STRATEGIZING FOR GLOBALIZATION - INDIA'S PERFORMANCE, PROBLEMS AND PROSPECTS

James Thomas Kunnanatt

But is it possible for a nation to create the 'twin advantage' of being both the opportunity exploiter and the opportunity provider? In other words, if a country is able to grow large numbers of in-house MNC s that could do business in multinational locations and is also able to attract foreign business to invest on its land, such a country would be the one to grow faster in the current globalizing world.

WHAT IS GLOBALIZATION ?

Globalization means bringing the world closer through the exchange of goods, services, knowledge and culture. Global integration occurs when countries lower trade barriers such as import tariffs, and open up economies to foreign investment and trade. The pace of global integration has become much faster because of the unprecedented advances in technology, communication, and transport. While globalization could bring in growth and prosperity for nations, it is also a troublesome exercise that calls for structural and cultural adjustments in societies and creates significant challenges and problems.

WAVES OF GLOBALIZATION

Globalization as it is currently pursued and experienced by the nations across the globe could be better understood and analyzed against the background of its growth and development. Analysts classify the growth of globalization into three sequential stages referred to as 'waves of globalization'.

The 'first wave of globalization' had its beginning in the 1870s and continued up to the First World War. This period was characterized by globalization of trade and reductions in trade barriers that, in turn, were initiated by industrialization and advances in the methods of transport. Export as percentage of world income had more than doubled to 8%. Rising prosperity in certain regions of the world resulted in massive migrations across the globe. Wave I witnessed the mass movement of almost 10% of world's population to new countries. Around 60 million Europeans migrated from their home countries to the United States during the period.

The three decades (1920 to 1950) following the First World War, however, was a period of economic crises for many nations and resulted in a reversal of the globalization trends. This period, therefore, saw the reappearance of protectionist barriers and tariffs raised by countries experiencing economic difficulties in their homelands. The period could be labeled as one of reverse globalization as a result of which world economic income stagnated and collective global exports fell back to the1870 level.

The period 1950 to 1980 brought economic prosperity back to the world and witnessed the emergence of the 'second wave of globalization'. This period of

Dr. James Thomas Kunnanat (formerly Professor and HOD Dept. of Management) is presently Adjunct Professor at Rajagiri School of Management, Kochi, India.

re-globalization was characterized by the revival of integration among the developed countries (Europe, North America and Japan) through trade agreements and associations such as GATT, NAFTA, OPEC, etc.

The period following 1980 is identified as the 'third wave of globalization' and may be better portrayed as the period of mega-globalization initiated by advances in communication technologies and spurred by large developing countries keenly competing with each other in their quest for foreign investment by opening up their economies to international trade. The momentum has gained double force with global trade associations such as WTO and EU persistently knocking at the doors of developing countries, forcing them to open up for foreign trade and investment. Resistance poses the threat of economic consequences that could be disastrous for them in future. Most countries, therefore, have no choice but to open up their economic boundaries for global business. It is against this background that developing countries like India that are on various trajectories of growth need to review their approaches to globalization and debate on the prospects of going global and getting integrated with the emerging world economic order.

CRITICS VS SUPPORTERS OF GLOBALIZATION

Critics of globalization argue that inequalities in the current global trading system hurt developing countries at the expense of the developed countries. Most critics believe that the process has exploited people in developing countries causing massive disruptions in the socio-economic cultural fabric of the societies and has done more harm than good. As examples, they present data to show that many countries in Africa have failed to share and participate in the gains of globalization. Globalization has hit those countries hard as they are afflicted, perhaps for domestic reasons, with poor policies and infrastructure, weak institutions, and corrupt governmental practices.

Supporters of globalization, on the other hand, strongly defend the phenomenon, and argue that countries that have opened up for international trade and foreign investment have significantly reduced poverty and improved substantially on other parameters of socioeconomic significance. They cite the success stories of countries such as China and India to add rational strength to their argument. China's recent experience with globalization has reduced the number of rural poor from 250 million to 34 million in a period of just two decades. India, they argue, has cut its poverty rate in half in the past two decades. These two globalization exercises have collectively resulted in the largest poverty reduction in the history of mankind

WAS GLOBALIZATION A STRATEGIC NECESSITY FOR INDIA ?

The simple reason for India to welcome globalization is that the country's leaders did not want the second largest population in the world to keep itself aloof from the world community and continue in conditions of abject poverty and deprivation. Once upon a time India was major player in global trade and was known as a centre of glory and affluence. At the start of the 18th century, India was a major economic power with 23% of the world's GDP and over 25 % share of the global trade in textiles. By 1990, this had declined to less than 5 % of world's income and less than ½ % of world's trade!!! There were more poor and illiterate people then than the entire population in 1947. India's rank in the UNDP's human development index came down to 134 out of 173. Almost one-half of the adult population and nearly two-third of adult women were illiterate. Three-fourths of the population lacked adequate access to safe drinking water and modern health care. No more than a third of all Indians could afford to buy modern medicines and pharmaceutical products. Over the four decades following independence, prices skyrocketed many fold, devaluing incomes and assets of the deprived sections of the society. Income disparities widened more than tenfold. Regional disparities grew larger resulting in social and regional tensions. Environmental degradation widened to the tune of 10 % of the country's GDP - more than double the long-term growth the country's economy had registered.

HOW DID INDIA STRATEGIZE FOR GLOBALIZATION?

The dismal situation portrayed above was the rationale for the government under the leadership of P.V. Narasinha Rao, in 1991, to take strategic decisions to participate in the globalizing world economy and to design the economic and social programs of the country accordingly. Chief among the policy changes was the paradigm shift from the age-old socialistic to pro- private approach in managing the country's resources and economy. The economy was opened up for foreign investment and trade restrictions on domestic investment were removed. Import controls were dismantled, customs duties lowered and licensing controls were almost abolished. The government dropped tax rates and decided to break public sector monopolies. The country's currency was devalued to meet competitive requirements.

HAS THE GLOBALIZATION EXPERIENCE BENEFITED INDIA ?

More than a decade has passed since the globalization drive has taken root in the country and it is time to evaluate the early benefits of the new strategy. Indications are that the changes are quite visible and tangible. Inflation came down from 16% to 5%. Export performance improved significantly in the last 10 years. Foreign exchange reserves shot up from 1 billion dollars to the current level of $151 billion. Growth picked up to 7.5%. The country's "soft infrastructure" such as stock and capital markets, property markets, press freedom, court operations etc. improved substantially during the last decade.

At the substantive level, the total factor productivity (TFP) has improved considerably (60% of the growth during the last two decades is from increasing TFP). Foreign direct investment has boosted capital investment in the country. It is anticipated that the increasing FDI, coupled with TFP, will boost economic growth in most of the sectors in the years to come.

THE NON-ROSY SIDE OF GLOBALIZATION

The above portrayal, however, is not endorsed by the critics of globalization. According to them, the country suffers from capital drain due to MNC operations in Indian markets and the pumping of profits out of India. India has become World Bank's largest borrower and was forced by the bank to cut social spending, privatize natural resources and agriculture, and allow free trade to aid MNC s to compete with local businesses. Due to the new export-led economy, more money is being spent on imports than exports. Furthermore, globalization is urban-biased and has ignored the large rural population in the country. To quote examples, employment rates and wages, especially among the rural population, have been decreasing since 1992. Privatization of healthcare has lead to inadequate healthcare for the masses. The list of the perils of globalization seems endless.

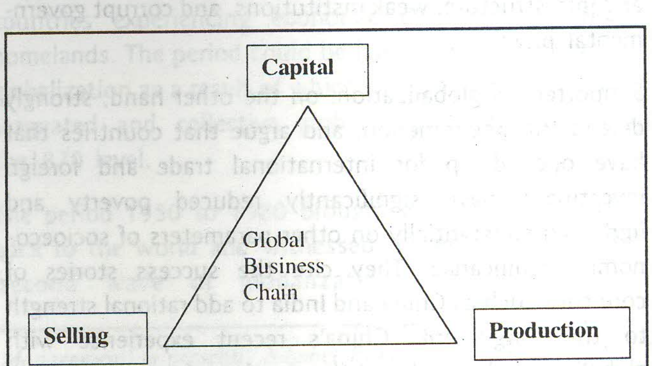
SHOULD INDIA PURSUE GLOBALIZATION FURTHER ?

The benefits of globalization thus being perceived differently in India, the question now pestering the minds of the country's leaders is- "Should India accelerate globalization or go slow on it or put a complete break to all of it?" Pundits discussing and debating the issue of India's globalization initiative generally believe that globalization is an irreversible global phenomenon that will increasingly grip every aspect of the global economy. India with its large natural and human resources cannot opt out of the globalization process; instead, it will have to participate in the phenomenon more vigorously than it had done in the past. Their thoughts are based on the following fundamental assumptions:

1. Globalization is a west-initiated, MNC-pushed, mighty, irreversible global economic phenomenon that has a long history of existence and, for that reason, is here to stay.
2. Globalization can benefit participating countries if strategies are intelligently designed and carefully executed
3. India with its rich base of human capital and vast natural resources holds tremendous growth potential in the globalized economy.

What, then, should be the strategies and policies of the country that could help exploit the global opportunities to its advantage? In answering the question, the first requirement is a strategic understanding of how global business operates today in the wave III era of globalization and how countries of the world, especially the developing ones, could participate in the global economy to make use of the opportunities to their advantage.

THE GLOBAL BUSINESS CHAIN UNDER WAVE-III



Global business process under wave III has undergone a sea change during the last two decades resulting in the emergence of what could be labeled as "the global business chain". The constituent links in this chain comprise the following:

- Sourcing capital from global locations where it is cheaper (e.g. USA and Japan)
- Producing goods in countries where production is cheaper (China and India)
- Selling goods in global markets where prices are high (USA, Europe and Japan)

The new business chain is currently being exploited by a few countries that operate mainly through their multinational corporations. These MNCs engage in all the three links of the business chain and siphon off money to their homelands. Exploiting the global business chain has today become the master strategy for many nations, especially of the west, that have successfully adapted to the changing globalized world.

OPPORTUNITY EXPLOITERS VS OPPORTUNITY PROVIDERS

Though western countries are the immediate beneficiaries (and exploiters too) of the current phase of globalization, as more and more countries are opening up, two strategic groupings are emerging across the world:

1. Advanced nations (exploiting the global business chain mostly through their MNCs) are acting as opportunity exploiters amassing wealth by exploiting all the three links of the global business process
2. Other countries (especially the developing ones) are acting as opportunity providers by attracting MNC s to do business in their soil (e.g. by providing business process facilities like skilled labor at low cost, low factory costs, etc.)

STRATEGIC OPTIONS FOR DEVELOPING COUNTRIES

It thus appears that there is a polarization among nations into opportunity exploiters and opportunity providers - a phenomenal symbiotic relationship that benefits both the participants. But is it possible for a nation to create the 'twin advantage' of being both the opportunity exploiter and the opportunity provider? In other words, if a country is able to grow large numbers of in-house MNC s that could do business in multinational locations and is also able to attract foreign business to invest on its land, such a country would be the one to grow faster in the current globalizing world. During globalization waves I & II, western countries had demonstrated this twin advantage. But under wave III, they are losing their advantage especially in the second (production) leg of the business process.

CHINA VS INDIA PUZZLE

Which among the countries, then, are likely to be the 'twin advantage' countries of future? Though China and India are the often quoted as the future stars of the global economy, a comparison of the two on core strategic dimensions would show that India perhaps has a strategic advantage over China in benefiting better from the changing world order.

China currently has more FDI and better growth rate than India; but its local enterprise initiative within China is qualitatively low compared to that of India. India's FDI growth is slower but the pace of local business enterprise growth and the level of professional management available in India are superior to that of China. As a result, India is likely to see a surge in "entrepreneurial capitalism" in future, whereas China with its socialistic obsession would, in all likelihood, take decades to develop the same in its socio-cultural milieu. The consequence could be a visible difference between the two countries in terms of their potential as opportunity exploiters.

China has grown its economy due to the vast amounts of cheap labor which makes it a manufacturing back-end for US and other foreign companies. Experts comparing the two nations, however, believe that brainpower is India's most important strategic advantage. India's progress into high-value added outsourced services adds testimony to the fact that the country is rich with a tremendous repertory of knowledge workers. In fact, there are more IT engineers in Bangalore than in Silicon Valley. This brainpower is harnessed by giant firms like GE and IBM in augmenting their R&D work in the US. The beginning of the flight of technology labs from USA and Europe to Indian cities is yet another evidence of the future competitive advantage India is likely to enjoy in the times to come. Today, most experts believe that India with its vast army of trained human capital has a head start and is likely to be the technology lab of the world in future. Nobel laureate James Heckman's observation that "Winners in world trade in the next generation will be those countries that can respond flexibly with educated work force" has more relevance to India than any other country of the world.

WHAT ARE THE STRATEGIC CHALLENGES INDIA HAS TO OVERCOME FOR SUCCESSFUL GLOBALIZATION?

Exploiting the opportunities lying ahead in the ever globalizing world economy is no easy task for India. The country needs to reckon with a number of strategic challenges. These formidable hurdles have to be negotiated from both within and outside. First and foremost, the leaders of the nation are faced with the onerous responsibility of developing the flexibility necessary to integrate the country into the world economy. Building global competitiveness among its mammoth one billion-strong population from the ground up, with each of the country's federal states, is the second big strategic challenge the country has to reckon with. Other equally challenging issues such as managing sub-national level competition between states, streamlining of business regulations (95 days to open a business), improving the physical infra-structure and communication network, investing in and raising the quality of human capital, improving global competitiveness and export performance of Indian firms, and developing highly flexible labor markets that meet international standards, have also to be addressed. The roadmap is clear; the tasks have been identified; we can choose to go with the flow and race ahead in the new economic order or swim against the tide and be left behind.

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