Essay No. 01

Globalization

The integration of the world's economies brought about by the rapid improvements in communication and transportation. Globalization involves the spread of economic, social and cultural ideas across the world, and growing uniformity between different places that result from this spread. It has come about as a result of increased integration of national economies through growth of international trade, investment and capital flows, made pokily by rapid improvements in technology.

The above is a fairly standard definition about what Globalization is. But the real question is "does Globalization work?"

Yes! It really works and has worked. The only way for countries to continue to increase living standards is through economic growth. The best way to achieve economic growth is free trade. Free trade allows a country to enjoy the benefits brought about by absolute and comparative advantage. The same has happened in the case of china and India.

Globalization has played a major role in export led growth, leading to the enlargement of the job market in India. Globalization in India has allowed companies to increase their base of operations, expand their workforce with minimal investments, and provide new services to a broad range of consumers. The process of globalization has been an integral part of the recent economic progress made by India.

Once of the major forces of globalization in India has been in the growth of outsourced IT and business process outsourcing (BPO) services. The last few years have seen an increase in the number of skilled professionals in India employed by both local and foreign companies to service customers in the US and Europe in particular. Indian companies are rapidly gaining confidence and are themselves now major players in globalization through international expansion. From steel to bollywood, from cars to IT, Indian companies are setting themselves up as powerhouses of tomorrow's global economy.

There will be new prospects in rural India. The growth of Indian economy very much depends upon rural participation in the global race. After implementing the new economic policy the role of villages got its own significance because of its unique outlook and branding methods.

Understanding the current status of Globalization is necessary for setting course for future. For all national to reap the full benefits of globalization it is essential to create a level playing field.

Essay No. 02

Globalization

The financial meltdown in the "tiger economies" of South- East Asia at the moment of manic expansion of globalization has brought into question the whole process of liberalization. What are the lessons that we can derive from the last crisis to avoid the next?

The first lesson, it would seem, is that short-term and long-term capital flows are two disparate phenomena with very little in common. The former is speculative and technical in nature and has very little to do with fundamental realities. The latter is investment oriented and committed to the increasing of the welfare and wealth of its new domicile. It is, therefore, wrong to talk about "global capital flows". There are investments (including even long-term portfolio investments and venture capital)—and there is speculative, "hot" money. While "hot money" is very useful as a lubricant on the wheels of liquid capital markets in rich countries—it can be destructive in less liquid, immature economies or in economies in transition.

The two phenomena should be accorded a different treatment. While long—term capital flows should be completely liberalized, encouraged and welcomed—the short-term, "hot money" type should be controlled and even discouraged. The introduction of fiscally-oriented capital controls (as Chile has implemented) is one possibility. The less attractive Malaysian model springs to mind. It is less attractive because it penalizes both the short-term and the long- term financial players. But it is clear that an important and integral part of the new International Financial Architecture Must be the control of speculative money in pursuit of ever higher yields. There is nothing inherently wrong with high yields—but the capital markets provide yields connected to economic depression and to price collapses through the mechanism of short selling and through the usage of certain derivatives. This aspect of things must be neutered or at least countered. The second lesson is the important role that central banks and other financial authorities play in the precipitation of financial crises—or in their prolongation. Financial bubbles and asset price inflation are the result of euphoric and irrational exuberance— said the Chairman of the Federal Reserve Bank of the United States, the legendary Mr. Greenspan and who can dispute this? But the question that was delicately sidestepped was: WHO is responsible for financial bubbles? Expansive monetary policies, well-timed signals in the interest rates markets, liquidity injections, currency interventions, international salvage operations—are all co-ordinated by central banks and by other central or international institutions. Official Inaction is as conducive to the inflation of financial bubbles as is official Action. By refusing to restructure the banking system, to introduce appropriate bankruptcy procedures, corporate transparency and good corporate governance, by engaging in protectionism and isolationism, by avoiding the implementation of anti-competition legislation—many countries have fostered the vacuum within which financial crises breed.

The third lesson is that international financial institutions can be of some help—when not driven by political or geopolitical considerations and when not married to a dogma. Unfortunately, these are the rare cases. Most IFIs— notably the IMF and, to a lesser extent, the World Bank— are both politicized and doctrinaire. It is only lately and following the recent mega-crisis in Asia, that IFIs began to “reinvent” themselves, their doctrines and their recipes. This added conceptual and theoretical flexibility led to better results. It is always better to tailor a solution to the needs of the client. Perhaps this should be the biggest evolutionary step.

That IFIs will cease to regard the countries and governments within their remit as inefficient and corrupt beggars, in constant need of financial infusions. Rather they should regard these countries’ as Clients, customers in need of service. After all, this, exactly, is the essence of the free market—and it is from IF Is that such countries should learn the ways of the free market. In broad outline, there are two types of emerging solutions. One type is market oriented—and the other, interventionist. The first type calls for free markets, specially designed financial instruments and a global “laissez faire” environment to solve the issue of financial crises. The second approach regards the free markets as the source of the problem, rather than its solution. It calls for domestic and where necessary international intervention and assistance in resolving financial crises. Both approaches have their merits and both should be applied in varying combinations on a case-by-case basis. Where a problem yields to interventionist solution we should go for it, but we must remember too that the market economy works best where markets are free to adjust to changing realities.