Globalisation and the Indian economy

Notes☺

PRODUCTION ACROSS COUNTRIES:

1. Until the middle of the twentieth century, production was largely organized within

countries.

2. Colonies such as India export the raw materials and food stuff and imported finished goods.

3. Trade was the main channel connecting distant countries. This was done before large companies called multinational corporation (MNCs) emerged on the scene.

4. An MNC is a company that owns or controls production in more than one nation.

5. MNCs set up offices and factories for production in regions where they can get cheap labour and other resources.

6. MNCs are not only selling its finished products globally but more important, the goods and services are produced globally.

7. As a result, production is organized in increasingly complex ways.

INTERLINKING PRODUCTION ACROSS COUNTRIES:

1. In general, MNCs set up production where it is close to the markets; where there is skilled and unskilled labour available at low costs; and where the availability of other factories of production is assured.

2. The money that is spent to buy assets such as land, building, machines and other equipment is called investment. The investment made by the MNCs is called foreign investment.

3. The benefit to the local company of such joint production is two-fold.

(i) MNCs can provide money for additional investments, like buying new machines for faster

production.

(ii) MNCs might bring with them the latest technology for production.

4. But the most common route for MNC investments is to buy up local companies and then to

expand production.

5. Many of the top MNCs have wealth exceeding the entire budget of the developing country

government.

6. We see that there are a variety of ways in which the MNCs are spreading their production

and interacting with local producers in various countries across the globe.

7. MNCs are exerting a strong influence on production at these distant locations.

8. As a result, production in these widely dispersed locations is getting interlinked.

FOREIGN TRADE AND INTEGRATION OF MARKETS:

1. Foreign trade creates an opportunity for the producers to reach beyond the domestic markets i.e., markets of their own countries.

2. For the buyers, import of goods produced in another country is one way of expanding the choice of goods beyond what is domestically produced.

3. In general, with the opening of trade, goods travel from one market to another.

4. Foreign trade thus results in connecting the markets or integration of markets in different

countries.

WHAT IS GLOBALISATION?

1. A large part of the foreign trade is also controlled by MNCs.

2. A result of greater foreign trade has been greater foreign trade has been greater

integration of production and markets across countries.

3. Globalization is this process of rapid integration or interconnection between countries.

4. MNCs are playing a major role in the globalization process.

5. More and more goods and services, investments and technology are moving between

countries.

FACTORIES THAT HAVE ENABLED GLOBALISATION:

1. Rapid improvement in technology has been on a major factor that has stimulated the globalization process.

2. For instances, the past 50 years have seen several improvements in transportation technology.

3. Even more remarkable have been the development of information and communication technology.

4. Technologies in the areas of telecommunications, computers, and internet have been changing rapidly.

Liberalization of foreign trade and foreign investment policy:

1. Tax on imports is an example of trade barrier. It is called a barrier because some restriction has been set up.

2. The government can use trade barriers to increase or decrease foreign trade and to decide

what kind of goods and how much of each, should come into the country.

3. The Indian government, after Independence, had put barriers to foreign investment.

4. This was considered necessary to protect the producers within the country from foreign competition.

5. Barriers to foreign trade and foreign investment were removed to a large extent.

6. This meant that goods could be imported and exported easily and also foreign companies could set up factories and offices here.

7. Removing barriers or restriction set by the government is what is known as liberalization.

8. The government imposes much less restriction than before and is therefore said to be more liberal.

WORLD TRADE ORGANISATION:

1. We have seen that the liberalization of foreign trade and investment in India was supported by some very powerful international organization.

2. These organizations say that all barriers to foreign trade and investment that are harmful. There should be no barriers.

3. World Trade Organization (WTO) is one such organization whose aim is to liberalize international trade.

4. Though WTO is supposed to allow a free trade for all, in practice, it is seen that the developed countries have unfairly retained trade barriers.

5. On the other hand, WTO rules have forced the developing countries to remove the trade barriers.

IMPACT OF GLOBALISATION IN INDIA:

1. In the last twenty years, globalization of the Indian economy has come a long way.

2. Globalization and greater competition among producers – both local and foreign

producers – has been of advantage to consumers, particularly the well-off sections in the

urban areas.

3. As a result, these people today, enjoy much higher standards of living than was possible

earlier.

4. MNCs have increased their investments in India over the past 20 years, which means

investing in India has been beneficial for them.

5. Several of the top Indian companies have been able to benefit from the increased

competition.

6. Moreover, globalization has enabled some large Indian companies to emerge as

multinationals themselves!

7. Globalization has also created new opportunities for companies providing services, particularly those involving IT.

THE STRUGGLE FOR A FAIR GLOBALISATION:

1. People with education skill and wealth have made the best use of new opportunities.

2. On the other hand, there are many people who have not shared the benefits.

3. Fair globalization would create opportunities for all and also ensure that the benefits of globalization are shared better.

4. The government can play a major role in making this possible.

5. Its policies must protect the interests, not only of rich and the powerful but all the people in the country.

6. It can support small producers to improve their performance till the time they become

strong enough to compete.

7. If necessary, the government can use trade and barriers.

8. In the past few years, massive campaigns and representatives by people's organizations

have influenced important decisions relating to trade and investments at the WTO.

9. This has demonstrated that people also can play an important role in the struggle for fair

globalization.

N.C.E.R.T QUESTIONS AND ANSWERS:

Question 1. What do you understand by globalisation? Explain in your own words.

Answer: Globalisation means integrating the economy of a country with the economies of

other countries under conditions of free flow of trade, capital and movement of persons across borders. Globalisation is the process of interaction and integration between people, companies, and governments worldwide. Globalization has grown due to advances in transportation and communication technology. It includes

i. Increase in foreign trade

ii. Export and import of techniques of production.

iii. Flow of capital and finance from one country to another

iv. Migration of people from one country to another.

Question 2. What were the reasons for putting barriers to foreign trade and foreign investment by the Indian government? Why did it wish to remove these barriers?

Answer: The Indian government had put barriers to foreign trade and foreign investment to protect domestic producers from foreign competition, especially when industries had just begun to come up in the 1950s and 1960s.This was done to protect the producers within the country from foreign competition. At this time, competition from imports would have been a death blow to growing industries. Hence, India allowed imports of only essential goods such as machinery, fertilizers, petroleum etc.

In New Economic Policy in 1991, the government wished to remove these barriers because it felt that domestic producers were ready to compete with foreign industries. It felt that foreign competition would, in fact, improve the quality of goods produced by Indian industries. This decision was also supported by powerful international organisations. Now

goods could be imported and exported easily and also foreign companies could set up factories and offices here.

Question 3. How would flexibility in labour laws help companies?

Answer: Flexibility in labour laws will help companies in being competitive and progressive. By easing up on labour laws, company heads can negotiate wages and terminate employment, depending on market conditions. This will lead to an increase in the company's competitiveness. The government has also allowed flexibility in labour laws to attract foreign investment. The government has allowed companies to ignore many of the labour laws. Instead of hiring workers on a regular basis, companies hire workers flexibly for short periods when there is intense pressure of work. This helps to reduce the cost of labour for

the company.

Question 4. What are the various ways in which MNCs set up, or control, production in other countries?

Answer: Multinational Corporations (MNCs) set up their factories or production units close to markets where they can get the desired type of skilled or unskilled labour at low costs along with other factors of production. After ensuring these conditions MNCs set up production units in the following ways :

MNCs are setting up partnerships with local companies.

Buy the local companies and then expand its production with the help of modern technology.

They place orders for small producers and sell these products under their own brand name to the customers worldwide.

MNCs are taking over local companies with their immense money power.

Through the above ways, MNC's are exerting a strong influence on production at distant locations.

Question 5. Why do developed countries want developing countries to liberalise their trade and investment? What do you think should the developing countries demand in return?

Answer: Developed countries want developing countries to liberalise their trade and investment because then the MNCs belonging to the developed countries can set up factories in less-expensive developing nations, and thereby increase profits, with lower manufacturing costs and the same sale price. Suppose the Indian government puts a tax on

imported goods, then the price of the goods will be higher for the consumer. As a result, theconsumer will prefer to buy goods produced locally. Consequently, there will be no demand

for imported goods and developed countries will not able to sell their goods in developing

countries.

In return for liberalisation of trade laws, the producer in developing countries are

demanding 'fair trade'. The developing countries should demand, in return, for some

manner of protection of domestic producers against competition from imports. Also, charges

should be levied on MNCs looking to set base in developing nations.MNC's setting up their

bases in developing countries should also be compelled to work for the development of the

country.

Question 6. “The impact of globalisation has not been uniform.” Explain this statement.

Answer: The impact of globalisation has not been uniform". It has only benefited the skilled and professional person in urban not the unskilled persons. The industrial and service sector has much gained in globalisation than in agriculture. Some have gained from successful collaborations with foreign companies. It benefited MNCs on domestic producers and the industrial working class. The consumers, particularly the well-off sections in the urban areas have an advantage in the way that they have a greater choice and now enjoy the improved quality and lower prices for several goods. Small producers of goods such as batteries, capacitors, plastics, toys, tyres, dairy products and vegetable oil have been hit hard by competition from cheaper imports.

Question 7. How has liberalisation of trade and investment policies helped the globalisation process?

Answer: Liberalisation of trade and investment policies has helped the globalisation process by making foreign trade and investment easier. Earlier, several developing countries had placed barriers and restrictions on imports and investments from abroad to protect domestic production. However, to improve the quality of domestic goods, these countries have removed the barriers. Import duties have been reduced, measures are been taken to ease the flow of foreign capital into the country, entry by foreign companies to set up base eased and encouraged and Foreign direct investment and foreign funds encouraged to flow in.

Thus, liberalization has led to a further spread of globalisation because now businesses are

allowed to make their own decisions on imports and exports. This has led to a deeper integration of national economies into one conglomerate whole. Thus greater foreign investment and greater foreign trade resulted in the mushrooming of MNCs, which in turn resulted in globalisation.

Question 8. How does foreign trade lead to the integration of markets across countries? Explain with an example other than those given here.

Answer: Foreign trade provides opportunities for both producers and buyers to reach beyond the markets of their own countries. Goods travel from one country to another.

Competition prevails among producers of various countries as well as buyers across the world. Therefore foreign trade leads to the integration of markets across countries.

For example during Diwali season buyers in India have the option of choosing between

Indian and Chinese decorative lights and bulbs. This provides an opportunity for the sellers

to expand their business. With the liberalisation of foreign trade, electronic goods like digital

cameras, laptop, smartphones have flooded the Indian market and give good opportunities to

the buyer to select the item of their choice.

Question 9. Globalisation will continue in the future. Can you imagine what the world would be like twenty years from now? Give reasons for your answer.

Answer: Twenty years down the line the world would undergo a positive change which will

possess the following features— healthy competition, improved production efficiency,

increased volume of output, income, and employment, better living standards, greater

availability of information and modern technology.

These are the favorable factors for globalisation :

- **Availability of human resources both quantity wise and quality wise will increase.**
- **Broad resource and industrial base of major countries.**
- **Growing entrepreneurship.**
- **Growing domestic market.**
- **Expanding internal markets**
- **Economic liberalisations.**
- **Growing competition.**

Question 10. Supposing you find two people arguing: One is saying globalisation has hurt our country's development. The other is telling, globalisation is helping India develop. How would you respond to these arguments?

Answer: Benefits of globalisation of India are as follows:

- **Increase in the volume of trade in goods and services**
- **The inflow of private and foreign capital and export orientation of the economy.**
- **Increase the volume of output, income, and employment.**
- **More availability of investable funds in the form of FDI.**
- **Helps in developing and strengthening the domestic economy of India.**
- **Improved productive efficiency and healthy competition.**

Negative Impact/Fears of Globalisation on Indian economy:

- **It may not help in achieving sustainable growth.**
- **It may lead to the widening of income inequalities among people of the country.**
- **It may lead to aggravation of income inequalities within countries.**

- **It may lead to greater dependence of the underdeveloped countries on devoloped**

country.

Whatever may be the fears of globalisation, I feel that it has now become a process which is catching the fancy of more and more nations. Therefore we must become ready to accept globalisation with grace and also maximize economic gains from the world market.

THANK YOU☺ ALL THE BEST…

#team_cafe_pedia_channel #youtube