

GLOBALISATION AND THE INDIAN ECONOMY

Political Science

Class-10

I. Transformation of Markets

The globalisation has brought rapid transformation of the markets in India with the following effects:

- There is an explosion of brands in markets
- Wide ranging choice of goods and services are available
- Quality products available at low prices
- Leading manufacturers of the world have their offices or factories in India
- The urban well-off section has made most of this transformation
- Example- Latest cars, mobiles, cameras etc.

Board Questions:

1. How are our markets been transformed in recent years.? Explain with current examples. (2010)

2. A wide ranging of choice of goods and services are available in the market. Support the statement with examples in context of globalisation. (2016)

II. MNC (Multinational Corporations)

A MNC is a company that owns and controls production in more than one nation. They spread their production across countries. They have huge wealth even exceeding the budget of a developing country. All this makes them very powerful and influential in international market.

III. Interlinking and control over production across countries

MNCs don't produce all the goods on their own and at one single place. They operate in a number of countries over a variety of products.

1. Setting up factories or opening offices:

MNCs spread production by considering the following things.

- Availability of cheap skilled and unskilled labour force and other resources.
Example- India has Skilled engineers and English educated youth whom the MNCs can employ
- Closeness to the market
- Favourable govt policies
- Availability of other factors of production

Board Questions:

1. Examine any three conditions which should be taken care of by multinational companies to set up their production units. (Delhi 2017)

2. Define any five factors that promote the Multi National corporations (MNCs) to set up their production units in a particular place. (Delhi 2019)

2. Foreign Investment: MNCs invest money to buy assets like land, building and other equipment.

3. Routes to Controlling Production across countries:

- **Joint Venture:** MNCs start production jointly with local companies of different countries. Local companies get benefit like-
 - Local companies get money for further investment to enhance production process.
 - Latest technologies are made available to local companies. E.g. Hero and Honda, Maruti and Suzuki
- **Buying local companies:** MNCs also expand their production by buying up local companies.
Example: American MNC Cargil Foods bought Parakh Foods to become the largest edible oil company in India. Parle Group was taken over by Coca Cola of America.

- **Engaging local small producers for production:** MNCs place orders with local producers and sell the products under their own brand name. Examples: garments, footwear, sports items, electrical goods, toys, cosmetics etc.

4. Influence of MNCs:

- Because of their huge capital resources, latest technologies, and marketing skills MNCs determine price, quality, delivery and labour conditions of local producers.
- Their influence is felt in global economy as around 200 MNCs control over quarter of the world economic activities.

IV. Foreign Trade

- Export and import are two important components of foreign trade
- Goods travel between one market to another
- Choices of goods rises
- Prices of same goods tend to be equal
- Foreign trade is advantageous to consumers
- The country gets foreign investment
- Competition among distant producers is an important feature of foreign trade

Board Questions:

1. What are the benefits of foreign trade?
2. State the basic functions of foreign trade. (2015)

V. Interconnecting and integrating of markets

- Since ages foreign trade has been an instrument in connecting countries. India was also connected with South Asia and both east and west via different sea routes.
- Foreign trade gives opportunity to domestic producers compete and sell their goods and commodities in other countries
- Import of goods expands the choices for the buyers. (e.g. choice between Indian and Chinese toys)
- In this modern tech era with speedy transport and online facilities foreign trade has been more instrumental in integrating and globalising the markets.
- E-retailer giants like Amazon and Alibaba Express are newer forms of connecting the world markets

Board Questions:

Explain with examples how opening of foreign trade results the markets in different countries. (2011)

How does foreign trade play an important role in integrating the market across the countries? Explain. (2010, 11, 12)

“Foreign trade integrates the markets in different countries”. Support the statement with arguments. (2015, 16)

Thus, we can say that foreign trade integrates and interconnects not only markets but at same time is globalising the world.

VI. Globalisation:

Globalisation is a process the process of rapid integration or interconnection between countries. It is the integration of domestic markets with the rest of the world through trade, capital and technology flows.

- Foreign trade plays a great role in the globalisation through integrating production and markets.
- Movement off the goods, services, investment, technology
- Movement of people between countries for better jobs and education, tourism etc.

- MNCs control most of the foreign trade. They play a big role in globalisation. Example: Ford motors India produces cars not only for India but also exports to other developing countries.

VII. Factors of globalisation (technology, liberalisation and WTO play a big role in globalisation)

(1) Role of technology in globalisation. Technological revolution in transportation and communication have shrunk the time to cover distances. Now the world has become a global village.

- The transportation technology has helped in faster delivery of goods across long distances at lower low costs. The use of containers has reduced the port handling costs.
- Telecommunication facilities have facilitated the instant sharing of information. Satellite communication devices have facilitated the communication from remote areas.
- Computer and the world of internet, e-mails, live streaming and social networking sites are used to obtain and share information at negligible costs.
- Online product launches, selling through e-retailers and online payment have integrated the world of business
- Example: A publisher from England outsources the publication of a magazine from India and airlifts the final output via air transport. Payment is made through e-banking.

Board Questions:

Explain the role of technology in promoting the globalisation process. (2017)

“Rapid improvement in technology has been one major factor that has stimulated the globalisation process. Explain. (2008, 2014)

“Information and communication technology have played a major role in spreading out products and services across countries.” Support the statement. (2012)

Describe how IT helps in making globalisation successful. (2014)

(2). Role of Liberalisation of foreign trade on globalisation:

Removing trade barriers and restrictions from foreign trade is called liberalisation of foreign trade. It opens up market to the world. It leads to globalisation

Steps taken by govt to liberalise foreign trade:

Around 1991, under the then Finance Minister Dr Manmohan Singh, liberalisation of Indian economy began.

- Govt tried to bring international competition in Indian market to make local producers improve their performance.
- Trade barriers on foreign trade and were removed to a large extent.
- Goods could be now exported and imported easily
- Foreign companies could set up factories and offices
- Businesses feel free to decide upon import and export

Effect of liberalisation on India:

- Boost to free trade practices
- Rising competition and its positive/negative effects on Indian economy
- Increased foreign investment and FDI
- More economic integration of Indian market with the international market
- More import and setting up of SEZs

Board Questions:

What is liberalisation? Describe any four effects on Indian economy. (2017, 2019)

What steps were taken by the government to liberalise Indian economy? (2012)

Explain the relation between liberalisation of foreign trade and trade barriers. (2013)

But liberalisation and rising competition has resulted in shutting down of many industries. The 'flexible-employment policy put job security of workers at risk.

3.WTO: (164 members at present)

World Trade Organisation (WTO) was set up in 1 Jan, 1995 and India has been founder member.

Aims and functions:

- To liberalised international trade
- Establishes rules regarding international trade
- See and ensure that rules of international trade are obeyed
- It is also a forum for multilateral trade negotiations and settling of trade related disputes
- Continuous economic research and analysis of international market and trade practices

Board Questions:

Describe any 5 characteristics of WTO. (2013)

Describe the function and importance of WTO. (2013)

Shortcomings of WTO:

- At times the “free an fare trade” concept is questioned
- It is dominated by developed countries
- Misused by developed countries to unfairly retain trade barriers
- Developing countries are forced to remove trade barriers
- For example- Developed country like America gives high subsidy to its farmers while at the same time developing countries are asked not to support farmers.

VIII. Effect of globalisation on consumers

- Globalisation has filled brought explosion of brands in markets
- The quality of goods has been improved because Producers invested in new technologies
- Greater of choices in goods are available
- Competition tends to keep the prices of same products equal and low
- The urban area well-off section has benefited the most from globalisation. They can now enjoy a better life.

Board Questions:

“Globalisation and competition among producers have been of advantageous to the consumers”. Give arguments in support of this statement. (2009, 15, 16)

IX. Effects of Globalisation on Indian Economy

The impact of globalisation is a mix of good and bad effects among producers and workers.

Positive impacts:

- Globalisation has been advantageous to consumers. (* see the topic “effect on consumers”)
- MNCs have increased their investment in industries like- cell phone, automobiles, electronics, soft drinks, fast food and services like banking
- Local raw material supplier companies have prospered
- Top Indian companies have benefited from increased competition and successful collaboration with foreign companies
- Increase in FDI
- Globalisation has turned some Indian companies as Multi nationals – Tata Motors, Infosys, Asian Paints

Board Questions:

Analyse any five positive effects of globalisation on the Indian economy. (2017)

What is globalising? Explain two positive and two negative impact of globalisation. (2016)

What are the advantages of globalisation? (2011)

Describe the impact of globalisation on Indian economy. (2016)

Analyse one good and one bad effect of globalisation on India. (2009)

- Employment and new opportunities have increased in service sectors like IT sector
- India has become a hub of cheap outsourcing in the fields of – data entry, accounting, administrative tasks, engineering etc.
- Globalisation has benefited the urban well-off section to raise their standard of living.

Negative impacts due to high competition

On Producers-

- Rising competition has hit hard the small companies' industries like- toys, tyres, plastics, dairy products, batteries.
- Many industries have shut down or taken over by MNCs
- Example- case of Ravi in the text book, page 68

On workers –

- Hardships of the workers in industrial units and services have increased
- Many workers have lost their jobs
- Flexible policy toward employment has created uncertainty of jobs.
- Low wages and long working hours
- The workers of organised sectors resemble the unorganised sector.
- Example- The case of a garment worker Shushila (NCERT textook page 69)

Board Questions:

Explain in what ways has competition affected workers, Indian Exporters- and foreign MNCs in the garment industry. (2013)

On Indian Exporters-

- Indian Garment Industry compete to get orders from MNCs at cheaper rates.
- To cut down labour costs they 'flexibly' employ workers
- The workers are hired at low wages and have to do overtime also
- Example- case of garment industry, page 69.

We can say that that globalisation has resulted in competition that has not been uniform. MNCs have benefited as they are able to maximise their profits. But the workers are denied the fair share of benefits of globalisation.

X. Attempts to make globalisation fair

Globalisation has been not fair to all. The benefits of globalisation are shared mostly among the educated, skilled and wealthy people. The other lot has suffered by globalisation. Even WTO has not been fair to developing countries.

Fair globalisation means-

- Creation of opportunities for all
- better sharing of benefits of globalisation.

Role of government to make globalisation fairer:

- Govt must protect the interests of all the people of the
- Labour laws be implemented properly
- Workers should be given their rights
- Support for small producers till they are able to face competition
- Trade and investment barriers can be used to check import
- Govt can negotiate at the WTO for 'fairer rules'
- Govt can fight against the domination of developed countries at WTO by aligning with other developing countries

Board Questions:

How can the government of India play a major role to make globalisation fair? Explain with examples. (2019)

Explain how globalisation can be made fair. (2010, 2014)

Role of people:

At different important WTO meets people's organisations and NGOs have campaigned and demonstrated against the unfair trade and investment policies of WTO.

XI. Trade Barriers

Trade barriers refers to taxes imposed by govt in the form of import duties quantitative restrictions on foreign goods. This economic control is used to regulate foreign trade and decide the kind and amount of goods to be allowed for imports.

Use of trade barriers by govt after Independence:

Government resorted to trade barriers on foreign investment and trade for the following reasons.

- To protect the domestic producers from foreign competition
- During 1950s and 1960s the industries were just coming up
- At this nascent stage of industrialisation, the foreign competition would have adversely affected the growth of Indian industries
- But essential imports were allowed for items- machines, fertilizer, petroleum etc

Board Questions:

What is trade barrier? Why did the Indian government put up trade barriers after independence? Explain. (2011, 16)

Thus, owing to above reasons, govt of India adopted restrictive trade practices to save domestic producers and growth of industries from foreign competition.

Removing of trade barriers:

- Govt wanted to improve economic situation suffering from slow growth, fiscal deficit, low foreign exchange reserves etc.
- Govt thought Indian companies should face global competition
- Global competition would improve the performance and quality of domestic production
- The liberal policies were supported by international organisations
- Liberalisation of India began in around 1991 which still continues

Board Questions:

Why did government remove trade barriers? Explain with reason. (2013, 15)

XII. Government's attempts to attract foreign investment:

Both, central and state govt are taking special steps to attract foreign companies

- Special Economic Zones (SEZs) are being set up
- Govt has allowed flexibility in labour laws so that workers could be hired on temporary basis
- SEZs companies don't need to pay taxes for the initial years.
- Govt is trying to provide single window clearance for most of the processes through online

Board Questions:

Explain three steps taken by govt to attract foreign investment. (2013)

XIII. Special Economic Zones (SEZs)

- The focus of SEZs are to attract foreign investment and MNCs
- Special emphasis is on exports
- World class facilities like water, electricity, roads, and transport, recreation, education are provided in SEZs.
- The production units operating in SEZs do not have to pay taxes for an initial period of 5 years.

- Lands are provided at subsidized rates.
- Examples: Santa Cruz (Maharashtra), Cochin (Kerala), Kandla and Surat (Gujarat), Chennai (Tamil Nadu),

Benefits of SEZs:

- Generation of additional economic activity
- Promotion of exports of goods and services
- Promotion of investment from domestic and foreign sources
- Creation of employment
- Development of infrastructure facilities

Board Questions:

*What are Special Economic Zones?
Why have they been set up? (2012)*

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