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CHAPTER

3

Pre and Post Glocalization of India: An Empirical Analysis

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Globalisation is an interplay of market, state and technology.

Globalisation is a heroic process or a sinister process, depending on which side of the debate one stands.

Abstract:

It happened earlier but the rapid pace of globalization happened after 1870. The first stage of globalization happened from 1870 to 1914, second from 1945 -1980 and third phase globalization has been continuing since 1980. Globalisation has been instrumental in raising living standards and has helped lift large parts of the world population out of poverty. Trade openness has greatly enhanced productivity and vastly improved consumption opportunities. Financial openness, in addition to supporting international trade, allows greater scope for diversifying risks and earning higher returns. It also makes funding more readily available and facilitates the transfer of knowledge and know-how across countries. Globalisation has also posed well-known challenges. Gains from trade have not been evenly distributed at the national level. The integration among the developed countries is much better than the integration between developing countries. There is also asymmetry to the growth of developed economies and developing economies. When

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developed economy and some select Asian economies have gained, the entire¹ African continent has been left behind. Domestic policies have not always succeeded in addressing the concerns of those left behind. The requisite structural adjustment has taken longer, and been less complete, than expected. Furthermore, unless properly managed, financial globalization can contribute to the risk of financial instability, much like domestic financial liberalization has. And, not least through financial instability, it can increase inequality. But globalization has also often been made a scapegoat. For instance, there is ample evidence that globalization has not been responsible for the majority of the concurrent increase in within-country income inequality.

The paper highlight the concept of globalization from a historical perspective. Working of the multilateral trade institutions and areas of concern for the developing economies in the world are also highlighted in this chapter. A special focus on world trade organization(WTO) has been given. Focus has been provided on Impact of global trade on economy and society has also been incorporated. Lastly, financial instability has also been briefly explained in this chapter.

Key Concepts for Review

Globalisation, International trade, international capital, Voyages of discovery, Industrial revolution, Bretton wood system, world trade organization, inequality, financial instability.

Introduction

The phenomenon of globalization is largely understood in terms of its implication on economies of the world. However, it also has an implication on polities, societies and cultures too. Politics has been integrally connected with the process of globalization. Similarly, some scholars describe globalization as “global village” or “glocalization”. Technology has been the driver of the globalization to make the world flat¹. Globalisation need not necessarily have a deleterious effect on the environment. But the manifestations of globalisation like expansion and intensification of air traffic, car, truck and sea transport, waste and increased

1 The World Is Flat: A Brief History of the Twenty-first Century is an international best-selling book by Thomas L. Friedman that analyzes globalization, primarily in the early 21st century. The title is a metaphor for viewing the world as a level playing field in terms of commerce, wherein all competitors, except for labor, have an equal opportunity.

consumption of water and fossil energy have profound impacts on the natural environment and there is a demand for changing the current model of globalization. Therefore, globalization is different thing to different people.

Globalisation is defined as a process of economic transaction across national boundaries through international trade, international labour migration and international capital flow. The process is extended to flow of technology, information, ideas. The process is associated with increasing economic openness, growing economic interdependence, and deepening economic integration among countries in the world economy. Economic integration has both demand as well as supply side. On demand side, there is an integration of markets for goods, services, technology, financial asset and money. On supply side, there is an integration of production (horizontal and vertical).

GATT vs WTO

GATT had mainly dealt with trade in goods, the WTO and its agreements now cover trade in services, and in traded inventions, creations and designs (intellectual property). WTO includes GATT, GATS and TRIPS.

Table No 11.1: Journey of Multilateral trade Agreements from GATT to WTO

Year	Place/name	Subjects covered	Countries
1947	Geneva	Tariffs	23
1949	Annecy	Tariffs	13
1951	Torquay	Tariffs	38
1956	Geneva	Tariffs	26
1960-1961	Geneva Dillon Round	Tariffs	26
1964-1967	Geneva Kennedy Round	Tariffs and anti-dumping measures	62
1973-1979	Geneva Tokyo Round	Tariffs, non-tariff measures, "framework" agreements	102

1986-1994	Geneva Round	Uruguay	Tariffs, non-tariff measures, services, intellectual property, settlement, agriculture, WTO, etc	123
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Source: https://www.wto.org/english/thewto_e/whatis_e/tif_e/fact4_e.htm

Principles of WTO

- **Most-favoured-nation (MFN): Treating other people equally:** MFN means that every time a country lowers a trade barrier or opens up a market, it has to do so for the same goods or services from all its trading partners – whether rich or poor, weak or strong. Countries cannot normally discriminate between their trading partners. The MFN is applicable to GATT, GATS and TRIPS with some exceptions.²
- **National treatment: Treating foreigners and locals equally:** Imported and locally-produced goods, services and item of intellectual property should be treated equally. National treatment only applies once a product, service or item of intellectual property has entered the market.
- **Freer trade: gradually, through negotiation:** The WTO agreements allow countries to Lowering tariff barriers (e.g. custom duty, and non-tariff barriers (e.g. import quota) gradually, through “progressive liberalization”. Developing countries are usually given longer time period to fulfil their obligations.
- **Predictability: through binding and transparency:** In the WTO, when countries agree to open their markets for goods or services, they “bind” their commitments. For goods, these bindings amount to ceilings on customs tariff rates. Sometimes countries tax imports at rates that are lower than

2 For example, countries can set up a free trade agreement that applies only to goods traded within the group – discriminating against goods from outside. Or they can give developing countries special access to their markets. Or a country can raise barriers against products that are considered to be traded unfairly from specific countries. And in services, countries are allowed, in limited circumstances, to discriminate. But the agreements only permit these exceptions under strict conditions

the bound rates. Frequently this is the case in developing countries. In developed countries the rates actually charged and the bound rates tend to be the same.

Table No. 11.2: Percentages of tariffs bound before and after the 1986-94 talks

Countries	Before	After
Developed countries	78	99
Developing countries	21	73
Transition countries	73	98

Source: WTO

- **Promoting fair competition:** The rules on non-discrimination – MFN and national treatment – are designed to secure fair conditions of trade. So too are those on dumping (exporting at below cost to gain market share) and subsidies.
- **Encouraging development and economic reform:** The WTO has been encouraging the member developing countries to have a development strategies with a structural reform programme.

Stages of Dispute Settlement Process at WTO

Time	Particular
60 days	Consultations, mediation, etc
45 days	Panel ³ set up and panellists appointed
6 months	Final panel report to parties
3 weeks	Final panel report to WTO members
60 days	Dispute Settlement Body adopts report (if no appeal)
Total = 1 year	(without appeal)
60-90 days	Appeals report
30 days	Dispute Settlement Body adopts appeals report
Total = 1y 3m	(with appeal)

Source: World Trade Organisation

3 Panels are like tribunals. But unlike in a normal tribunal, the panellists are usually chosen in consultation with the countries in dispute. Only if the two sides cannot agree does the WTO director-general appoint them. Panels consist of three (possibly five) experts from different countries who examine the evidence and decide who is right and who is wrong. The panel's report is passed to the Dispute Settlement Body, which can only reject the report by consensus

An Assessment of current phase of Globalization:

As mentioned earlier, setting up of WTO has been a milestone of the current phase of globalization. The provision of 'one member, one vote' distinguishes WTO from the Bretton woods institutions (IMF and WB). The dispute settlement mechanism of WTO makes it more democratic than other institutions. It has also contributed to opening up the markets in some of the highly 'protected' countries, e.g., South Korea, Japan, EEC.

As of 2019, the world trade volumes are roughly 41 times the level recorded in the early days of the GATT (4116% growth from 1950 to 2019). World trade values today have ballooned by over 304 times from 1950 levels. Merchandise volume has been increasing since 1995. As of 2019, on average, world merchandise trade volume and value have expanded 4.2% and 5.5% respectively since 1995, when the WTO was established. In 2019, the world's applied tariffs stood at an average of 9%. This is 19% lower than the average tariff level of 11.1% recorded in 1996, one year into the establishment of the WTO. One estimate is that the 1947 average tariff rate among industrial countries, before the first post-war tariff reductions, ranged between 20% and 30%). Another estimate puts the average tariff among key GATT participants at 22% (World Trade Statistics)

But in recent times, there has been a pervasiveness of non-tariff barriers like subsidy in international trade. For example, the subsidy offered in agriculture is still very high in all industrialised countries although the subsidy support to agriculture has been reduced slowly. For example, the share of subsidy of agricultural output in USA was reduced from 15 percent in 2005 to 7 percent in 2010. Similarly for EU, the share has been reduced from 32 percent in 2005 to 20 percent in 2010. But as These kind of reduction will provide a better playing fields to the developing countries. But many countries still maintain a very high rate of subsidy. For example, the share of subsidy to agricultural output was 61 percent by Norway, 54 percent by Switzerland, 50 percent by Japan and 45 percent by Korea in 2010.

Case Study 9-4 Agricultural Subsidies in OECD Countries

■ TABLE 9.2 Agricultural Subsidies and Producer-Subsidy Equivalents in Various OECD Countries in 2005 and 2010

Country	Billions of U.S. Dollars		Subsidy as a Percentage of Agricultural Output	
	2005	2010	2005	2010
United States	41.0	25.6	15	7
European Union	130.8	101.4	32	20
Japan	44.6	32.9	34	30
Canada	6.5	7.4	22	18
Australia	1.4	1.0	4	2
Norway	3.1	3.6	67	61
Switzerland	5.6	5.4	68	54
Mexico	5.0	6.2	13	12
Korea	23.5	17.5	62	45
Turkey	12.4	22.1	25	28
All Industrial Countries	272.1	227.3	28	18

Sources: Organization for Economic Cooperation and Development, *Agricultural Policies in OECD Countries: Monitoring and Evaluation* (Paris: OECD, 2011), Tables 3.1 and R. Schnepf, *Brazil's WTO Case Against U.S. Cotton Program* (Washington D.C.: Congressional Research Service, June 30, 2010).

Salvatore: International Economics, 11th Edition © 2013 John Wiley & Sons, Inc.

Source: Salvatore (2013)

Another emerging barrier for the developing and least developed countries is trade finance gap.(see the Box 11.4)

Increase in International Migration

As per International Migration Report 2019, the scale of international migration increase in line with recent trends. The number of international migrants is estimated to be almost 272 million globally, with nearly two-thirds being labour migrants. This figure remains a very small percentage of the world's population (at 3.5%), meaning that the vast majority of people globally (96.5%) are estimated to be residing in the country in which they were born. However, the estimated number and proportion of international migrants already surpasses some projections made for the year 2050, which were in the order of 2.6 per cent or 230 million. As per this report, the international migration is shaped by economic, geographic, demographic and other factors resulting in distinct migration patterns, such as migration "corridors" developed over many years. The largest corridors tend to be from developing countries to larger economies such as those of the United States, France, the Russian Federation, the United Arab Emirates and Saudi Arabia. This pattern is likely to remain the same for many years into the future, especially as populations in some developing subregions and countries are projected to increase in coming decades.

Failure of Doha Round

At the start of the Doha round⁴, American and European officials committed to producing a trade agreement that would promote

4 Doha Development Agenda in 2001

development in poorer countries without asking them to reduce import barriers to the same extent as industrialized nations. But as developing countries, particularly China, began exporting far more than they were importing, wealthier countries started demanding that they also lower import barriers and cut subsidies to their farmers. Not surprisingly, China and India refused, insisting on sticking with the original principles.

The current phase of globalisation has got tremendous setback in recent times. The violent protests seen in Seattle during the WTO meeting in December were the first sign of the opposition to the current model of globalisation. Subsequently, the global financial crisis 2007-08 and the recent COVID-19 pandemic have almost put a break to the globalisation process. The most latest event of exit of UK from EU has rather expedited the disintegration of economies rather integration of economies in Europe. During the current phase of globalization, the world has seen highly volatility of movements of capital. Among others, global financial crisis 2007-08 seems to have significant impact on developed economies including USA and developing countries around the world. This crisis has put a question mark on the current model of globalization process especially in terms of financial integration.

After the global financial crisis, the covid-19 has totally put a break on the current model of globalisation. Especially, the developing countries have been more dependent on the FDI and due to lockdown measures taken by the governments worldwide, these countries will be suffering the most.

Economics and Politics of multilateral agreements

At present, three important institutions are influencing the international trade, finance and investment. They are Bretton wood twin institutions- International monetary Fund, World Bank and World Trade Organisation (WTO). To understand multilateral agreements, we can find two types of scenario-agreements among the members in WTO and the other one is free trade area/ Preferential trade area. The nature and issues of multilateral agreements can be understood by understanding the economic and legal rationale with political contexts. This section has provided the economic rationale of multilateral agreements followed by politics of multilateral agreements.

Economic rationale for multilateral agreements

Multilateral agreements are commercial treaties between three or more nations. Multilateralism refers to GATT/ WTO system as well as trade negotiations among members of WTO as a group.

A major challenge facing the multilateral trading system like WTO is the proliferation of regional and bilateral trade agreements over the last 25 years. For example, the number of Regional trade agreements (RTAs) in 1990 was 90 and has been increased to 306 in 2020. Actually RTAs are allowed under WTO like formation of customs union and free trade area in goods and services, preferential trade arrangements in goods among developing country members. It is also required by the members to inform WTO about the RTA, economic integration etc.

There are different **theoretical arguments** forwarded for multilateral agreements and RTAs.

- Theories of Free trade is cited as a justification for the multilateral agreements.
- Trade creation and trade diversion has been cited as theoretical justification for RTAs. In the box, **one theoretical justification for customs union** has been provided.

However, even at the theoretical plane, **several caveats** must be introduced.

- Border prices are not firm guides to demarcate comparative advantages,
- There is a difference between static comparative advantages and the dynamic comparative advantages,
- Competition can also be wasteful especially when economies of scale may favour oligopolies.

Even while granting all these limitations, free trade comes out as a superior alternative to autarky⁵.

Similarly, a strong case can be built for free movement of capital and labour. Free movement of capital is favoured if the objective is to have infusion of outside capital with superior technology in the capital starved countries. But, generating technologies has now become a capital-intensive, long gestating, proposition

4 Doha Development Agenda in 2001

5 Autarky is the term used to describe a country or economy that operates independently

where the poor countries are handicapped. Again, the utility of infusing capital will depend on the investment portfolio.

Similarly, free movement of labour has all the advantages, at least in the long run, for the 'importing' as well as 'exporting' countries. But the developed countries resist free flow of labour on cultural ground. In recent times, while the developed countries selectively encourage the immigration of skilled persons like software engineers, they put hurdles in the immigration of unskilled labour.

Finally, when a WTO Member enters into a regional trade agreement (RTA) through which it grants more favorable conditions than for trade with other WTO Members, then it **departs from the guiding principle of non-discrimination** defined in the GATT, and the GATS.

Politics of Multilateral Agreements:

The multilateral trading system has drawn inspirations from economist and shaped by primarily by lawyers and it must operate within the limits that the politicians set. When political scientists favour a zero-sum game⁶, legal theorist favour juridical equality and justice, economists favour co-operation and positive-sum game⁷.

Different arguments are forwarded by the scholars with respect to the politics of multilateral agreements like WTO. Few important arguments are mentioned below:

- **Political Trilemma:** The politics of multilateral agreements can be understood by "Political trilemma". The three nodes of this trilemma are international economic integration, the nation-state, and mass politics. In the words of Deepak Nayyar, "nation-state" is used to refer to territorial-jurisdictional entities with independent powers of making and administering the law. "Mass politics" to refer to political systems where: a) the franchise is unrestricted; b) there is a high degree of political mobilization; and c) political institutions are responsive to mobilized groups. In this trilemma, we can have at most two of these three things.

6 A zero-sum game is one in which no wealth is created or destroyed i.e one country member gains at the cost of another country

7 Non-zero sum game is one in which one country's gain (or loss) does not necessarily result in the other country's loss (or gain)

If we want true international economic integration, we have to go either with the nation-state, in which case the domain of national politics will have to be significantly restricted, or else with mass politics, in which case we will have to give up the nation-state in favour of global federalism. If we want highly participatory political regimes, we must choose between the nation-state and international economic integration. If we want to keep the nation-state, we must choose between mass politics and international economic integration.

- **Theory of hegemonic stability:** Power dominates political relations within countries and between them, whether they establish intermediary institutions such as the WTO to help manage these relations. The basic premise of this theory is that an open global market is a public good that tends to be underprovided unless there is someone willing to undertake that expensive task. Therefore, according to this theory, it is no mere coincidence that the creation of GATT in 1947 came when the United States was at the height of its economic competitiveness, military power and political influence.
- **Theory of Rational design :** According to the proponents of this theory, *“states use international institutions to further their own goals, and they design institutions accordingly”*. WTO came into existence to fulfil the requirement of the developed countries. It was only after 1980 when the US agriculture exports faced a steep decline and a view emerged that the decline in the agricultural exports was due to protectionist policies of EEC and Japan, that the US started supporting an agreement which would enable free trade in agricultural

Case Study: The politics of the DR-CAFTA referendum in Costa Rica

In October 2007, Costa Rica became the first developing country to hold a public referendum on an international trade agreement. The referendum asked voters to decide whether or not the country should enter into DR-CAFTA, a free trade agreement between five Central American countries (Costa Rica, El Salvador, Guatemala, Honduras and Nicaragua), the

Dominican Republic and the United States. The referendum passed with a wafer-thin margin: 52 per cent voted for the agreement, and 48 per cent against. The debate during the lead-up to the referendum was highly salient and politicised. Costa Rica, along with the other countries involved, had signed the DR-CAFTA agreement in 2004. However, while the others had gone ahead to ratify it, the timing of elections in Costa Rica combined with a high level of popular opposition had delayed ratification, and the government eventually called a national referendum. While the government and large industries were strongly in favour of the agreement, a large social movement, including labour unions, students and religious groups, vigorously opposed it.

Ultimately, the government was able to sway a sufficiently high level of voters to back its negotiating position. This appears to have been largely attributable to the strength and resources of the well-established political party (the PLN (Partido Liberación Nacional)) that backed it. Although the anti-CAFTA 'No' campaign had undertaken extensive analysis, developed sophisticated arguments against the agreement and had a high level of grassroots support, it had to rely largely on word of mouth to convey its message and its networks were limited to the urban areas. In contrast, the government and its pro-CAFTA 'Yes' campaign had the resources to embark on a mass media campaign and it was able to use the resources and established political networks of the PLN, which spanned both urban and rural areas. For instance, the 'Yes' campaign contracted a public relations company to help convey its messages, set up a network of 'information centres' in rural areas, and used over 20,000 vehicles to transport its supporters to polling stations. There were also suggestions that mayors in the rural areas had been placed under a high level of political pressure to support the 'Yes' campaign. Source:(Jones, 2013).

commodities. The GATT provisions for agricultural trade were found weak and need for a stronger trade regime was keenly felt. Cairns Group of countries headed by Australia and other important agriculture exporting countries also found the progress in the GATT negotiations inadequate

and unsatisfactory. The final decision on establishment of WTO was facilitated by the agreement between US and EEC, so-called 'Blair House Agreement'.

- How politics can influence the international agreement can be understood from the case study mentioned below.

Trade, Production patterns and world inequality.

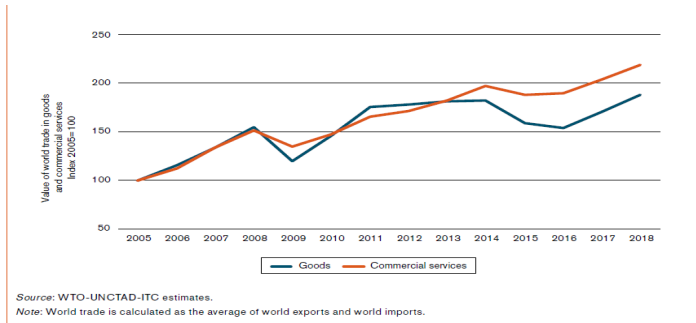
The world trade in volume has been increasing from \$61.16 billion in 1951 to \$18619 billion in 2019 (figure 11.1). Especially after the establishment of WTO in 1995, more members have joined it. In 1990s, many countries have adopted forward looking industrial strategies like export promotion although import substitution has not been given up. The proliferation of RTAs has also indicated the importance of international trade.

Figure 11.1: Evolution of world merchandise trade

Source World Trade Organisation

Another dimension of international trade in recent times is the dominance of service sector over goods sector which is evident in the **figure 11.2**.

Figure 11.2 : Growth of world trade in goods and services



Source: World Trade Report 2019

The trade in goods and services are increasing but the trade services in services is increasing more than the trade in goods. Even though the services comprise one fifth of the cross border trade, they are the fastest growing sector. While the value of goods exports has increased at a modest 1 per cent annually

since 2011, the value of commercial services exports has expanded at three times that rate, 3 per cent. The services share of world trade has grown from just 9 per cent in 1970 to over 20 per cent today and this report forecasts that services could account for up to one-third of world by 2040. The main driver of this shift is technological change. Thanks to digitalization, the internet and low-cost telecommunications, many services sectors that were once non-tradable because they had to be delivered face-to-face in a fixed location have become highly tradable because they can now be delivered remotely over long distances. Many examples of such services are medical tourism, education especially Moodle and Massive Open Online Courses (MOOCs), livestreaming services, financial services. Just as the transport and communications revolution in the latter half of the 20th century drove down the cost of trading tangible goods across borders, giving rise to globalized manufacturing, so too is the digital revolution in the early 21st century rapidly driving down the cost of trading services across border, giving rise to a globalized services market.

It is to be noted that the share of services of national economies in developed countries are increasing and in some emerging economies in the world. Therefore, the world trade also reflects the structural transformation of the national economies. In the United States, for example, the services sector, which accounted for just 43 per cent of GDP in 1950, had grown to 61 per cent by 1990, and has reached almost 80 per cent today.

The combined share of global gross domestic product (GDP) of the Quad (Canada, the European Union, Japan and the United States) fell from three quarters to less than three fifths from 1995 to 2011. During that same period the eight emerging economies shown in the table grew from less than one tenth to over one fifth of the global economy. In 1995, the Quad as a whole was 8.1 times larger than these eight, and one country in the latter group was not yet in the system; the multiple had fallen to 2.7 by 2011, and all of them were members. To draw the most consequential comparison, the ratio of the US share of global GDP to that of China was just over ten-to-one at the start of the WTO period, but by 2011 it was just two-to-one. (see the table 11.4 below).

Shares of global GDP, 1995-2011, in %

	1995	2000	2005	2010	2011
Quad	75.4	73.7	70.1	59.7	57.4
European Union	30.9	26.2	30.1	25.0	25.1
United States	24.6	30.6	27.5	22.9	21.4
Japan	17.9	14.6	10.0	8.7	8.4
Canada	2.0	2.2	2.5	2.5	2.5
Selected countries	5.3	4.5	5.0	6.6	7.2
Russian Federation	1.3	0.8	1.7	2.4	2.7
Australia	1.2	1.3	1.5	1.8	2.0
Korea, Republic of	1.7	1.6	1.8	1.6	1.6
Switzerland	1.1	0.8	0.8	0.8	0.9
Emerging economies	9.3	11.0	13.0	20.4	21.5
China	2.4	3.7	4.9	9.4	10.5
Brazil	2.6	2.0	1.9	3.4	3.5
India	1.2	1.5	1.8	2.7	2.6
Mexico	1.0	1.8	1.9	1.6	1.6
Indonesia	0.7	0.5	0.6	1.1	1.2
Turkey	0.6	0.8	1.1	1.2	1.1
South Africa	0.5	0.4	0.5	0.6	0.6
Malaysia	0.3	0.3	0.3	0.4	0.4
Selected developing regions	5.3	6.1	6.2	8.2	8.6
Other Latin America and Caribbean	2.5	2.6	2.3	3.2	3.2
Middle East and North Africa	2.3	2.9	3.2	4.0	4.4
Least-developed countries	0.5	0.6	0.7	1.0	1.0
Rest of world	4.7	4.7	4.8	5.1	5.3
World	100.0	100.0	100.0	100.0	100.0

Source World Bank

Leading merchandise exporters and importers, 2018

Rank	Exporters	Value	Share	Annual % change	Rank	Importers	Value	Share	Annual % change
1	China	2467	12.8	10	1	United States of America	2014	13.2	9
2	United States of America	1664	8.5	8	2	China	2136	10.8	16
3	Germany	1561	8.0	8	3	Germany	1286	6.5	11
4	France	728	3.8	6	4	Japan	749	3.8	11
5	Netherlands	723	3.7	11	5	United Kingdom	674	3.4	5
6	Korea, Republic of	605	3.1	5	6	France	673	3.4	9
7	France	582	3.0	9	7	Netherlands	646	3.3	12
8	Hong Kong, China	589	2.9	3	8	Hong Kong, China	628	3.2	6
	Domestic exports	13	0.1	30		Retained imports ¹	155	0.8	12
	Re-exports	536	2.9	5		India	535	2.7	12
9	Italy	547	2.8	8	9	Korea, Republic of	513	2.6	14
10	United Kingdom	486	2.5	10	10	Switzerland	279	1.4	4
11	Belgium	467	2.4	8	11	Italy, Republic of	503	2.5	11
12	Mexico	451	2.3	10	12	Mexico	477	2.4	10
13	Canada	450	2.3	7	13	Canada	469	2.4	6
14	Russian Federation	444	2.3	26	14	Belgium	450	2.3	10
15	Singapore	413	2.1	11	15	Spain	388	2.0	10
	Domestic exports	209	1.1	11					
	Re-exports	203	1.0	10					
16	United Arab Emirates ²	346	1.8	10	16	Singapore	371	1.9	13
17	Spain	345	1.8	8		Retained imports ¹	167	0.8	17
18	Chinese Taipei	336	1.7	9	17	Chinese Taipei	286	1.4	10
19	India	326	1.7	9	18	Switzerland	279	1.4	4
20	Poland	311	1.6	4	20	United Arab Emirates ²	263	1.3	14
21	Saudi Arabia, Kingdom of ³	299	1.5	35	21	Thailand	260	1.3	15
22	Poland	261	1.3	11	22	Russian Federation ²	249	1.3	5
23	Australia	257	1.3	11	23	Viet Nam ⁴	244	1.2	15
24	Thailand	252	1.3	7	24	Australia ¹	236	1.2	8
25	Malaysia	247	1.3	14	25	Turkey	225	1.1	-5
26	Viet Nam ⁴	246	1.3	15	26	Malaysia	217	1.1	12
27	Brazil	240	1.2	10	27	Austria	193	1.0	10
28	Czech Republic	202	1.0	11	28	Brazil ¹	189	0.9	20
29	Indonesia	185	0.9	19	29	Indonesia	183	0.9	20
30	Indonesia	180	0.9	-	30	Czech Republic	182	0.9	13
	Total of above ⁵	16217	83.3	-		Total of above ⁵	16364	82.4	-
	World ⁶	19475	100.0	10		World ⁶	19667	100.0	10

Source-WTO,2019

As per the world trade organization, 2019 report, China has beaten USA to become the largest exporter of merchandise exports, and her share of global export is 12.8 percent while import wise the country has a 10.8 percent share. In terms of export of services, USA has a leading position with 13.9 percent, share of global trade. But the developing countries like China, India are giving steep competition in this sector.

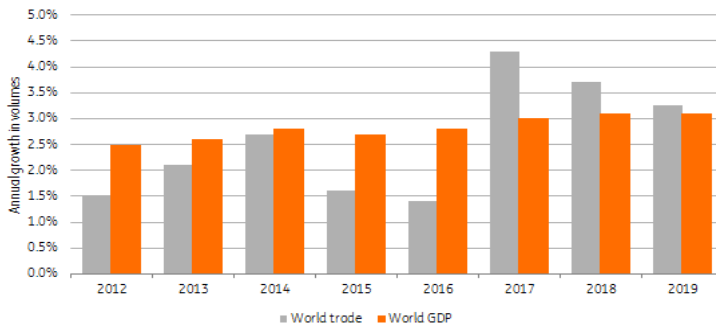
Leading Exporters and Importers of Services

Rank	Exporters	Value	Share	Annual % change	Rank	Importers	Value	Share	Annual % change
1	United States of America	808	13.9	4	1	United States of America	536	9.2	3
2	United Kingdom	383	6.6	7	2	China	521	9.4	12
3	Germany	327	5.8	7	3	Germany	368	6.6	6
4	France	287	5.0	5	4	France	255	4.6	4
5	China	268	4.6	17	5	Netherlands	230	4.2	13
6	Netherlands	241	4.2	13	6	United Kingdom	228	4.2	10
7	Ireland	206	3.6	14	7	Ireland	219	4.0	9
8	India	200	3.5	13	8	Japan	198	3.6	4
9	Japan	187	3.2	3	9	Singapore	197	3.6	3
10	Singapore	184	3.2	7	10	India	175	3.2	14
11	Spain	149	2.6	8	11	Korea, Republic of	127	2.3	2
12	Switzerland	132	2.3	3	12	Belgium	127	2.3	10
13	Belgium	121	2.1	3	13	Hong Kong	121	2.2	4
14	Italy	120	2.1	8	14	Canada	112	2.0	5
15	Hong Kong, China	114	2.0	9	15	Switzerland	103	1.9	7
16	Luxembourg	113	1.9	10	16	Russian Federation	94	1.7	7
17	Korea, Republic of	98	1.7	10	17	Spain	88	1.6	16
18	Canada	92	1.6	6	18	Luxembourg	86	1.6	10
19	Thailand	84	1.4	11	19	Hong Kong, China	81	1.5	8
20	Austria	75	1.3	14	20	Australia	72	1.3	6
21	Sweden	73	1.3	3	21	United Arab Emirates *	63	1.2	6
22	United Arab Emirates *	71	1.2	2	22	Denmark	68	1.2	10
23	Denmark	70	1.2	4	23	Suweiion	68	1.2	1
24	Australia	69	1.2	7	24	Brazil	68	1.2	3
25	Poland	69	1.2	17	25	Austria	62	1.1	18
26	Russian Federation	64	1.1	12	26	Chinese Taipei	57	1.0	6
27	Chinese Taipei	50	0.9	12	27	Thailand	55	1.0	19
28	Iran	50	0.9	12	28	Norway	52	0.9	8
29	Turkey	47	0.8	8	29	Saudi Arabia	51	0.9	4
30	Malaysia, China *	44	0.8	3	30	Malaysia	44	0.8	5
	Total of above	4747	81.0	8		Total of above	4818	81.8	-
	World	8800	100.0	8		World	8810	100.0	7

Source-WTO.2019

It will be interesting to observe the growth of the world trade and world GDP. For example, if we look at the **figure 11.3**, we can find that in recent times world trade has been growing more than the growth of world production.

Figure 11.3 World Production and World Trade



Source: <https://think.ing.com/articles/trade-in-2018-nowhere-close-to-its-heyday>

Significantly, the poverty at global level has been declining as per various international sources. For example, Poverty at global level was reduced from 11.2 percent in 2013 to 10 percent in 2015. The spectacular reduction has been found in south asia region. However, in middle east and North African region, more people have become poorer between 2013 and 2015.

Table 11.7 Poverty of different regions of World

Poverty at the International Poverty Line of \$1.90/day (in 2011 PPP)				
Region	Headcount ratio (%)		No. poor (millions)	
	2013	2015	2013	2015
East Asia and Pacific	3.6	2.3	73.1	47.2
Europe and Central Asia	1.6	1.5	7.7	7.1
Latin America and the Caribbean	4.6	4.1	28.0	25.9
Middle East and North Africa	2.6	5.0	9.5	18.6
South Asia	16.2	12.4	274.5	216.4
Sub-Saharan Africa	42.5	41.1	405.1	413.3
World Total	11.2	10.0	804.2	735.9

Source: (World Trade Organization, 2019)

Globalisation and Inequality

- Globalization has created two worlds that co-exist. For some, in a world more inter-connected than ever before, globalization has opened door to many benefits. Open economies and open societies are conducive to innovation, entrepreneurship and wealth creation. For many, the fundamental problems of poverty, unemployment and inequality persist. Of course, these problems existed even earlier. But globalization may have accentuated exclusion and deprivation, for it has dislocated traditional livelihoods (World Commission on the Social Dimension of Globalization, 2004)
- The implication of international trade on growth of economies of china, India ,Brazil has been spectacular in recent times. However, questions are asked on the implication of international trade on inequality. Because of inequality, not only the economy is paying price, the society in general is also paying the price. Inequality in all aspects of society is not only evident in developing economy but also in developed economy. However, inequality is not a new concept. It was also in existence in society centuries back. But in recent times, inequality has posed a serious

challenge to the development paradigm the countries rely upon. However, the 'inequality' needs to be understood historically first.

- During the past millennium, the growth process was uneven in space as well as time. The rise in per capita income (indicator of economic growth) and life expectancy (an indicator of development) has been the most rapid in western Europe, North America, Australasia and Japan. By 1820, this group has moved ahead with an income level twice that in the rest of the world. By 1998, the gap was 7:1. The gap between the United States (the present world leader) and Africa (the poorest region) the gap is now 20:1. This gap is still widening (Maddison, 2001)
- After the discovery of the America, not every part of America prospered. The present variation in economic performance within the Americas — between the United States, Latin America and the Caribbean — is partly due to variations in resource endowment, but there are institutional and societal echoes from the past. In North America and Brazil the relatively small indigenous population was marginalised or exterminated, in former Spanish colonies the indigenous population remained as an underclass, and in all the areas where slavery was important their descendants have also remained an underprivileged group.
- When British became the dominant master of colonies around the world, between 1820 and 1913, British per capita income grew faster than at any time in the past — three times as fast as in 1700–1820. When British east India company ruled India, British economy prospered while Indian economy was suffering. Free trade was imposed in India and other British colonies, and the same was true in Britain's informal empire. China, Persia, Thailand and the Ottoman Empire were not colonies, but were obliged to maintain low tariffs by treaties which reduced their sovereignty in commercial matters, and granted extraterritorial rights to foreigners. This regime of free trade imperialism favoured British exports.
- The first epoch of globalisation, reinforced by the politics of imperialism, created huge asymmetries and inequalities in the world economy, which was divided into countries (mostly with temperate climates) that industrialised and countries (mostly with tropical climates) that did not industrialise.

The geographical divides turned into economic divides. The industrialised countries prospered. But, for countries in Asia and Africa, the same integration into the world economy led to underdevelopment. The rise of “the West” was concentrated in Western Europe and North America. The decline and fall of “the Rest” were concentrated in Asia, much of it attributable to China and India.

- This process was associated with a growing divergence in levels of income. Between 1870 and 1913, as a percentage of GDP per capita in Western Europe and North America, GDP per capita in Asia, as also in Africa, dropped from one-fourth to one-sixth. The period from 1820 to 1950 witnessed the “Great Divergence,” as this proportion dropped from one-half to one-tenth for Asia and from one-third to one-seventh for Africa.
- The world economy grew very much faster from 1950 to 1973 than it had ever done before. It was a golden age of unparalleled prosperity which affected all regions. The acceleration was greatest in Europe and Asia. Since the golden age, the world picture has changed a great deal. Per capita growth has been less than half as fast. There has been much greater divergence in the performance of different regions. In the countries of “resurgent Asia”, which have half the world’s population, the success was quite extraordinary. Their per capita growth was faster after 1973 than in the golden age, and more than ten times as fast as in the old liberal order.
- Globalization has been associated with simultaneous, yet asymmetrical, consequences for countries and for people. There is an inclusion for some and an exclusion, or marginalization, for many. There is affluence for some and poverty for many. There are some winners and many losers. And there is an exclusion of people, as also countries, from the process. Beyond the economic, globalization has added a new dimension to the exclusion of people from development (Nayyar, 2019). Exclusion is no longer simply about the inability to satisfy basic human needs in terms of food, clothing, shelter, health care and education for large numbers of people. It is much more complicated. For the consumption patterns and lifestyles of the rich associated with globalization have powerful demonstration effects.

People everywhere, even the poor and the excluded, are exposed to these consumption possibility frontiers because the electronic media has spread the consumerist message far and wide. This creates both expectations and aspirations. But the simple fact of life is that those who do not have the incomes cannot buy goods and services in the market. Thus, when the paradise of consumerism is unattainable, which is the case for common people, it only creates frustration or alienation. The reaction of people who experience such exclusion differs. Some seek short cuts to the consumerist paradise through drugs, crime, or violence. Some seek refuge in ethnic identities, cultural chauvinism or religious fundamentalism. Such assertion of traditional or indigenous values is often the only thing that poor people can assert for it brings an identity and meaning to their lives. These outcomes have obvious political consequences.

- As discussed in the **October 2007 issue of the World Economic Outlook**, one must keep in mind that there are many sources of inequality. Contrary to popular belief, increased trade globalization is associated with a decline in inequality. The spread of technological advances and increased financial globalization—and foreign direct investment in particular—have instead contributed more to the recent rise in inequality by raising the demand for skilled labor and increasing the returns to skills in both developed and developing countries. Hence, while everyone benefits, those with skills benefit more.

Financial Instability in a globalized world.

There is a deep symbiotic relationship between trade and financial openness. Trade is facilitated by financial links, such as international payments and credit, and in turn results in financial links, such as the accumulation of international assets and liabilities. The relationship between real and financial openness evolves with the degree of integration and development.

Conceptually, one can think of three layers of globalization. The first, most basic layer is trade of commodities and finished goods and the corresponding simple international financial links, such as cross-border payments. Trade is settled with international payments, which almost always involve foreign

exchange transactions. Indeed, trade payments are generally denominated in a global currency rather than that of either the exporter or importer: around half of all international trade is invoiced in US dollars and close to a quarter in euros (even excluding the trade of the United States and euro area countries, respectively). Furthermore, as international transactions take time to complete given shipping time and customs processing, they require extra financing which are provided by trade finance facilities and letters of credit (where a bank guarantees payment upon delivery of goods).

The second layer involves more complex trade and financial connections. It includes trade in intermediate goods and services associated with the efficiency-driven fragmentation of production across countries and the corresponding financing arrangements. In this phase of globalization, international financial linkages support a greater degree of specialization in trade and production, notably in the trade of intermediate goods. Production can occur through ownership of foreign facilities established by foreign direct investment (FDI), outsourcing to foreign firms, or fragmented production in a global value chain (GVC). This more complex trade can go hand in hand with the growth of multinational corporations that serve multiple markets, often through production-focused foreign affiliates while concentrating research and development in the parent. These more intricate production structures require more, and often more complex, financing.

The third layer concerns the financial transactions increasingly used to actively manage balance sheet positions. This layer of globalization has been characterized by intricate financial links established solely for financial purposes. The demand for, and supply of, more sophisticated financial products and services increases with the wealth of businesses and households. In a sense, trade also supports this third layer of globalization through its contribution to higher income growth. Indeed, financial openness tends to increase strongly with income levels. **The financial openness has substantially outpaced real openness since the late 1980s, most notably for developed countries.**

The three layers share some common elements. One is the use of global currencies like US dollar. Therefore, dollar plays a

central role in determining global financial conditions. Another is globally active financial institutions. They operate in many countries across multiple continents. Through their international presence and sophistication, they facilitate the global transfer of funding and financial risks.

Globalisation and Financial Stability

One specific mechanism through which globalization can affect economic growth, poverty and inequality is its impact on financial stability. Financial crises can result in a permanent loss of income, have a devastating effect on poverty and increase inequality. Just like poorly managed domestic financial liberalization, unfettered financial openness can contribute to financial instability unless sufficient safeguards are in place. Past episodes of financial instability have demonstrated the importance of three international propagation mechanisms.

- First, highly mobile international capital can behave in a very procyclical⁸ manner, amplifying financial upswings and reversals.
- Second, foreign currency exposure, in particular in dollars, transmits tighter global financial conditions and exposes countries to foreign exchange losses.
- And third, close financial linkages between globally active financial institutions can spread financial stress, although they may also act as a buffer when problems have a domestic origin.

International credit has been a key source of procyclicality. Such flows tend to be procyclical with respect to the recipient economy's business and financial cycles. Cross-border bank loans and portfolio debt flows are both positively correlated with domestic business and credit cycles. **FDI flows tend to be acyclical, while portfolio equity flows into advanced economies even appear to be slightly countercyclical.** The close link between cross-border and domestic credit may add

8 There are three relationships of indicators with the economy- procyclic, counter cyclic and acyclic. Acyclic indicator has no relation with the economy. Procyclicality refers to the tendency of financial variables to fluctuate around a trend during the economic cycle. Therefore, policies are according to the fluctuations in the trade cycle. Countercyclical measures are not according to the fluctuations of business cycle.

to financial stability risks. Cross-border credit tends to amplify domestic credit booms, as it acts as the marginal funding source: the cross-border component typically outgrows its domestic counterpart during financial booms, especially those that precede serious financial strains.

The high sensitivity of capital flows to US monetary policy is a manifestation of the “excess elasticity” of the international monetary and financial system – its ability to amplify financial booms and busts and thereby cause serious macroeconomic costs. There are two main channels through which monetary policy regimes interact to create this **excess elasticity**.

- Monetary policy settings in core economies are spread to the rest of the world through resistance to exchange rate appreciation, typically based on concerns about the loss of competitiveness (on the real side) and the possibility of surges in capital flows (on the financial side).
- The second channel is related to the fact that the domains of major international currencies extend well beyond their respective national jurisdictions. This global currency channel is especially powerful in the case of the US dollar – the dominant international currency. The outstanding stock of US dollar denominated credit to non-bank borrowers outside the United States, a key indicator of global liquidity conditions, stood at \$10.5 trillion as of end-2016. This outsize external role means that changes in the US monetary policy stance have a substantial influence on financial conditions elsewhere. And since monetary policymakers, including those in control of major international currencies, are focused on domestic conditions, they could unintentionally end up contributing to financial imbalances well beyond their national borders. Notably, against the backdrop of the exceptionally accommodative US monetary policy stance, US dollar credit to non-bank emerging market economies(EME) borrowers roughly doubled between 2008 and 2016, reaching \$3.6 trillion at the end of that period.

One of the key channels through which US monetary policy impacts financial conditions elsewhere is the US dollar exchange rate. In the so-called “risk-taking channel of currency fluctuations”, the depreciation of a global funding currency flatters the balance sheets of currency-mismatched borrowers

and boosts lenders' risk-taking. This channel is especially relevant for external debt flows to EMEs. The channel may also influence, in particular, manufactured trade through the GVCs, which are especially sensitive to financing conditions.

The intermediation of global currencies, especially the dollar, also creates close linkages between globally active banks. The global financial crisis demonstrated how such interconnectedness propagated funding stress between the world's largest banks and forced them to deleverage internationally. Thus, the regulatory reforms in the aftermath of the global financial crisis have focused on strengthening the resilience of international banks that are the backbone of global financial intermediation.

Conclusion:

Globalisation is the process of integration of national economies through flow of trade, people and capital across the borders. It also includes flow of technology, culture too. Therefore, Globalisation is different to different people. Globalisation is not new.

Attempts to roll back globalization would be the wrong response to these challenges. Globalisation, like technological innovation, has been an integral part of economic development. As such, it should be properly governed and managed. Countries can implement domestic policies that boost resilience. These include flexible labour and product markets and policies that enhance adaptability, such as retraining programmes. Close cross-country linkages imply that policies and actions of individual countries inevitably affect others. Hence, international cooperation must supplement domestic policies. In particular, a global regulatory framework should be the basis for a sound and resilient international financial system.

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