
Shaping Globalization for poverty alleviation in India

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ABSTRACT

Since the '80s, the world economy has become increasingly “connected” and “Integrated”; on the one hand the decreasing transportation costs and the diffusion of

Information and Communication Technologies have implied a fast downgrading of the concept of “distance”, while – on the other hand – gross trade, Foreign Direct Investment (FDI), capital flows and technology transfers have risen significantly.

For developing countries, globalization and greater openness to trade is widely perceived

as being doubly blessed. As for the developed countries, improved access to markets and

competitions from imports are seen as sources of improved efficiency. In most countries, the current wave of “globalization” has been accompanied by increasing concern about its impact in terms of employment and income distribution. For instance, the optimists underline the link between increasing trade and economic growth and then they conclude that trade is good for growth and growth is good for the poor (both in terms of job creation and poverty alleviation). This paper highlights to fill a gap in understanding - both theoretical and empirical - the impact of globalization in India, particularly with regard to poverty alleviation.

Keywords: Globalization, Poverty alleviation, Trade and Economic growth

Globalization

Globalization is one of the most widely debated topics in the world today. There are many different schools of thought on the effects of globalization on world poverty. Some concepts come to define entire economic policy eras. For the 1990s, 'globalization' will be recorded as the dominant theme. States are in retreat in the face of powerful International economic forces which, we are constantly told, are circumscribing their sphere of action.

Globalization (or globalisation) describes the process by which regional economies, societies, and cultures have become integrated through a global network of political ideas through communication, transportation, and trade. The term is most closely associated with the term economic globalization: the integration of national economies into the international economy through trade, foreign direct investment, capital flows, migration, the spread of technology, and military presence. However, globalization is usually recognized as being driven by a combination of economic, technological, sociocultural, political, and biological factors. The term can also refer to the transnational circulation of ideas, languages, or popular culture through acculturation. An aspect of the world which has gone through the process can be said to be globalized.

Globalisation and Poverty

Globalization has helped raise the standard of living for many people worldwide. It has also, however, driven many deeper into poverty. Small businesses and third world countries are not capable of updating their technology as often as their larger, wealthier counterparts. Unable to compete with multinational firms and wealthy nations, small businesses and third world countries are forced to do business locally, not growing and reaching their full potential.

Technological advances not only benefit wealthy countries most, but also wealthier companies. Technological advancements allow countries and their companies' worldwide publicity and influence when they are successful. Because investors are able to easily invest on the Internet, on the telephone, and through facsimile machines, the profits of companies have increased greatly. Currency traders all over the world have also been able to update exchange rates and notify the public of the updates more rapidly. This has led to more desire to finalize deals, because companies are able to be sure that they are receiving competitive exchange rates. Swissair, an airline based in Switzerland, even moved its entire accounting division from Switzerland to India simply because the accountants in India are among the best in the world. They were able to do this because all of the information from their new office halfway around the world was transmitted through the use of technologically advanced devices. Because labor is cheaper and the workers are more skilled in India, the company benefited in two ways. For the same reasons as in India, Thailand has moved from being primarily a rice-producing nation, to the world's second largest producer of pickups and trucks.

As far back as the invention of the telephone, countries with the best economies were the most technologically advanced? The invention of the telephone by Alexander Graham Bell in 1876 allowed information to be sent around the world considerably more rapidly than ever before. Before the invention of the telephone, it might have taken days, weeks, or even months to courier

documents around the world. Today, however, Electronics, a company in Delhi, India takes doctors dictation from a toll-free number in the United States, transcribes the recordings, and sends the text back to a U.S. HMO. With the invention of the telephone and its spread to the world's wealthier countries also came increased growth in the wealthier countries' economies.

In the past fifty years, global capitalism has raised the living standards of more people higher and faster than the previous five hundred years. Increasing the number of "haves" in the world has also dramatically increased the number of "have-nots". It has also driven the poor further into poverty making it more and more unlikely that they will ever recover.

Globalization creates tensions, especially within nations and companies, between those who have the skills and resources to compete in the global market and those who do not.

. This, in turn, creates high unemployment rates, driving the people further and further into poverty. According to Moore's law, computing power doubles every eighteen to twenty-four months. This means that only countries that can afford to pay millions every year and a half will have the newest technology. The newest technology that many countries can afford is sometimes outdated by years, driving their economies further into poverty because they are unable to compete with wealthy countries. For the wealthier countries, however, an increase in computing speed leads to faster transfer of documents. It also speeds up production because faster machines that are capable of handling more data are used in factories in wealthier countries.

Advances in computer technology have greatly benefited wealthy countries and greatly hindered the economies of poor countries. Many foreign companies and countries are using the poverty of other countries to their own advantage. Most foreign firms pay their workers more than the national average of the country, although many times what the workers are paid is considerably lower than the average wage for the companies' home country. Foreign companies are also creating jobs faster than their domestic counterparts, leading to higher poverty levels in the country because the profits of the company are not

invested back into the country where the company is located, but rather sent back to the home country. Most foreign businesses also spend heavily on research and development in the country where they are located; however, the benefits of the new, more advanced products are reaped in the home country. Foreign firms also export more than domestic ones, taking with the products, and profit and future investment in the country.

Impact on India

Globalisation in the form of increased integration through trade and investment is an important reason why much progress has been made in reducing poverty and global inequality over recent decades. But it is not the only reason for this often unrecognised progress, good national policies, sound institutions and domestic political stability also matter. Despite this progress, poverty remains one of the most serious international challenges we face up to 1.2 billion of the developing world 4.8 billion people still live in extreme poverty. But the proportion of the world population living in poverty has been steadily declining and since 1980 the absolute number of poor people has stopped rising and appears to have fallen in recent years despite strong population growth in poor countries. If the proportion living in poverty had not fallen since 1987 alone a further 215million people would be living in extreme poverty today. India has to

concentrate on five important areas or things to follow to achieve this goal. The areas like technological entrepreneurship, new business openings for small and medium enterprises, importance of quality management, new prospects in rural areas and privatisation of financial institutions. The manufacturing of technology and management of technology are two different significant areas in the country.

Understanding the current status of globalisation is necessary for setting course for future. For all nations to reap the full benefits of globalisation it is essential to create a level playing field. President Bush's recent proposal to eliminate all tariffs on all manufactured goods by 2015 will do it. In fact it may exacerbate the prevalent inequalities. According to this proposal, tariffs of 5% or less on all manufactured goods will be eliminated by 2005 and higher than 5% will be lowered to 8%. Starting 2010 the 8% tariffs will be lowered each year until they are eliminated by 2015.

India opened up the economy in the early nineties following a major crisis that led by a foreign exchange crunch that dragged the economy close to defaulting on loans. The response was a slew of Domestic and external sector policy measures partly prompted by the immediate needs and partly by the demand of the multilateral organisations. The new policy regime radically pushed forward in favour of amore open and market oriented economy.

Major measures initiated as a part of the liberalisation and globalisation strategy in the early nineties included scrapping of the industrial licensing regime, reduction in the number of areas reserved for the public sector, amendment of the monopolies and the restrictive trade practices act, start of the privatisation programme, reduction in tariff rates and change over to market determined exchange rates.

Over the years there has been a steady liberalisation of the current account transactions, more and more sectors opened up for foreign direct investments and portfolio investments facilitating entry of foreign investors in telecom, roads, ports, airports, insurance and other major sectors.

This is major improvement given that India is growth rate in the 1970's was very low at 3% and GDP growth in countries like Brazil, Indonesia, Korea, and Mexico was more than twice that of India. Though India's average annual growth rate almost doubled in the eighties to 5.9% it was still lower than the growth rate in China, Korea and Indonesia. The pick up in GDP growth has helped improve India's global position. Consequently India's position in the global economy has improved from the 8th position in 1991 to 4th place in 2009. When GDP is calculated on a purchasing power parity basis.

Globalization and poverty alleviation

As far as poverty reduction is concerned, trade and FDI are supposed to be beneficial to

a DC's economic growth and so – given the expected overall neutrality in terms of their impact on income distribution globalization should be a way to achieve poverty reduction. Indeed, most DCs experienced a significant reduction in the proportion of their

population living below the poverty line, including fast globalizing countries like China,

India, Vietnam. Conversely, many slow globalizers in the Sub-Saharan Africa registered an opposite trend.

On the whole, it is true that globalization aids economic growth and that economic growth aids poverty reduction, but not unconditionally: the final outcome in terms of poverty reduction can be actually either amplified or diminished by the complementary economic factors and policies which are part of the game. To conclude, nothing can assure that the relationship between globalization and poverty alleviation has a 1 to 1 nature as implied - for instance, - by the optimistic slogan by Dollar and Kraay (2001a and 2001b) when they state that “trade is good for growth, growth is good for the poor and so trade is good for the poor”.

Focusing on the empirical studies, the above mentioned Dollar and Kraay (2001a and 2001b) classify countries into globalizers and non-globalizers according to their performance in raising their trade openness (export + import over GDP) and show that the former group has experienced higher growth rates during the period 1977-97. Then they show that the incomes of the poor rise proportionally with average incomes and

that globalization does not have any systematic effect on domestic income distribution.

They therefore conclude that growth is good for the poor. Rodrik finds no support for the hypothesis that globalizers do significantly better in terms of economic growth.

On the other hand, in certain countries, globalization has also had positive effects and poverty has been reduced.

Effect of Globalization on Indian Poverty Level

It was in the 1990s that the first economic liberalization policies were initiated then; the economic condition of India has significantly increased. Over the years, India has gradually become one of the fastest growing economies in the world. It has become the 4th largest economy in the world in terms of the purchasing power parity (PPP). It has been expected that the average yearly economic growth will range between 6% and 7 % Due to the high economic growth; there has been rapid progress in the civic amenities. The per capita income has increased which has improved the standard of living of the masses. As economic growth is a great factor behind the improvement of the poverty, the rise in the economic condition of India had a favorable impact on the reducing the rate of poverty in the country.

Globalization and growth of employment

Globalization has also put a favorable effect on the employment scenario of the country. Over the years, due to the liberalization policies, India has become a consumer oriented market where the changes are brought by the demand and supply forces. Due to the high demand and the supply chains, there has been significant growth in the market. As such, more and more job opportunities are being created in different sectors. This has increased the per capita income considerably which has improved the poverty level to a great extent.

The growth of the various sectors has also opened up new employment opportunities which have put a positive impact on the overall poverty situation of the country. More and more industries are being introduced in the market to cater to the growing demand. Some of the well known industries that have recently become very popular in the country are personal and beauty care, agro products, health care, information technology and some other sectors. The service sector has a share of around 54% of the annual Gross Domestic Product (GDP). The share of the agricultural and industrial sectors in the annual GDP is 17% and 29%.

Growth of the agriculture sector and poverty

A major portion of the poverty level in India is from the rural areas whose staple form of income is agriculture and farming. Due to the globalization, Indian agriculture has improved to some extent which has helped to reduce the poverty problems of the rural masses. Over the years, with the advent of more technology, there has been a significant change in the process of agriculture in the country. Earlier farmers used traditional farming techniques for growing crops. As such, they suffered a lot and the output was affected by a number of factors like pest problems, weather situations and lots more. Due to the globalization and introduction of better equipments, there has been a stark improvement in the techniques of agriculture. Today, farmers are using gadgets like rowers, tractors, electric pipelines and lots more for the cultivation of crops. This has increased the produce in terms of quantity as well as quality. As such, farmers have started earning more and have improved their per capita income and the standard of living. The government has also taken several positive steps to improve the poverty situation in the rural areas. Irrigational projects have been undertaken, dams have been built and more facilities have been provided to the farmers to increase their agricultural produce. As lots of farmers are poor, they are not in a position to buy expensive equipments. To solve this problem and make them self sufficient, the government also grants financial help and loan to the farmers at very cheap rates. The government has set up the National Bank for Agriculture and Rural Development (NABARD) and various other Regional Rural Banks (RRBs) to financially help the farmers in need. Housing projects are also being undertaken to solve the accommodation problems of the poor.

Integrated National Economies

Globalization results in increased integration and interconnectedness between different countries. Therefore, now, due to globalization, many developed and developing countries are trading and sharing with one another. This has had a number of positive effects on world poverty.

Trade

World trade has increased as a result of globalization. From 1989 to 1999, developing countries have increased their share of world trade from 19% to 29% because of economic integration. Trade specifically in the Newly Industrialized Economies (NIEs) of Asia has improved dramatically since the demand for manufactured goods has risen. Thus, there is a larger inflow of money into

developing nations and this has resulting in economic growth. Thus, there is more money that can be spent on alleviating poverty.

Capital Movements

With globalizing developing nations, there have generally been large capital inflows. This capital can then be spent on economic growth and development and further investment, and in the long run, this would increase incomes and alleviate poverty.

Immigration and Emigration

Globalization can cause an increase in emigration from a developing country to a developed one. This is because people may feel that they have a better opportunity to make a better living abroad than in their own country. They leave their country aspiring for better employment opportunities, better education and exposure to a different world. Thus, in the short run, there can be a shortage of workers in developing countries, but in the long term, there is potential for the workers to return. This will result in a transferring of skills back to the developing countries and for wage increases, thereby reducing poverty.

Knowledge and Technological Exchange

Globalization also results in knowledge and technological exchange between different societies. "Direct foreign investment brings not only an expansion of the physical capital stock, but also technical innovation." This is because foreign companies in developing nations cause a spread of ideas and perspectives on production methods, management practices, export markets and economic and global policies.

In addition to this, "global Warming, the AIDS pandemic, and the globalization of the media have heightened our awareness of living in an increasingly interconnected world." Thus, globalization makes us more aware of what is going on in the world and hopefully, encourages us to take action to reduce poverty.

The Positive Effects of Globalization in India

Up to 1991, India had adopted an inward-oriented protectionism policy in terms of trade. However, the results of this in India were increased poverty and little growth. The reasons for this were "the inefficient functioning of the public sector enterprises." This "impaired additionally the public sector enterprises'

contribution to the economy.” Thus, this “restricted the gains that India could get from its investments.” In the 1960s and the 1970s, India growth rate was very little, from 1.4% per annum to -0.3% per annum respectively. This eventually led to heavy borrowing from abroad and eventually a balance of payments crisis. As a result of this, a new, reform government was put in power. Some of the reforms it enforced were “an initial devaluation of the rupee and subsequent market determination of its exchange rate”, lower barriers to entry for foreign investors in India, elimination of import licensing and allowing the private sector to penetrate into new industries which were before reserved only for the public sector. This has resulted in much better economic growth in the 1990s as well as growth and poverty reduction.

Improvement in health care costs

Globalization has also positively affected the overall health care situation in the country. More and more medical innovations are coming in which are improving the health situation in India. The infant mortality rate and the malnutrition rate have significantly helped reduce the India poverty level come down since the last decade. All these factors clearly prove that the globalization

Consequences

The implications of globalisation for a national economy are many. Globalisation has intensified interdependence and competition between economies in the world market. This is reflected in Interdependence in regard to trading in goods and services and in movement of capital. As a result domestic economic developments are not determined entirely by domestic policies and market conditions. Rather, they are influenced by both domestic and international policies and economic conditions. It is thus clear that a globalising economy, while formulating and evaluating its domestic policy cannot afford to ignore the possible actions and reactions of policies and developments in the rest of the world. This constrained the policy option available to the government which implies loss of policy autonomy to some extent; in decision-making at the national level.helped reduce the India poverty level.

Conclusion

Overall, in this paper we have looked at the positive and negative effects of globalization on poverty in our society. In my opinion, the advantages of globalization far outweigh the disadvantages. Income growth has been dramatic in most Asian developing nations and the standard of living has gone up. There has been a global sharing of ideas, education and skills and workers from developing countries are being exposed to this. In spite of there being some negative effects like lack of welfare spending, multinationals competing with local businesses,wage gaps these problems do not affect all globalizing states and can be prevented. Over time, surely with the situation in India being more widely known due to the media and globalization, people will react and make a difference. Already, there are many global organizations and institutions attempting to reduce poverty as well as worldwide. Moreover, the positive side of multinationals setting up

businesses in developing companies is more jobs for locals and exposure to better technologies as well as international ideas. On the large scale, globalization has done more to improve poverty than worsen it.

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