

Globalization, Brexit and India

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Abstract

Globalization during the last four decades has facilitated TOT (Technology Transfer), improved TFP (Total Factor Productivity) and ushered phenomenal growth of Transnational Corporations (TNCs). However, there are detractors who feel that it has become an instrument of global commercial capital to exploit the Less Developed Countries (LDCs). This subprime crisis in US and its contagion impact in 2007-08 has brought to the centre stage the toxic role of globalization in emasculating national sovereignty. The recent referendum in Great Britain (Brexit) is indicative of this angst. This paper tries to bring out the contrasting perspective of globalization, the findings of Brexit referendum and the impact it has on India, as it ventures into third generation economic reforms. The paper strongly argues that manufacturing cannot be a panacea for growth as robotization and competition from well entrenched global manufacturing hubs has seriously dented India's export trajectory. We need to explore opportunities available in the service sector, particularly in terms of aggregate like e-commerce. The paper underscores the importance of aggregates over large companies and tourism as a major employment provider. The central focus of the paper is exhorting the state to pay greater attention to social sector investment, quality primary education as they will be the real stepping stone to durable growth and improvement in Human Development Index (HDI) in order to harvest the fruits of globalization.

Keywords: TOT, TFP, LDC, BREXIT, HDI

INTRODUCTION

During the last four decades, globalization has become the buzz word with MNCs spreading their tentacles in trade and services across the countries. While globalization is largely viewed with favour because its enormous potential to bring in state of art technology, managerial efficiency, innovation and high wage to the workers in developing countries, there are also detractors who believe that it sub-serves the commercial interests of global capital at the expense of the poor & vulnerable in developing countries. The financial crisis in US in 2007 and its contagion impact in Europe has spurred many adherents to look at the fault lines of globalization with greater care. The initiative of the USA to forge an economic alliance with Western Europe through Trans Pacific Pact (TPP) has serious detractors in countries like China and India who perceive a SUPER TRIPS structure affecting their sovereignty. This is an issue which has become central in Britain as it opted to move out of the European Union. Many countries like Poland and France are also discomfited the way European Union Parliament is trampling upon their parliamentary sovereignty to enact laws; particularly in the area of immigration. The fault lines of globalization are casting shadows on India's march towards third generation reforms. This paper attempts to analysis

- (a) Genesis of globalization and its impact so far
- (b) Brexit and its implication
- (c) Impact on India and the road forward.

GENESIS OF GLOBALIZATION & ITS IMPACT SO FAR

Post Second World War, the old time allies became arch enemies spawning a cold war between USSR and the USA. However, with the collapse of the Berlin wall (1989) and disintegration in USSR in (1991), there was a sense of hubris that the wall of ideology has fallen prompting Francis Fukuyama to write an iconic book "End of History". Liberal democracy, free market economics and globalization have become the buzzword, cutting across the continents. The technological factors which have also helped globalization in substantial measure are containerization of global shipping and laying of fiber optics across the Atlantic in 2000 after the dot com boom of 2000. Internet has broken the barriers of geography and services have become the new lamppost of global prosperity. The World Trade Organization created in (1995) ushered China in 2001 combating significantly to its march as a global manufacturing hub; like Germany and Japan.

For Milton Friedman, through globalization, "it has been possible to produce any where using resources from anywhere to be sold every where". The MNCs use the free spirit of the market to tap inputs at lowest cost, produce at competitive rates and trade freely; unencumbered by ideology. Free trade fosters uneasy bedmates

who share the fruits of prosperity. It was John Maynard Keynes who was the first to lament about the loss of golden century of globalization (1814-1914) when the two world wars and the great depression of the 1930's intervened. Writing in his magnum opus "The General Theory of Employment, Interest and Money" Keynes observed how the inhabitant in London could order by telephone various products of the whole earth and reasonably expect their early delivery upon his door step. He could secure forthwith cheap and comfortable means of transit to any country without passport; and could dispatch his servant to a bank for such supply of gold as might seem convenient. Gold was the basis of exchange in a world which was trying to reap the benefit of industrial revolution, technology and innovation. Many strong proponents of globalization like Prof. Jagdish Bhagwati are of the view that this new wave has brought in key technology to developing countries, improved the workers' wages and ensured transfer of high managerial and entrepreneur skills. On the contrary detractors like Joseph Stiglitz observe how globalization has helped global capital to exploit developing countries; leading to financial collapse as in Thailand in 1997. For him, absence of proper regulatory mechanism and pervasive conflict of interests fostered subprime financial crisis in USA (2007-2008).

BREXIT AND ITS IMPLICATION

Brexit has in a sense become a turning point in the march of globalization as anti immigration sentiments have taken firm roots. The genesis of this can be traced to the financial crisis (2007-2014) when most of European Union countries are bedeviled by high un-employment as the following table would show

Table 1: European Union, UK, USA: Trends

Country	GDP Growth	Unemployment	Current Account Balance	Budget Balance
Germany	1.5	6.2	+7.6	+0.4
France	1.3	10	-0.3	-3.5
G. Britain	1.9	5.1	-4.7	-3.6
Greece	+1.4	24.4	2.1	-3.9
EU Area	+1.5	10.2	+2.8	-1.9
USA	+1.8%	5%	-2.7	-2.5

Source: The Economist, June, 18th and 25th, 2016

It would be seen, that apart from the above most of the countries are heavily debt ridden and having unacceptably high level of unemployment. Germany is the only exception. Further an analysis of the voting pattern in Brexit clearly reveals that while the professionals and those with universities degree have overwhelmingly voted against Brexit (60%), the unskilled and manual workers with less education have voted in favour (70%). The following tables bring out voting response in different part of Great Britain and also class wise.

Table 2: Voting Response in Great Britain

Region	Yes	No
England	53.4	46.6
Wales	52.5	47.5
Scotland	38	62
N. Ireland	44	56

Source: The Economist, June, 18th and 25th, 2016

Table 3: Voting Patterns: Class Wise

Class	Yes % to Brexit
Professionals & Managers	43%
Supervisors & Clericals	50%
Secondary Education Less	70%
Unskilled & Manual	64%
University Degree	36%

Source: The Economist, June, 18th and 25th, 2016

This clearly shows that both Scotland and North Ireland are not in sync with the voting pattern in England. More significantly Brexit brings out the angst of inequality amongst the poor, unskilled and the less educated who feel that the government is not doing enough in terms of public investment to improve their productivity and employability. The xenophobia against Indians and Polish, who constitute 20lakh in London, is indicative of the frustrations of the less privileged.

GLOBALIZATION & INDIA

Ruchir Sharma in his recent book "The Rise and Fall of Nations" brings out how manhole covers in the streets of

Mahattan are labeled Made-in-India; India has thus become a manufacturing giant. However, this viewpoint has few takers. As a counter point Prof. Paul Krugman writes how sparks often flow from pots of molten metal and ignites a worker's lungi in the foundries in West Bengal where these manholes covers are being manufactured. The Human Rights activists are understandably distraught; they want the multinational corporation either to enforce humane condition of work or close down. It is indeed a Catch 22 situation where the wages of the workers are much higher by Indian standards while the safety standards are flagrantly violated because of the ineffective government control over the activities of the transnational corporation. Prof. Paul Krugman writes that MNCs look for countries with lax labour and environmental standards. Lamentably neither the WTO nor the ILO addresses such serious concerns and toss it up as either a matter of trade or a labour issue!

Be that as it may, in recent years manufacturing has taken a serious beating, as export led growth by global manufacturing hubs like China is witnessing a serious drop in export activities. Devaluation of Yuan is symptomatic of this malaise. India wants to follow the same path of China by pursuing export led growth by focusing on labour intensive products. Nandan Nilekani reflecting on such policy mosaic observes that the way forward for India is not to pursue export led manufacturing of low skill labour intensive products but the service sector. He brings out the serious drop in our exports -13% during 2015-16 in view of the tepid growth globally and more significantly the tough competition India encounters from global manufacturing hubs of Germany who are blessed with high productivity. For Nilekani, the key drivers will be technology aggregates. He observes how aggregates like Ola and Uber have completely transformed the travelling architecture of this country; as have Amazon and Flipkart through e-commerce. Besides, robotics, 3D technology have significantly reduced the requirement of labour in many industries. Foxcon in USA makes iphones through robotics. Besides, tourism could be a big money spinner apart from its high employment potential.

INDIA AFTER BREXIT

India will not be severely impacted in terms of trade with UK as it constitutes only 3.4% of its total exports. It will rework on its bilateral trade ties with UK. However, what is going to be stymied is India's march towards greater global integration. The major concern for India is its apathetic public policy towards social sector. The allocation remains abysmally low at 6.7% of GDP as against 10%-15% by most developing countries. The following table brings out the comparative HDI and allocation to education and health of a few countries who set excellent benchmark for emulation.

Table 4: Development Indicators and Social Sector Spending: Global Comparison

Country	HDI	Development Indicators			GDP Allocation	
		IMR (1000)	MMR (1 Lakh)	MYS	Education	Health
USA	0.915	5.9	28	12.9	5.2	17.1
Germany	0.916	3.2	7	13.1	5.0	11.3
Japan	0.891	2.1	6	11.5	3.8	10.3
South Korea	0.898	3.2	27	11.9	4.9	7.2
Russia	0.798	8.6	24	12.0	4.1	6.5
China	0.727	10.9	32	7.5	-	5.6
India	0.609	41.4	190	5.4	3.8	4.0

Source: Human Development Report, 2015

The following table shows trend in central spending on education.

Table 5: Trends in Central Spending on Education (Rs. Cr.)

Parameter	2014-15	2015-16	2016-17	% increase
School Education	45722	42186	43554	+3
Higher Education	23152	25399	28840	+14
Total	68874	67585	72394	+7

Source: India's Budget Document 2016-2017

Most distressingly, the allocation to education is 3% of our GDP (2009). The Kothari Commission (1966) & Prof. Amartya Sen have recommended a minimum of 6% of GDP allocation to education, which is unheeded. The Annual Status of Education Report (ASER) (2015) brings out how basic infrastructure facilities, like toilets, high dropout rates, poor educational outcomes bedevil our primary education. Pratham, a reputed NGO, brings out how the poor and the deprived prefer to send their children to private schools, whose footprint has increased from 19% (2010) to 30% in a matter of 5 years. The neglect of this critical triad of our Education Policy; viz. Quality has a cascading impact on our higher education. The trend of infrastructure deficits is placed below.

Table 6: Infrastructure Facilities: Trends

Parameter	All India	
	2010	2014
Play Ground	62.2	65.0
Library Books Available	62.6	78.1
Drinking Water	72.2	75.6
Girls Toilet	32.9	55.7
Computer Available	15.8	19.6

Source: ASER Report 2014

Further, the academic progress show disappointing outcomes. Only 58% of children enrolled in classes 3 to 5 can read a class-1 text. Less than half (47%) are able to do a simple two-digit subtraction. Only 37% of children enrolled in class 4 or 5 can read fluently. Less than half (45%) are able to divide 20 by 5. Reading and Maths skills of class 4 pupils in India's top schools are below the international average

Tooley and Dixon (2005) in tests administered to students in Hyderabad found that students in unrecognized private schools scored 22-23% higher than their counterparts in government schools in Maths and much higher in English. Muralidharan and Kremer (2006) have brought out that private schools are characterized by lower teacher absence and teachers hold more college degrees than their counterparts.

FAULT LINES OF LIBERAL DEMOCRACY

Brexit and its contagion impact in Poland and France (Frexit) brings to the centre stage the crisis ideology of liberal democracy born in 1989 out of the ashes of a disintegrated USSR. Francis Fukuyama called it an "End of History", with the ultimate triumph of democratic freedom in the public space. Globalization has added further momentum with unfettered entry of TNCs to the uncharted areas of developing countries. It has improved workers' wages, brought in state of art of technology, managerial efficiency and fostered export led growth. However, the free market spirit was also spawned conflict of interests and laxity in the regulatory mechanism of the government. High incidence of subprime housing loans, risky financial assets like CDOs have led to the serious financial crisis in USA and its cascading impact in Europe; with Greece tethering on the brink of a financial collapse. One of the major lessons of this crisis has been that globalization has not ensured diffusion of prosperity. The global capital verticals have benefitted disproportionately compared to the labour class due to public policy. Prof. Paul Krugman calls it as a case of "double jeopardy" where billionaires get tax cuts while the middle/poor class remains uncared for. Thomas Piketty through his seminal analysis in "Capital" brings out how in the USA after the 1960s, the share of capital out of the fruits of development have been disproportionately cornered by the super rich; spawning a rising club of billionaires world over; including India.

The market economists like Jagdish Bhagwati are of the view that the US financial crisis is an aberration in an otherwise robust economic system, which celebrates free market. Adam Smith had famously written "the market forces, as if by an invisible hand will promote welfare of all". The financial crisis of 2007 has amply demonstrated how globalization has benefitted the unscrupulous the most. Brexit vote clearly demonstrated how the conservative government in UK has apathetic public investment in areas like quality education, health, skill enhancement. The rising tide of prosperity; thanks to globalization, also exposes the leaky boats in the society get swept by the storm of financial chicanery, accentuating income inequality. Fukuyama's neat construct of an idyllic liberal democracy and end of a dialogue on ideology has been turned on its head. As the Economist observe "never take history for granted".

CONCLUDING THOUGHTS

In our quest for globalization, technology can be a great facilitator, reducing transaction cost significantly and ensuring that the benefits of subsidy reach the intended beneficiary. However the Skill India initiative needs to be significantly scaled up. Brexit has brought home the fact that Indians living in London are a harried lot. MPs like Enoch Powell used to say "We have wronged the queen by constructing the pretence of a common wealth and acting as if it existed". Brexit has resuscitated that Xenophobia of the 1970s. We need to focus on quality education, productivity, technology and the services sector. Small can be beautiful as aggregates like Ola and Amazon have amply demonstrated. Most importantly India needs to be a knowledge processor, and not a mere business processor; doing low skill out sourced jobs of the West and USA. It was Plato who said in 273BC that Knowledge is Power. Joseph Schumpeter inked the contours of creative destruction by highlighting the importance of innovation. Robert Solow, went beyond the physical numbers to home on factor productivity as the sine qua non of increasing returns to scale. Countries, who have invested handsomely in quality education have dominated the globalization landscape. India, as a rising global power can profit immensely from its demographic dividend, provided it pursues the path of human development and invests handsomely in quality primary education. It's a pity that a new education policy is caught in an ideological trap since 1992. The tremors of Brexit and fault lines of globalization are timely reminders that unfettered free markets can be catastrophic.

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