

# A Study of Globalization and Its Impact on Economy

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## Abstract :

Globalization is the most emerging trends in modern business management. It involves creating new opportunities for profit maximization, decreasing demand for local products and opening domestic markets to new competitors from all over the world. Improved transportation, low-cost communication technologies, and a growing mass of educated people in countries around the world are contributing to business globalization. In this paper, we will look at the benefits and also examine the risks of globalization in business scenario. The key characteristics of globalization encapsulates the three major areas : Political, Economic, Social and Ethical. Globalization is the change in a business from a company associated with a single country to one that operates in multiple countries. The increased interconnectedness among countries usually results in a better standard of living, and an overall improved quality of life.

*Keywords : Globalization, Political, Economic, Social, Ethical, domestic markets.*

## Introduction :

Globalization refers to a scenario where countries and nations around the world becomes interconnected and interdependent for meeting their needs, both internal and external. In modern business scenario, it is vital to globalize and engage our business in social media either to sustain your current growth rate or to bounce back from a loss. It is getting tougher in today's frequently changing business environment to pull new clients and to take our business to next level. Globalization is the integration of national economies through trade, investment, capital flow, labour migration and technology. For this, nations created some bodies and trade agreements for economic interdependence.

## Organizations, Treaties and Trade Agreements :

WTO	World Bank	IMF	GTP
The World trade organization oversees the administration and implementation of agreements between member nations acting as a forum for negotiations and disputes settlements	It provides loans for capital programs in developing countries. It is working on two goals to achieve by 2030 : 1. To end extreme poverty 2. To promote shared prosperity by raising the income growth of the bottom 40% in every country.	The International Monetary Fund with 189 members works to foster global growth and economic stability by providing policy, advice and financing to its members. Its primary function is to provide short term capital aid and to look after the fixed exchange-rate arrangements between countries.	Global Trade Policies look after the 4 common trade agreements(trade blocs) with different levels of trade dependencies like regional trade agreements(RTAs), custom unions, common markets, and economic unions.

## Review of Literature

Gopal (2013) examined the "Impact of Globalisation on Indian Market with Special Reference to Two-Wheeler Industry- An Overview". The study aimed to understand the concept of Indian automobile market, Types of Indian and consumer market in a broad manner, Positive and Negative impact of globalization etc., in the respect of two-wheeler industry. The study concluded that globalization process had affected the sector in all the areas of manufacturing, sales, personnel research and development and financing. Globalization helped to improve the financial position of the automobile sector in India.

Singh and Gupta (2012) studied “Impact of Financial Globalization on Automobile Industry: An Indian Perspective”. The study concluded that in automotive industry, technical necessity, political sensitivities and market variation had kept final vehicle assembly. As a result, regional and national production structures remain surprisingly strong and coherent in comparison to other volume good producing industries. Which leads to political pressures in a long way towards explaining patterns of direct investment in the automotive industry.

Bechmann and Scherk (2016) highlights the need to adapt new technologies and changes in a positive way. Increasing globalization is expected to accelerate further growth in the productivity of automotive industry on a mid- to long-term basis despite the decline due to financial crisis. According to the study, emergence of new players like Chinese and Indian automotive companies, the automobile sector will face stiff competition in coming years.

India stands fourth in the world ranking in terms of purchasing power. If India continues to grow in the same pace, it will surpass Japan in the coming 10 years. Few studies predict that by 2025, India’s economy will reach 60% of the size of the US economy. By 2027, Indian automotive sales are expected to reach 7 million units (Source: Global Insight 2008; India Brand Equity Foundation (IBEF) 2008).

As per a research report published by DB Research (2008), high traffic congestion will require effective mass transportation system worldwide. There is need for intelligent traffic control system to accelerate the traffic and to control it. The findings of the study predict the growth rate of transport sector for industrialized sector to be up to 5% and between 5% to 8 % in emerging sectors.

#### **Objectives of the study:**

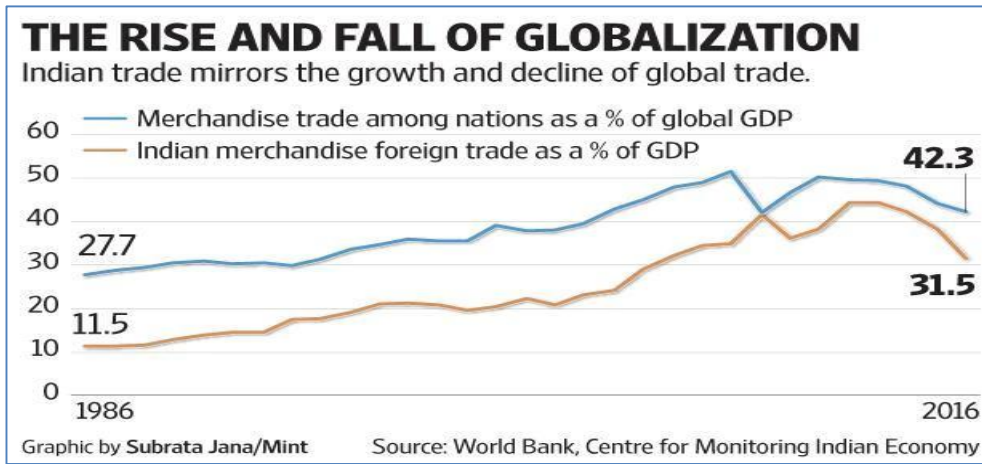
1. To understand the concept of globalization
2. To identify the key factors of globalization.
3. To analyze the impact of globalization on business environment.

#### **Key Factors of Globalization :**






- **Emerging Markets :** Developing countries will see the highest economic growth as they come closer to the standards of living of the developed world. If we want our business to grow rapidly, consider selling into one of these emerging markets.
- **Demographic Shifts :** The population of the industrialized world is aging while many developing countries still have very youthful populations. Businesses catering to well-off pensioners can profit from a focus on developed countries.
- **Innovation :** The pace of innovation is increasing as many new companies develop new products and improved versions of traditional items. Western companies no longer can expect to be automatically at the forefront of technical development, and this trend will intensify as more businesses in developing countries acquire the expertise to innovate successfully.
- **Informed Buyers :** More intense and more rapid communications allow customers everywhere to purchase products made anywhere around the globe and to access information about what to buy. As pricing and quality information become available across all markets, businesses will lose pricing power, especially the power to set different prices in different markets.
- **Increased Business Competition :** As more businesses enter international markets, Western companies will see increased competition. Because companies based in developing markets often have lower labor costs, the challenge for Western firms is to keep ahead with faster and more effective innovation as well as a high degree of automation.
- **Technologies :** Businesses must take into account the environmental impact of their normal operations. They can try to market environmentally friendly technologies internationally. The advantage of this market is that it is expected to grow more rapidly than the overall economy.

#### **Impact of Globalization in Indian Economy**

In India, the share of foreign merchandise trade went up from 11.5% of GDP to 44.4% in 2012. Since then, as the chart shows a downhill ride. As stated by economists that globalization has started to retreat partly as a result of the financial crisis, partly as supply chains have reached their limits and perhaps also because new technologies make on shoring more attractive.



A critical factor in determining India's continued economic growth and realizing the potential to be an economic superpower is going to depend on how the government can create incentives for FDI flow across a large number of sectors in India. In September 2012 the government approved 51% FDI in multi-brand retails. India's economy has grown drastically since it integrated into the global economy in 1991. It has drastic impact on India's economical conditions. Its average annual rate has grown more than twice from 1991 to 2016.

Rank	Country	Inflows (million USD)	Inflows (%)
1	 Mauritius	101,759.68	32.81%
2	 Singapore	50,559.91	16.30%
3	 United Kingdom	24,072.30	7.76%
4	 Japan	23,760.47	7.66%
5	 United States	19,380.43	6.25%

Source: FDI in India Statistics

**Effects of Globalization**

As a result of globalization, the economic growth of both developing and developed countries is impacted positively and negatively. Some of the positive and negative effects of globalization.

**Positive effects of Globalization**

Globalization broadens our minds as closer contact with foreign people make us quite familiar with their manners, habits, and customs. It also improve international relations and give better opportunities to business persons. However, the positive impacts have been experienced in various societal demographic segments like :

- **Global market :** Most of the companies are increasing the consumer demand through extension and expansion of their value chain to international levels. As a result, the positive effects of globalization are expressed by the rising transactions across the borders. Globalization has resulted in the formation of multinational corporations. The concentration of corporations in specific geographical economies has led to investment in other new geographical areas, where market competition is very high. Due to increased competition, the corporations continue to enlarge their market, in order to enjoy the economies of scale. This is because globalization enables economies to compete fairly at all levels, hence attracting investors.
- **Competition :** Competition in the market is largely due to globalization. As a result, the positive effects are visible, since global competition leads to products of high quality. The enhanced quality of both products and services are based on production approaches of customer demands and customer services. Domestic companies to survive in the market are forced to raise their customer satisfaction levels, as well as their standards, while fighting competition from foreign companies.
- **Culture :** Globalization has resulted in numerous positive effects on culture. There is no single civilization that had all good practices. Instead, the coming together of various cultures has made the world today a better place. The welcoming of people from various backgrounds and civilizations has resulted in the creation of new cultures, thus leading societal growth.

- **Legal effects** : Human rights have been improved as a result of globalization since media coverage on violations of the rights receives attention from all over the world. It is through globalization that leaders address inequalities since information and openness get promoted. In most cases, the result is enhanced prosperity and democracy.
- **Stable Security** : Although the effect cannot be seen directly, globalization has contributed greatly in enhancing the world security. For example, it is extremely difficult to see two countries attacking each other if the economy of one of the countries depends largely on the economy of the other country.

### **Negative Effects of Globalization**

- **Environmental Damage** : Increased production means increased utilization of natural resources. Besides, increased trade results to increased transport, which uses fossil fuels. As a result, pollution has increased, leading to climate change. The changes in climate are now a serious threat to humanity and the future of the world, all because of globalization.
- **Fluctuation in prices** : Globalization has led to increased market competition, hence leading to fluctuation in prices. For example, developed countries like the USA have been forced to reduce their products prices, because countries such as China offer the same products at cheaper prices. This is because the production cost in China is lower than in the USA. As a result, for developed countries like the US to withstand the competition and have customers, they are forced to lower their prices. The impact is adverse, as the ability to sustain social welfare in the US gets reduced.
- **Job Insecurity** : Due to globalization, most global economy jobs are insecure and temporary. The impact is mostly felt in developed countries since they can outsource cheaper white collar and manufacturing jobs. For example, wages and manufacturing costs are lower in India and China, making countries like US and UK to outsource cheaper labor. The effect is people in developed countries losing or having fewer jobs.

### **Suggestions and Recommendations:**

Based on the findings of the present research work, few suggestions and recommendations are summarized as follows:

- Product creation and international operation should take place in self-sufficient organizational units with specific market, legislative and design. Product creation related activities should lead by local market research, design, and sourcing centers, in coordination with their respective units around the globe.
- Differentiation of products and components for local markets and sourcing enables the organization to execute regional products within a global product frame which increases the role of international management and specialized local staff.
- The policies related to international businesses should be liberal and it should not create any obstacles in entering in to the international market.

### **Conclusion**

New perspectives and new business strategies has opened the door to new investment opportunities and acted as a catalyst for employment creation. At the same time the new economy has altered the economic landscape and realigned the linkages between different sectors of the economy. In short, technological innovation and entrepreneurial initiative is alive and well in the new global economy of the 21st Century. The new economy has markedly transformed the structural parameters of the economic landscape and contracted the prism for time and space. The role of information technology in the new economy has been pivotal. It is particularly potent in the changing structure of international production. The new technological infrastructure has empowered services to be delinked from production, and traded or performed remotely. In this contemporary venue, the market for a growing number of internationally integrated but geographically dispersed business enterprises is global, rather than national or regional. The internationalization of production is necessitated by the economics of profitability. In other words, the high cost of information technology and the highly skilled labour used in the production process, require a marketing niche that caters to a global market rather than a smaller national market.

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