflows. To wriggle out of such crisis, the government in power undertook major structural reforms in the name of Liberalization, Globalization and Privatization (LPG) policies. Globalization is one of such economic reforms that have changed not only the structural aspect of trade and service industry but also the attitude of worldwide economies toward India. Even though diverse countries are bestowed upon with different variety of resources yet they have to depend on each other for optimum utilization of those resources. For instance, countries rich in natural resources have to depend on others to satisfy their requirements other than natural resources. Globalization is the

key to this. In simple terms, globalization refers to economic integration of worldwide economies for the exchange of goods, services, capital and labor across international boundaries.

"The process by which businesses or other organizations develop international influence or start operating on an international scale" (Oxford dictionary)

There is no single definition of the term 'Globalization'. But in broader sense, it comprises, opening up of economic sectors, mobility of labor, financial flows (both portfolio as well as capital), exchange of technology, international trade relations, etc. In the context of Indian economy, this implies liberalizing Foreign Direct Investment (FDI) norms wherein the foreign companies can invest and further raise stake in the Indian companies. Above all, it comprises import and export of goods and services across international boundaries.

3. Features of Globalization

1. Integration of international economies: Globalization has led to integration of domestic economies with international. The countries are undertaking trade related measures and developmental policies so as to increase cross border trade relations.
2. Liberalization: For an effective implementation of globalized practices, freedom of trade, goods, services, technology, capital and labor across the international borders act as a precursor.
3. Free Trade: Another important feature of globalization is free trade between the countries. The term 'Free Trade' does not mean trade between the countries without paying any custom duty or levies. It simply means reduction in governmental procedures and duties.
4. Transfer of technology: On the whole globalization leads to transfer of technology from developed nations to developing. The Developed countries like the US are more advanced and rich in technology which can further be transferred to the developing economies like India in the wake of optimum exploitation and development of the latter economies.
5. International Financial Flows: The globalization involves, movement of financial flows from one country to another. For instance, when a consumer in Taiwan import goods from India, then he is supposed to make payment to the Indian exporter in Indian rupees after converting his domestic currency (Taiwan dollar), else Taiwan dollars can also be paid as per the agreement accordingly. The crux of the argument is that globalization involves movement of international funds from one country to another.

6. **International Cooperation:** To provide an equal platform to all of the international players, international trade as well as financial cooperation is required among the countries. The international financial institution like the World Trade Organization (WTO), International Monetary Fund (IMF) and World bank are working in this regard. These organization not only provide a platform for the settlement of disputes among the countries yet channelize the trade as well as financial linkages among the countries.
7. **Transnational Companies:** Owing to globalization, a new concept of 'transnational companies' has came into existence, apart from multinational companies. The transnational companies treat entire world market as one single market having decentralized decision making systems across international boundaries. In other words, the transnational companies do not make changes in their respective products at the time of entering a foreign market, like Coca-Cola. The product is same across diverse boundaries.

4. Importance of Globalization

The importance of globalization can be discussed as follows:

The above mentioned points highlight the importance of going global.

1. **World Class Services:** A country can enjoy world class services through globalization. For instance, in India, the Banking activities have undergone a major transition through the introduction of world class technology. People can perform banking transaction at anytime and anywhere.
2. **Standard of Living:** Living standard is a byproduct of globalization. Owing to availability of affordable goods and services, the standard of living of people increases.
3. **Infrastructure Development:** Globalization promotes development of infrastructure through the transfer of technology from one country to another.
4. **Foreign Exchange Reserves:** Through globalization countries can build foreign exchange reserves owing to international financial flows.
5. **Economic Growth:** Globalization entails to optimum utilization of resources wherein deficit resources are procured and surplus resources are exported to other countries. This ensures overall economic growth of a country.
6. **Contribution to World GDP growth rate:** Globalization ensures contribution of every country to world GDP growth rate.

7. **Affordable Products:** With the access to latest technology, the countries can provide products to its countrymen at affordable prices. Globalization promotes competition in domestic economies and in their endeavor to compete against competition, companies reduce product prices or follow penetration pricing strategies.

8. **Extension of Markets:** Above all, globalization promotes extension of markets. It provides an opportunity to the domestic companies in going global. For instance, domestically, companies can witness a saturation in the demand for their products or services but through globalization the domestic companies can sustain and satisfy the growing demands of foreign customers.

5. Impact of Globalization

We can analyze the impact of globalization from several aspects; impact on society, culture, politics, economic reforms, etc. Globalization entails to a structural change of an economy wherein countries not only undertake trade ventures but adopt several other norms as well.

A. Impact of Globalization on Agricultural Sector:

Agriculture sector is the backbone of Indian economy. The globalization has resulted in large number of benefits for the agriculture sector.

1. Special assistance and loans from World bank as well as other international financial institutions are provided to agriculture sector.
2. This has resulted in increase in standard of living of people.
3. World class seeds as well as technologies are available to the farmers at their door step.
4. Domestic subsidy programs are properly marginalized considering the requirements of World Trade Organization.
5. Globalization has provided an international platform to the farmers so as to sell their produce at competitive prices.

B. Impact of Globalization on Industrial Sector:

After agriculture sector, industrial sector also contributes to a larger extent in creation of employment as well as GDP growth rate. In the year 1991, lot many sectors were opened up for foreign investments such as steel, pharmaceutical, chemical, textile, etc. Through globalization, most of the countries have reduced trade barriers and allowed free flow of goods as well as services from one country to another.

1. Globalization has resulted in extension of markets for the domestic companies.

2. Highly advanced technologies are available to the companies at much cheaper prices now a days.
3. Foreign investments are allowed in indigenous companies in the form of Foreign Direct Investment (FDI).
4. Globalization led to industrial revolution in 1990's thereby creating large number of employment for the workers.
5. Incorporation of Transnational as well as Multinational corporations have increased over a period of time.
6. The contribution of the export sector has increased in the overall GDP growth rate.
7. Globalization has provided a special platform to small and medium enterprises in the context of international markets and technology transfers.

C. Impact on Financial Sector:

Now a days, there is free flow of financial capital (both portfolio as well as direct investment) across the countries. This has further led to the development of the financial service industry.

1. Globalization has made the banking sector more technologically as well as operationally efficient.
2. Foreign investors can invest their money in domestic financial markets and further in its various products like equity, debt, mutual funds, etc.
3. Foreign insurance companies undertake insurance ventures in the domestic economy through joint ventures or partnerships.
4. Globalization has led to building up of huge foreign exchange reserves.
5. International payments have become far more convenient and efficient.

D. Impact on Social and Cultural Sector

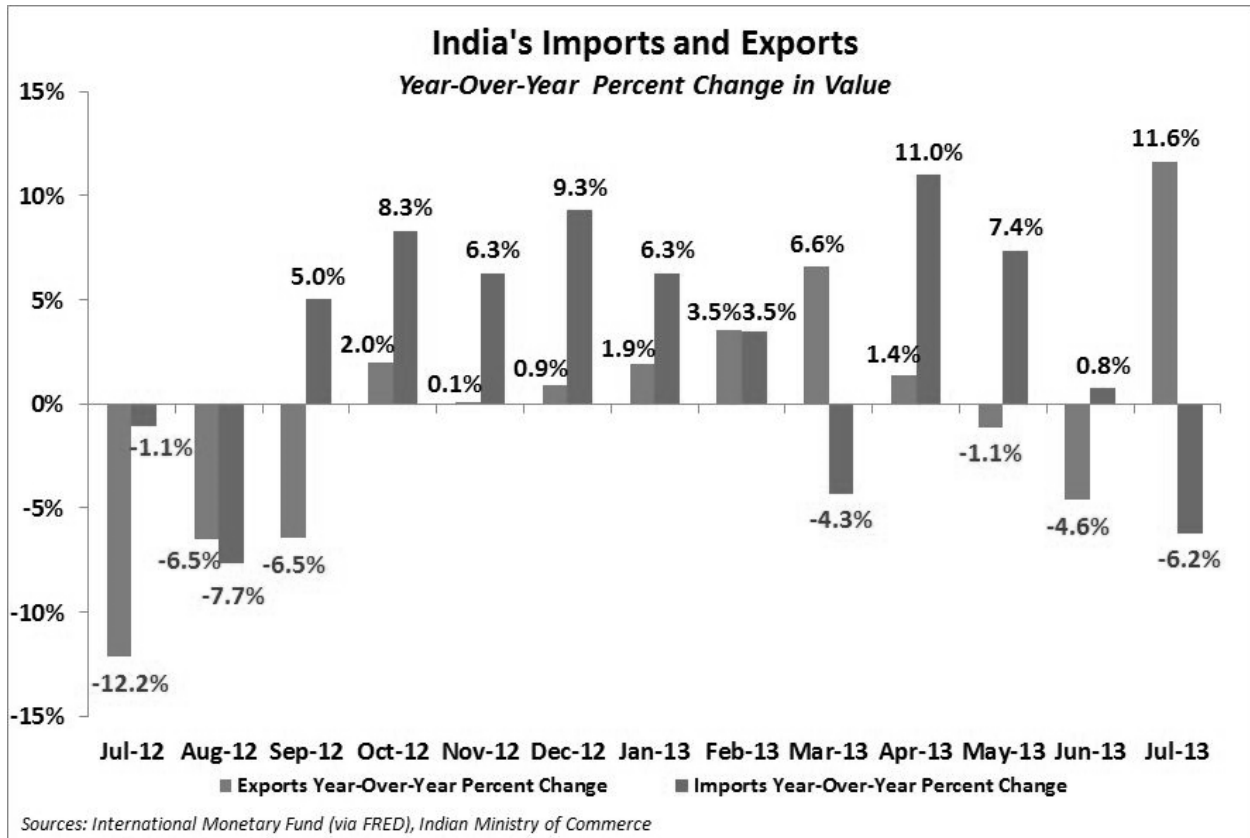
The globalization is having an impact not only on the economic aspects but on social and cultural aspects too.

1. People's taste and preferences are changing at a rapid pace over a period of time.
2. Clothing patterns are also witnessing a drastic spillover of western styles.
3. Electronic gadgets are in huge demand not only in urban areas but in rural as well.
4. Above all, globalization is having an impact on society's value system as well.

5. Creation of a globalized civil society having common thoughts as well as appearances.

E. Impact on Export and Import

Seemingly, globalization is having an impact on import as well as export of a country as well. Owing to extension of international markets, exports and imports have increased over a period of time followed by a very high current account deficit.



The above mentioned figure is a graphical presentation of India's import and export over a period of one year 2012-2013 on monthly basis. It is quite apparent from the figure that both imports and exports witnessed a substantial increase or decrease in their values. Due to financial and trade related linkages among the countries, domestic economies have become more prone to external shocks. These further have an impact on import and export of a country, like in case of the Indian economy as depicted in graph.

F. Political Ideologies and Regulatory Framework

Now a days, politics is not confined within the domestic boundaries, whereas it has become a subject matter of international players. The political ideologies are changing very fast considering the foreign parties' interests. Globalization acts as a medium of trillions of dollars entering into an economy for the purpose of investment and business.

So, the political leaders are expected and supposed to follow the international standards and norms. Sometimes, specific policies are incorporated considering the interest of foreign companies. The above mentioned are some of the areas on which globalization is having an impact. However, practically the list is quite exhaustive. Apart from this, Globalization is also becoming a culprit of importing western thoughts and lifestyles, which are having a detrimental impact on the domestic economy.

6. Forces behind Globalization

After discussing about globalization and its impact, another important area is factors driving a globalized environment. There are generally two types of factors that prompt a country to follow globalization path. These factors are: pull and push factors. As the name suggest, pull factors reflect voluntary movement toward new avenues or factors that motivate firms in one country to undertake business ventures in another country owing to diverse opportunities available, whereas, on the other hand, push factors reflect negative aspects that force business firms to leave their own countries and indulge in international trade ventures. The following is a list of some of the important factors or forces that drive globalization.

A. Increase in demand

One of the major factor that has led to globalization is increase in demand for products. With the increase in population, demand for products is increasing at a rapid pace. Consequently, the countries are required to depend on each other in their attempt to satisfy the needs of their natives. Furthermore, with the increase in demand for products, multinational companies are easily finding a way to enter international borders.

B. Technology

Now a days, trade is not confined to domestic borders only, rather, with the advancement of technology, international ventures are becoming an important part of a business portfolio. It is quite easy to place orders online and keep tracking the same. A simple example that can be quoted to comprehend the role of technology in promoting globalization is of Information Technology sector in India. The IT industry is well known for its IT services worldwide. A big share of industries in the US has outsourced their IT related activities to Indian IT companies, namely, Infosys, Wipro, TCS, etc. The very act of outsourcing explains globalization act of Indian IT companies.

C. Liberalization:

Over the years, the countries are following liberalize approaches in terms of international flow of goods, services and finances. For instance, most of the emerging markets are slowly opening up their gates for offshore funds, goods and services. All this prompt activities toward globalization. With the opening up of Indian economy in the year 1991, large number of worldwide companies

are finding their home in Indian shores. Now a days, it is very easy to start any new venture in any country. Due to relaxations in laws and regulations, business firms can undertake business ventures in other countries subject to demand and preferences of the foreign land.

D. Changing needs and preferences

As we know that with the change in needs and preferences, new products or services are floated in the market. However, with the globalization of goods and services, people are having more options with regard to different varieties of products and services in their home country. This also promotes globalization at a larger scale. For instance, number of foreign branded stores have increased over a period of time in our country owing to change in needs and preferences of people.

E. Capital Flows:

Due to liberalize financial flows across the countries, globalization is at its zenith. Many joint ventures are undertaken with foreign parties on the other hand. For example, Softbank of Japan has invested huge amount of resources in India's Snapdeal e-commerce business. All this further prompts to globalization. The increasing ties in terms of cross country financial resources make business firms to experience worldwide trends.

F. Factor Mobility:

The mobility of individuals, information, communication and knowledge (as major agents of production and countries) has further smoothed the growth process of globalization. The movement of all of these resources automatically prompts globalized environment. As we know that land, labour, capital and entrepreneur acts as major factors of production, so, in the event of mobility of the same, business firms can indulge in international ventures.

7. Summary

To wriggle out of such crisis, the government in power undertook major structural reforms in the name of Liberalization, Globalization and Privatization (LPG) policies in 1990's. Globalization is one of such economic reforms that have changed not only the structural aspect of trade and service industry but also the attitude of worldwide economies toward India. In simple terms, globalization refers to economic integration of worldwide economies for the exchange of goods, services, capital and labor across international boundaries. Integration of international economies, Liberalization, International Cooperation, Transfer of technology, etc. are some of the important features of globalization. We can analyze the impact of globalization from several different aspects; impact on society, culture, politics, economic reforms, etc. Globalization entails to a structural change of an economy wherein countries not only undertake trade ventures but adopt several other norms as well. Moreover, globalization has provided a special platform to small and medium enterprises in the context of international markets and technology transfers.

There are generally two types of factors that prompt a country to follow globalization path. These factors are: pull and push factors. As the name suggest, pull factors reflect voluntary movement toward new avenues or factors that motivate firms in one country to undertake business ventures in another country owing to diverse opportunities available, whereas, on the other hand, push factors reflect negative aspects that force business firms to leave their own countries and indulge in international trade ventures. Apart from this, there are several factors that motivate a business firm or industry going global ranging from better technology, liberal norms, increase in overall demand for the products, mobility of factors and financial capital flows across the international borders.

8. Case Study on Pepsi's Entry into India: A Lesson in Globalization

(Source: <http://www.icmrindia.org/casestudies/catalogue/Business%20Strategy1/BSTR062.htm>)

The case discusses the strategies adopted by the soft drinks and snack foods major PepsiCo to enter India in the late 1980s. To enter the highly regulated Indian economy, the company had to struggle hard to 'sell' itself to the Indian government. PepsiCo promised to work towards uplifting the rural economy of the terrorism affected north Indian state of Punjab by getting involved in agricultural activities. In addition, it made a host of other promises that made its proposal very attractive to the regulatory authorities. The case also discusses the criticisms leveled against the company, in particular, criticism of its failure to honor many of its commitments after it started operations in the country and after the liberalization of the Indian economy.

Issues:

- » understand the kind of strategy a multinational company develops to enter highly regulated economies that have immense market potential.
- » analyze the importance of formulating and selling a business proposal in such a manner that it becomes attractive to the regulatory authorities of a foreign country.
- » appreciate how and why a company changes its strategies in tune with changes in the regulatory environment of a foreign country.
- » understand the role big private sector corporations can play in the development of the economies in which they operate, and the financial and social implications (reputation, goodwill) of doing so.