Globalization and the Indian Economy (Notes that make things easy)

Description

Introduction:

The modern world has plenty of options to choose from. You (consumer) can easily get access to the domestic as well as International markets. If you look into the past, you will notice the transformation of the whole world into a global village. This is due to Globalization. In this lesson, you will be able to acknowledge yourself of the word 'globalization'. And How it affected the lives of the people? So let's begin to inquire.

Production Across Countries:

- Earlier, Trade (import-export of goods) was the main channel connecting distant countries.
- But there came the change when Multinational Corporations (large companies) emerged.

You might be thinking, **what is MNC** and what does it do?

1. A Multinational Corporation (MNC) is a company that owns or controls production in more than one nation.
2. MNCs set up offices and factories for production in regions where they can get cheap labour and other resources. Since cost of production should be low in order to earn greater profits.
3. MNCs produces both goods and services globally.
4. Production process is divided into small parts and spread out across the globe. As it gives advantage of 50-60 percent cost-saving.
   - For Example: China provides the advantage of being a cheap manufacturing location.
   - Mexico and Eastern Europe are near to the US and European markets.
   - India has high skilled engineers to understand technical aspects of production and educated English speaking youth for providing customer care services.

Ideal Location for Multinational Corporations:

Do you know which ***factors MNCs consider*** before setting up business in any country? Well, you have already got the hint from above given example. Yet, you need to know what these **large companies generally seek for** in order to earn profit.

1. Closeness to the markets
2. Availability of skilled and unskilled labour at low costs.
3. Availability of other factors of production.
4. Last but not least, Government policies that favors their interests.This way they set up factories and offices in those countries where these things are already been assured.

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Interlinking Production Across Countries:

In this topic, we will learn how MNCs are able in exerting strong influence on production at distant areas.

Because you are reading about Production, you should also know about the most crucial term '**Investment**'.

Investment: The money that is spent to buy assets such as land, building, machines and other equipment is called Investment.

Foreign Investment: Investment made by MNCs in order to earn profit from assets.

Mainly three options are there the MNC choose from. And these are:-

1. **MNCs set up production jointly with some of the local companies**.
    - For Example: Ford Motors (Collaboration with Mahindra; major Indian manufacturer of Jeeps.)
    - These *MNCs benefit local company* also in two ways.
        - MNCs can provide money for additional investments, like buying new machines for faster production.
        - MNCs might bring with them the latest technology for production.
2. **Sometimes, MNCs buy up local companies and expand production**.
    - For Example: Cargill Foods (Bought Parakh Foods)
3. **Another way is to place orders to small producers for production.**
    - For example: Garments, footwear, sports items, etc.
    - Small producers then supply these products to MNCs which then sell these under their own brand names to the customers.

- These large MNCs have tremendous power to determine price quality, delivery, and labour conditions for these distant producers.

This is how MNCs are interlinking production in widely dispersed locations.

Foreign Trade And Integration Of Markets:

Since earlier times, **foreign trade** has been the main channel connecting countries. People of one country do trading with other countries with the view that these trading channel can benefit both; producers as well as consumers. Now question is, in what way we can say foreign trade has **positive impact** on producers and consumers? or what is the basic **function of foreign trade**? Here is the answer:

Foreign Trade:

- **Producers:** Foreign Trade creates an opportunity for the producers to reach beyond the domestic markets. Therefore, they can compete in the International Markets.
- **Consumers:** Foreign Trade is a way of expanding the choice of goods beyond what is domestically produced. Thus, consumers have many options to choose among.

This results in connecting the markets or **integration of markets** in different countries. Modern World has become global village. Consumers and producers are buying and selling globally. Here comes the concept of Globalization. Now let's discuss what is Globalization?

What is Globalization?

- **Globalization is the process of rapid integration or interconnection between countries.** This is happening through greater foreign trade and foreign investment.

The meaning is very simple. However, it is a vast concept. It has major **impact on the lives of consumers and producers**. So here you need to learn some other points regarding globalization apart from its meaning.

Before we discuss more about the process of globalization, let's know Which thing has the **major role in** globalization process. The answer is **Multinational Corporations.** They are the reason more and more goods and services, investments and technology are moving between countries. Most regions of the world are in closer contact with each other than a few decades back. Another question that we need to understand about the process of globalization is: What factors are responsible for stimulation in globalization process? Here is the answer in the below given heading.

Factors that have enabled Globalization:

1. Technology:

Rapid improvement in technology has been one major factor that has stimulated the globalization process.

- ***Transportation Technology*** :- Improvement in technology has made much faster delivery of goods across long distances possible at lower costs.
- ***Information and Communication technology*** :- Technology in the areas of *telecommunications, computers, Internet* has been changing rapidly. It has major role in spreading out production of services across countries.
    - *Telecommunication* facilities (telephones, telegraph including mobile phones fax) are used to contact one another around the world. Anyone can get access to information instantly.
    - *Computers* have now entered in almost every field of activity.
    - Through Internet, you can obtain or share information on almost anything you want to know.
    - *Internet* also allows us to send instant electronic mail (e-mail) and talk (voice-mail) across the world at negligible costs.

2. Liberalization of foreign trade and foreign investment policy:

Liberalization means **removing barriers or restrictions** set by the government.

- **Foreign trade:** The exchange of goods and services between two countries in the international market.
- **Foreign Investment policy:** The investment in domestic companies and assets of another country by a foreign investor.

- **Before adopting the policy of Liberalization**
    - Indian Government had put barriers to foreign trade and foreign investment in order *to protect the producers* within the country from foreign competition.
    - Thus, India allowed *imports of only essential items* such as machinery, fertilizers, petroleum etc.
    - There were *trade barriers* which means restriction on imports and exports of goods. For example: Tax on imports.

- **After adopting liberalization**
    - Finally in 1991, Government *removed barriers* so that Indian producers could compete with producers around the globe.
    - It felt that competition would *improve* the performance of producers within the country since they would have to improve their quality.
    - The govt. imposes much *less restrictions* than before.

World Trade Organization:

- World Trade Organisation (WTO) is an organization whose aim is to liberalize international trade.
- It was started at the initiative of the developed countries.
- WTO establishes rules regarding international trade and sees that these rules are obeyed.

- Currently, there are 164 members in WTO and 45 observer governments.

Arguments against WTO:

- It has been seen that the WTO serves the needs of only developed countries.
- WTO rules have forced the developing countries to remove barriers but could not stop Developed countries from doing so. They have unfairly retained trade barriers.

Impact of Globalization in India:

Globalization brought many changes in the lives of Indians. However, Impact of globalization has not been uniform.

Favorable/ Positive Impact of Globalization in India:

On Consumers:-

- It is due to globalization, the people of India are able to enjoy much **higher standards of living.**
- Well-off consumers can enjoy **improved quality** and **lower prices** for several products.

On Producers:-

- With the view that MNCs have scope to gain profit, they have increased their investments in India. Although, MNCs benefited Indian economy as well by creating **new job opportunities** for job seekers.
- It is a result of globalization that **Top Indian companies** (HDFC, Reliance, TCS, Infosys) have been **able to benefit from the increased competition.**
- Globalization has also created **new opportunities for companies providing services**, particularly those involving in IT sector. They can hire people easily for services without paying much.

Unfavorable/ Negative Impact of Globalization in India:

- For a large number of small producers and workers globalization has posed major challenges. **Small manufacturers have been hit hard due to competition**. No fair share of benefits brought about by globalization to them.
- **Many workers have become jobless** as their units are shut down due to losses.
- Globalization and the pressure of competition have substantially changed the lives of workers.
- Since most employers these days prefer to employ workers flexibly, **workers have no job security.** Workers get employment on temporary basis.
- **Wages are low and workers are forced to work overtime** to make both ends meet.

Steps to attract Foreign Investment:

- In recent years, the central and state governments in India are taking special steps to attract foreign companies to invest in India

You might be thinking, What **benefits** are given by Indian Govt. to attract these foreign companies?

1. **Special Economic Zones** (SEZs), are being set up.
2. These Special economic Zones have world class **facilities like electricity, water, roads, transport, storage.**
3. There are other facilities also. Such as **recreational and educational facilities.**
4. Companies who set up production units in the SEZs **do not have to pay taxes for an initial period of five years.**
5. There is **flexibility in the labour laws** to attract foreign investment. Companies can **hire employs on temporary basis**. They can hire workers when there is intense pressure of work. As it helps them in reducing the cost of labour.

The Struggle For A Fair Globalization:

People with education, skill and wealth have made the best use of the new opportunities. However, there are many people who have not got equal share in benefits. Therefore, there is need for **'fair globalization'.**

Government can play major role in this:-

- Govt. can make policies to **protect the interests of all the people** in the country irrespective to their economic status.
- Government **can ensure that labour laws are properly implemented** and **workers get their rights.**
- It can **support small producers to improve their performance** till the time they become strong enough to compete.
- If necessary, **govt. can use trade and investment barriers**.
- It can **negotiate at the WTO** for 'fairer rules'.
- It can also **align with other developing countries with similar interests** to fight against domination of developed countries in the WTO.

People also can play an important role:-

- People can organize massive campaigns for influencing decision related to trade and investment at WTO. For Example: ***A demonstration against WTO in Hong Kong, 2005.***

Category

1. Class 10th

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