

Global Economic Integration: The Opportunities and Challenges

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Introduction

There is no doubt in the fact that the world economy is transforming and becoming more integrated and interdependent. This transformation process is referred to as globalization. According to Thomas Friedman, the world is becoming flat because of globalization. A flatter world is one in which barriers to cross-border trade and investments are falling, perceived differences in business systems are shrinking, and material culture all over is becoming more similar. Globalization has made the playing field for various national economies much flatter. It has resulted in large-sized markets and enhanced competition. Lower prices for goods and services, economic growth stimulation, country-specific specialization and efficiencies, economies of scale, wider choices, enhanced standards of living, etc. are few positive outcomes of this transformation. However, it has also led to many negative outcomes like the destruction of manufacturing jobs in advanced nations, declining wage rates, labor exploitation, environmental damages, income inequality, infrastructural gaps, political intervention, etc. studies show that globalization results in a positive net effect on economic developing by enhancing growth and reducing poverty. Indian economy is one of the countries which largely benefited from globalization which was introduced to India in 1991. It is now the fastest growing economy in the world as well as one of the most attractive countries for foreign capital inflows. However, infrastructural weaknesses, largely neglected manufacturing sector, procedural delays, FDI

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restraints, stringent rules, bureaucratic controls, outdated labor laws, social stratification, and large oil imports are few of the challenges in its way of achieving higher economic development stemming from the forces of globalization. The paper throws light on the various strengths and challenges of the Indian economy. It also discusses various steps taken by the government to enhance the ease of doing business in the country to attract more foreign capital which is believed to lead to positive economic development.

Objectives of the Study

- To get insights into global growth trends.
- To highlight the challenges in the way of successful global integration.
- To get insights into the growth and economic perspectives of the Indian economy.
- To discuss the strength of the Indian economy in attracting foreign capital.
- To discuss the challenges faced by India in the process of profitable global integration.
- To get insights into India's ranking in the ease of doing business index 2018.
- To understand various steps taken by the government to improve ease of doing business in India.

Organization of Paper

This paper is structured in various sections. Section 1 introduces the concept of globalization, the pros, and cons of globalization, Indian perspective, and objectives of the study. Section 2 provides a review of literature of various aspects of globalization. Section 3 describes the scope and methodology of the study. Section 4 presents the subject matter of the study. Finally, it has been concluded by summarizing the study and discussing the outlook for further studies.

Review of Literature

David Dollar, et al (2001) studies the impact of globalization on economic growth and poverty trends of developing nations. The study based on regressions concludes that a strong positive relationship exists between globalization and growth. Although there exists no strong evidence of any direct relation between increased trade via globalization and poverty reduction but still absolute poverty has reduced sharply. Evidences from individual cases and cross-country analysis shows that the gap between rich and poor countries have reduced sharply because of faster rate of growth of globalizing developing nations when compared to rich countries.

Rawi Abdelal, et al (2003) analyzes the theory of 'globalization of markets' as given by Theodore Levitt. The study attempts to describe how Levitt was right in some of his propositions and wrong in some. His view of globalized markets was flawed as

evidences show that heterogeneity still exists to a great extent in the markets. He was right with his view on how global markets work as it is evident that globalization is transformative where firms, consumers, cultures etc. interact with each other.

Eddy Lee, et al. (2006) explores the then-recent theoretical and economic literature in an attempt to throw light on how globalization impacts local employment, income distribution and poverty alleviation in developing countries. The study concludes that employment creation is not guaranteed by FDI inflows because it is affected by various other factors like labor intensity, output effect, productivity effect, etc. it says that import of capital goods in the early stages can lead to increased within-country income inequalities. Effect of increased trade on poverty reduction is mediated by economic growth.

Andreas Georg Scherer, et al. (2008) attempts to establish the changed dynamics of corporate social responsibility in a new globalized world where national governments, international governmental institutions, NGOs, civil society groups as well as business firms play important role in promoting CSR activities. Also, it is established that the major challenge of CSR in a globalized world is to engage in political deliberation process aiming for setting up of the global business behavior standards.

Brandon Levy (2012) establishes that it was the technological advances that fueled the first phase of globalization which ended in 1914. Different point of views related to globalization is also presented. Globalization leads to increased market size for a country and an emerging country with large-sized population can take advantage of its large labor pool to achieve positive economic development. Past literature also shows a positive relation between international trade and spread of infectious diseases. Globalization results in a positive net effect on economic development of the world through economic success, increased standard of living, increased creativity and competitive prices.

Naveen Kumar Sharma (2012) studies the impact of globalization on education system. It says that globalization has led to income, information and education gaps between rich and poor. The rise of globalized knowledge-based economy has given rise to challenges in the direction of equipping students with global knowledge and also making them good national citizens. Globalization poses challenges for universities to reflect the impact of this global force in their educational goals. The very purpose of education is being changing with increased globalization.

Anil Kumar (2015) emphasizes on the damages caused by globalization to the Indian economic system by also highlighting the historical need of globalization in India in the 1990s. Steps taken by government to promote globalization in 1991 are also discussed. Some of the positive impacts of globalization are reduced fiscal deficit, GDP growth, job creation, rise in middle income group, infrastructural growth,

increased FDI and lower prices for customers. Some of the negative impacts being increased influence of international economic conditions on Indian economy, demise of traditional industries because of increased westernization. It is concluded by saying that globalization is like a double-edged weapon which bring advantages for few but loses for the other few.

Scope and Methodology

The study looks into various aspects of the globalization for the world economy. It highlights the present trends and challenges in the way of the process of globalization. It also looks into the Indian perspective of global integration. It throws light on the various advantages and challenges that the Indian economy face. Suggestions for making the economy more attractive area also deliberated upon. This study is primarily based on secondary data. A number of industry journals, recent World Bank reports, IMF reports, global indexes, Indian economic survey, online articles and newspaper articles have been used for analysis.

Analysis

Economic integration is an agreement among countries in a geographic region to reduce and ultimately remove tariff and non-tariff barriers to enhance the free flow of goods or services, and factors of production among them. It broadly occurs when countries enter into any kind of arrangement to coordinate their trade and/or fiscal aspects.

The world economy has strengthened despite the repercussions of the global financial crisis. In 2017, the global economy grew at a rate of 3 percent—the highest growth rate since 2011 and it is expected to remain steady for 2018 as well. The present global economic situation provides an opportunity for countries to focus towards long-term issues like low carbon economic growth, reduction of inequalities, economic diversification and elimination of all such barriers that hinder development.

Despite the recent improvements in global growth, development remains unevenly distributed across countries and regions. Negligible growth in per capita GDP is evident in many parts of Africa, Western Asia, Latin America, and the Caribbean. These regions are also home to 275 million people stuck in extreme poverty. It is now essential to attend to the longer-term structural issues that tend to hinder progress towards sustainable development. Without sustained, economic growth, the chances of eradicating poverty and creating jobs for all remain very low.

In 2017, global growth strengthened in almost two-thirds of countries worldwide when compared to previous years. World gross product (WGP) is forecasted to expand at a pace of 3 percent in 2018. WGP is the value of the combined gross national product of all the economies of the world.

Noticeable Trends of Present Global Growth are Discussed Here

- The rate of global growth is higher when measured using the PPP exchange rates instead of the market exchange rates. This is because developing countries have a higher weight in PPP exchange rate-based aggregations. So, it means that developing countries are growing significantly at a faster rate than developed countries.
- Strong economic activities have not occurred evenly across all countries and regions as many parts of the world are yet to achieve a healthy growth rate. Developing economies are the main drivers of global growth. East and South Asia have accounted for nearly half of the global growth in 2017. The Chinese economy alone did contribute to around one-third of global growth. The recent hike in the global economic growth rate can be challenged by a number of short-term risks and potential long-term financial vulnerabilities. A lower aggregate demand can also be a challenge stemming in from weakness in wage growth, high levels of debt and high policy uncertainties.
- Improvements in the economies of Argentina, Brazil, Nigeria and the Russian Federation, as they are emerging from recession trends to explain roughly a third of the rise of global growth in 2017. Hence, the rise in WGP growth, from 2.4 percent in 2016, can be explained from a firmer growth in several developed economies as well.
- Global demand is shifting more towards investment over the last year. Gross fixed capital formation accounted for around 60 percent of the increase in global economic activity in 2017. This is a great improvement because of the previous two years of exceptionally weak investment growth.
- Some of the main problems as faced by world economy in both developed and developing countries are related to government accountability and transparency, religious conflicts, widespread poverty, income inequality and discrimination, large-scale conflict or wars, climate changes, lack of economic opportunity and employment for all, safety of wellbeing, lack of education, and food and water security.

Challenges for Global Integration

Some of the challenges that may weaken the force with which global integration leads to global growth are discussed here. These may be the future roadblocks in the way of achieving great economic success stemming from inter-connectedness and interdependence of the various economies of the world.

- **Energy and Environmental Security**

Energy and environmental security are the primary issues. There is an emergent need to establish a global consensus on issues pertaining to long-term

economic, national security and societal damage from insecure energy supplies. There is an intense need for technological advances to provide global economies with low-polluting and secure energy sources. Despite growing global concerns, there is still no major clarity on agreements related to potential actions required to reduce global dependency on fossil fuels as well as greenhouse gas emissions.

- **Conflict and Poverty**

Globalization has made economies inter-related and inter-dependent. Poverty and other social problems may be endogenic to one nation but can lead to adverse economic impacts for others as well. Poverty stricken nations tend to indulge in wars and conflicts with each other to secure access to a higher proportion of resources.

- **Fast Pace of Technological Developments**

Globalization has increased the pace of technological development. Competition is no more a national issue. The entire world is the playing field where few players may be more fortunate in certain areas than the others. Hence, it is a tough task to profitably compete and emerge as winners in the era of globalization for all economic players.

- **Global Imbalances**

In current times, some nations experience huge surpluses on account of oil-exports or trade exports, where as some nations are in situations of adverse deficits. There is a global imbalance in the way capital is distributed among nations. This may increase the gap between some very developed nations and some least developed nations. China, for example, experiences a huge capital surplus. It is making many countries of Africa, Asia, and the Caribbean indebted to itself. Often, such capital aids come with many strategically moves in the hindsight.

- **The Rise of New Powers**

Emerging powers or the BRICS nations are the economies that are Growing at a much faster rate than the rest of the world. These economies are contributing to an alteration of the structure of international production and trade, the nature and direction of capital flows, and the patterns of natural resource consumption. This has led to reshaping of the international politics, as the great powers are now glad to share management of rules and systems with these new powers as well.

- **Global Impact of Global Firms**

The private sector is playing a dominant role in the global economic scenario. Multinational corporations operate businesses across the globe and play an important role as the government in spreading opportunities and direct policies in favor of the globalization process. Global firms should avoid exploitation of less developed countries and instead should help in spreading benefits of globalization to one and all.

- **Global Health Crises**

Global health issues are gaining more attention now because the world has realized that these issues are not a matter of concern to just one nation. Health crises are a global concern relevant for every citizen, irrespective of nationality, residence or status. Global health needs still remain unmet to a large extent, making the entire world vulnerable to health crises. The situation is worse the poverty-stricken population which continues to suffer from inadequate health services.

- **Global Governance Needs**

Global challenges like nuclear proliferation, tensions regarding global trade negotiations, fight against global poverty and potential trade war like situations-are spread across the globe. We need to discover such global governance approaches which are more representative.

Indian Perspective

India is a really diverse economy where economic activities range from traditional village farming to modern industries and a multitude of services. Services are for the major source of economic growth, contributing to nearly two-thirds of India's output but employing only less than one-third of the total labor force. India is developing into a large open-market economy. Economic liberalization introduced in the 1990s helped to accelerate the country's growth. India's growth rate averaged to nearly 7% per year from 1997 to 2017. In 2011, India's economic growth slowed down because of a decline in investment due to high-interest rates, rising inflation, and investor pessimism. Investors' perceptions about Indian economy improved in early 2014, due to expectations of post-election economic reform. The economy slowed down again in 2017, due to shocks of "demonetization" in 2016 and introduction of GST in 2017. The government raised foreign direct investment caps in many sectors and introduced a number of economic reforms related to administration and governance. India is fortunate to have a large young population and thus a low dependency ratio, healthy savings and investment rates, and increasing integration with the global economy.

India is the fastest growing economy of the world and ranked as the sixth largest by nominal GDP. It produced \$9.4 trillion in goods and services in 2017 in terms of purchasing power parity. But it still ranks much behind the top three nations that are China (\$23.1 trillion), the European Union (\$19.9 trillion) and the United States (\$17.4 trillion). India's service sector is growing at a tremendous rate and contributes to a major share of the GDP of our nation. Its software and IT-enabled services are the most sought after. Travel & tourism sector has also experienced a major growth.

India's Strengths

India is an attractive country for foreign capitalists and investors because of the many advantages it has. It has a strong growing market as well as a huge English speaking and talented workforce. According to PwC's 21st CEO Survey, India ranks as the fifth most favored nation for global investments after the US, China, Germany, and the UK. Some of the key attractive forces are:

- A lower cost of living than many developed and emerging nations.
- A large section of well-educated technology workers.
- A large English speaking population.
- A wide diversity in the economic and cultural backgrounds of the population.
- A steady growth in consumer spending and an untapped market.
- Large and rapidly growing economy.
- Abundant of natural resources.
- Low-cost skilled manpower.
- A well-developed commercial banking system and many other forms of financial institutions.
- A vibrant and well-regulated capital market.
- Easy access to other foreign markets like that of Nepal, Sri Lanka, etc.
- India is the largest democracy and has experienced political stability.
- A well-developed judicial system.
- A large portion of the young population.
- Full current account convertibility.
- Increasing urbanization and thus expectations of an even more consumer-driven economy.
- India has a large section of the middle-income population which is also growing at a strong rate.

Challenges for India

- High degree of social stratification at the workplace and in the society otherwise.
- Legal and procedural delays.
- Bureaucratic controls and procedures.
- Poor infrastructure in many areas.
- Cumbersome labor laws.
- A tag of an FDI conservative nation.
- The disparity of policies in various states across the nation.
- NPA problem of the banking industry.
- High crude prices.

India can tackle these challenges by introducing reforms to attract foreign players. There is an emergent need to combat inflation, enhance investment expenditure, and regain the confidence of the business class community. There is also a need to promote labor-intensive manufacturing to resolve the problem of unemployment. Tourism in various states can also be promoted. Creation of a single-window system of clearances for freight corridors can also boost the industrial sector. World-class infrastructure should be developed as investment bottlenecks are one of the major hindrances in the way economic prosperity. The government should develop highways, airports, inland and coastal waterways to fasten the transportation aspect of industries. Electricity generation capacity needs to be harnessed from both conventional and non-conventional sources. The government has already taken a large number of initiatives. like deregulation of FDI, infrastructural developments, digitization of procedures and databases, promotion of privatization, development of fast-track clearance system for legal disputes, etc. programs like Make in India, Invest India, and Digital India is also aimed to attract FDI inflows. GIFT city that is Gujarat International Finance City is being developed in Gujarat as the first international financial services center. It provides world-class infrastructure, connectivity, technology, and legal framework, etc. to provide a platform for businesses from across the world.

Ease of Doing Business

According to Ease of Doing Business Report 2018 published by World Bank assessing 190 countries on the basis of their business regulations, India ranks at 77th place. It has improved by 23 ranks in a year which is attributed to a number of multi-sectoral reforms. Government is dedicated to simplify and rationalize the current rules and to make governance more effective and efficient. In a span of two years, India has improved by fifty-three notches. It is marked as the highest improvement by any large country since 2011. Also, India is ranked first among the south Asian countries. It has improved on six out of ten parameters. The six major areas of reforms as recognized by the index are “starting a business”, “getting electricity”, “dealing with construction permits”, “getting credit”, “paying taxes” and “trading across borders”. India needs to improve on four other parameters to gain an even better ranking which are related to “enforcing contracts”, “registering property”, “paying taxes” and “resolving insolvency”.

Some of the measures taken in the last few years to improve ease of doing business in India are discussed here:

- The process of applying for a number of licenses has been made easier.
- Payment of service charges and filing of applications have also been made easier through a single window portal.

- DGFT (Directorate General of Foreign Trade) has put a limit on the number of documents required for export and import.
- MCA (Ministry of Corporate Affairs) has introduced the process for incorporation of a company via its online portal.
- Instruction of the need of filing up of a single form for incorporation of a company.
- Accenture services conducted a comparative study of best practices followed by different states regarding grant of licenses. These were then circulated among all the states for peer evaluation and adoption.
- The list of products for industrial licensing has been reduced. Now, dual-use items (defense as well as civilian applications) shall only require the filing of Industrial Entrepreneur Memorandum (IEM).
- The initial validity period of industrial licenses has been enhanced from two years to three years.
- The proactive role of Invest India and the creation of an investor facilitation cell under this program.
- Applications for Environment and Forests Clearances have also been made online by the concerned ministry.
- Simplification of procedure for new electric connection.
- Starting a new business has been made easier by merging application requirements for a number of things and improves the functioning of online portals.
- Getting credit has been made easier by amending rules on the priority of secured creditors.
- Increased remedies available in case of prejudicial transactions for protecting minor investors.
- Introduction of National Judicial Data Grid for enhancing enforcement of contracts.
- Government efforts to remove hurdles in the way of getting construction permits by reducing the number of procedures.
- Implementation of GST to ease tax-related issues.
- Implementation of Insolvency and Bankruptcy code 2016 to resolve the NPA problem of PSBs.
- Introduction of online building permit approval system.
- Single window for construction permits.
- Establishment of commercial courts in 250 districts to dispose of cases faster.
- Repayment first to secured creditors in case of business liquidation.
- Trade facilitation by letting exporters seal their containers electronically at their own facilities and limiting physical inspections to 5% of shipments.

India is a hugely attractive market for international players and countries because of the various opportunities that exist here. According to the recent World Economic Forum's global competitiveness index 2018, India has emerged as the 58th most competitive economy in a list of 140 countries. This year India has improved its ranking by five places. The framework analyzes economies based on twelve different factors which are institutions, infrastructure, technological readiness, macroeconomic context, health, education and skills, product market, labor market, financial system, market size, business dynamism, and innovation. The huge market size has been cited as the biggest strength of the economy. According to the report, India needs to improve on factors related to the labor market, product market and skills. Overall, the level of improvement shows that India is on the right path of development. The attractive forces shall make the economy more integrated with the world economy. However, the challenges posed by increasing crude oil prices, rupee depreciation, and monetary tightening provide a challenging ground for the further growth of the country. The greatest risk to the economy comes from the financial sector which is already in a soup of high non-performing assets with the public sector banks, liquidity crunch of the Non-Banking financial companies, huge FPI outflows, etc. All of this is likely to hamper domestic demand also. The already increasing borrowing cost is believed to dampen domestic demand and thus adversely affect the industrial sector. Because of these tensions, Moody has pegged the growth rate of Indian economy for 2019 to just 7.3% which is lower than the 7.9% rate of growth in the first half of 2018. However, the Indian government is already committed to integrating the economy with the rest of the world. Steps like deregulation of FDI and reduction of the FDI caps in sectors like retail, power exchange, banking, insurance, construction development, railway infrastructure, etc. have been initiated. Programs like Invest India, Digital India and Make in India are also few initiatives which are aimed to reap further benefits of globalization.

Conclusion

The world economy is now highly inter-related and inter-dependent which is the cause as well as the outcome of globalization. The world economy has experienced structural shifts due to the rising influence and role of the emerging economies. The developing countries are growing at a much faster rate than the developed nations. This has resulted in a shift of balance of powers. This is perhaps the most significant geopolitical development of recent times. Trends of globalization show that developing countries are the growth leaders of current times. Globalization has resulted in an uneven distribution of economic wealth and powers. Investment expenditures are growing worldwide. Government accountability, transparency, religious conflicts, poverty, income inequality, economic wars, climatic changes, food and water scarcity are few of the problems caused by globalization. Few of the challenges in the way of increased globalization are concerns related to energy and

environmental security, conflict and poverty, the rate of technological developments, global imbalances of wealth and power, new leader nations, increased role of MNCs in the political scenario, global health, and governance crises. The emerging economies of India, China and Brazil have evolved as the policymakers from being the policy takers of the past times. India is one of the fastest growing economies of the world. It is the sixth largest nation by nominal GDP. As per PWCs report, it is the fifth most favored nation for global investments. It has also improved its per capita income. It has improved its position by 53 ranks in last two years to be now ranked at 77th position in 2018 as per the Ease of doing business index released by the World Bank. India has entered into many comprehensive free trade agreements with some of the most important economies of the world like Japan, Korea, and ASEAN. India has a wide range of advantages like low-cost skilled labor, access to various world markets, English-speaking population, incentives, natural resources, political stability, well-developed financial markets etc. but at the same time bureaucratic controls, outdated labor laws, domestic policy constraints, procedural delays, and infrastructural bottlenecks are some of the disadvantages that the Indian economy face. Further research options in the area of globalization are wide. Further studies can be conducted to find out how India can reap greater advantages of globalization.

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