

SOCIAL SCIENCE

(ECONOMICS)

GLOBALISATION AND THE INDIAN ECONOMY



REVISION NOTES
CHAPTERWISE &
TOPICWISE

Chapter 4: Globalisation and the Indian Economy

Concepts Covered:

1.	Production Across Countries <ul style="list-style-type: none"> ➤ Before ➤ After ➤ Meaning of MNCs
2.	Interlinking Production Across Countries <ul style="list-style-type: none"> ➤ How MNC's are Interlinking Production across Countries? ➤ How MNCs set up their production
3.	Foreign Trade and Integration of Markets <ul style="list-style-type: none"> ➤ Basic functions of foreign trade ➤ Foreign trade - Chinese toys in India
4.	What is Globalisation? <ul style="list-style-type: none"> ➤ Meaning ➤ Broader Concept
5.	Factors that have Enabled Globalisation <ul style="list-style-type: none"> ➤ Technology ➤ Liberalisation of foreign trade and foreign investment policy <ul style="list-style-type: none"> • Trade barrier • Liberalisation
6.	Formal Sector Credit in India <ul style="list-style-type: none"> ➤ Formal sector loans ➤ Informal sector loans ➤ Supervision of Reserve bank of India ➤ Credit activities in Informal sector ➤ How to improve the situation in informal sector? ➤ Formal and Informal credit: Who gets what?
7.	World Trade Organisation <ul style="list-style-type: none"> ➤ Meaning and Working
8.	Impact of Globalisation in India <ul style="list-style-type: none"> ➤ Positive impact of globalisation ➤ Negative impact of globalisation
9.	The Struggle for a Fair Globalisation <ul style="list-style-type: none"> ➤ Meaning of fair globalisation ➤ How to make globalisation more fair?
10.	Mind Map (Colourful & Interactive/ Complete All Concept Covered)
	Practice Questions (All Topics Available)

PRODUCTION ACROSS COUNTRIES

In a matter of years, our markets have been transformed.

Before

- Production was largely organised within countries before. Raw material, food stuff and finished products.
- Trade was the main channel connecting distant countries.

After

- Later coming up of companies called multinational corporation (MNCs).
- It owns or controls production in more than one nation.

Meaning of MNCs

Multinational corporation are the large companies which owns or controls production in more than one nation. They set up offices and factories for production in regions where they can get cheap labour and other resources, so that they can earn greater profits.



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INTERLINKING PRODUCTION ACROSS COUNTRIES

Spreading of Production by an MNC

A large MNC producing industrial equipment designs its products in research centres in the United States and then has the components manufactured in China these are then shipped to Mexico and eastern Europe where the products are assembled, and the finished products are sold all over the world. Meanwhile the company's customer care out through call centres located in India.

This is a call centre in Bangalore equipped with telecom facilities and access to the internet to provide information and support to customers abroad.



Production is organised in increasingly complex ways.

The goods and services are produced globally



How MNC's are Interlinking Production across Countries?

Factors' MNCs consider before setting up any production units.

- Is it close to the markets.
- Is there skilled and unskilled labour available at low costs.

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INTERLINKING PRODUCTION ACROSS COUNTRIES

- Whether the availability of other factors of production is assured.
- MNCs might look for government policies that look after their interests.

Having assured of these conditions MNCs invest in countries.

How MNCs set up their production

Ways through which MNCs set up their production are

1. MNCs set up production jointly with some of the local companies of these countries.

Benefits to Local Company

- Get money for additional investments.
- MNCs might bring with them the latest technology for production.

Benefits to MNCs

- These partnerships allow MNCs to enter a new market.
- On the other hand, local companies get exposed to the latest technology and have access to cutting-edge equipment.



Collaboration of Ford Motors and Mahindra & Mahindra



2. MNC buy up local companies and then expand production.

MNCs with huge wealth normally do this.

Example

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INTERLINKING PRODUCTION ACROSS COUNTRIES

Parakh foods was bought up by the Cargill foods.



Parakh foods



Cargill foods.



3. Large MNCs in developed countries place orders for production with small producers.
- Garments, footwear, sports items are examples of industries where production is carried out by a large number of small producers around the world.
 - These products are then sold under the brand name of MNCs.

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



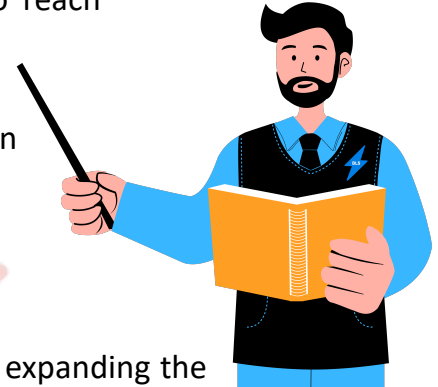
Women at home in Ludhiana making footballs for large MNCs

FOREIGN TRADE AND INTEGRATION OF MARKETS

Basic functions of foreign trade

Producers

- Foreign trade creates an opportunity for the producers to reach beyond the domestic markets.
- Producers can sell their produce not only in markets located within the country but can also compete in markets located in other countries of the world.
- Cost of production is reduced.



Buyers

- Import of goods produced in another country is one way of expanding the choice of goods beyond what is domestically produced.
- Competition among the producers reduces the price and the quality improves.

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

Foreign trade - Chinese toys in India

Foreign - Chinese toys in India

Toys were sold by domestic manufacturer.

High price

Chinese manufacturer started exporting toys in India.

Low price

Buyers in India now have the option of choosing between Indian and the Chinese toys.

- Cheaper prices and new designs.
- Chinese toys become more popular in the Indian markets.

WHAT IS GLOBALISATION?

Meaning

The term “globalisation” refers to the process of integrating a country's economy with the global economy. It's a multifaceted problem. It is the culmination of a number of initiatives aimed at converting the world into one of greater interconnectedness and integration.

It entails the establishment of networks and endeavours aimed at breaking down social, economic, and geographic barriers. Globalisation aims to create connections such that events in India can be influenced by events taking place thousands of miles away. To put it another way, globalisation is the process of people, corporations, and governments all over the world interacting and uniting.



Broader Concept

- World is coming closer.
- More and more goods and services, investments and technology are moving between countries.

People usually move from one country to another in search of better income, better jobs, or better education. However, in the past few decades there has not been much increase in the movement of people between countries due to various restrictions.



FACTORS THAT HAVE ENABLED GLOBALISATION

Technology

Rapid improvement in technology has been one major factor that has stimulated the globalisation process. This has made possible much faster delivery of goods across long distances at lower costs. The developments in information and communication technology have made information instantly accessible.

Liberalisation of foreign trade and foreign investment policy

Trade barriers are some restrictions that have been set up by governments. The government can use trade barriers to increase or decrease (regulate) foreign trade and to decide what kinds of goods and how much of each should come into the country. Tax on imports is an example of a trade barrier.

Removing barriers or restrictions set by the government on trade is known as liberalisation. When the government imposes fewer restrictions than before, it is said to be more liberal.

Trade barrier

Tax on import is an example of trade barrier, governments can use trade barriers to increase or decrease (regulate) foreign trade.

- This was considered necessary to protect the producers within the country from foreign competition.
- Industries were just coming up in the 1950s and 1960s, and competition from imports at that stage would not have allowed these industries to come up.



Liberalisation

Removing barriers or restrictions set by the government is what is known as liberalisation.

Around 1991, some far-reaching changes in policy were made in India.

- The government decided that the time had come for Indian producers to 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.
- This decision was supported by powerful international organisations.

WORLD TRADE ORGANISATION

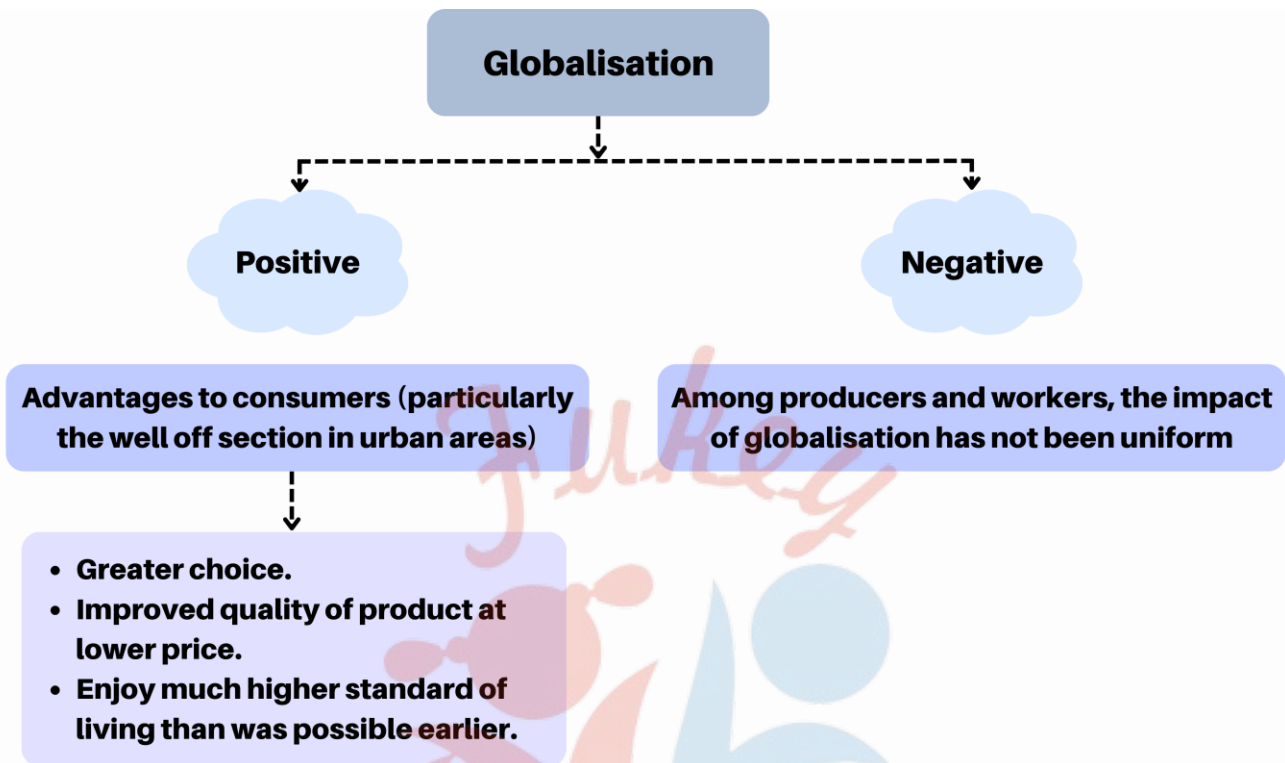
Meaning and Working

World Trade Organisation (WTO) is an organisation whose aim is to liberalise international trade. At present, 164 countries of the world are currently members of the WTO. It has established rules for developed countries regarding international trade so that these countries can allow free trade for all.

- The World Trade Organization (WTO) arose from the 1947 General Agreement on Tariffs and Trade (GATT).
- The World Trade Organization (WTO) is a global organisation with 164 member countries that regulates international trade rules.
- The World Trade Organization's purpose is to keep trade flowing as smoothly and predictably as feasible.
- If a trade dispute arises, the World Trade Organization (WTO) tries to resolve it.

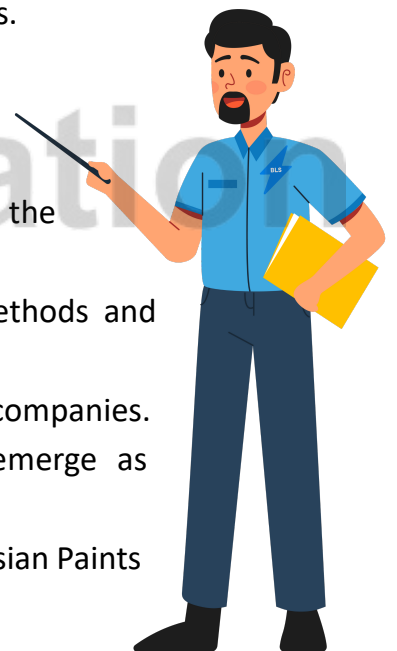


IMPACT OF GLOBALISATION IN INDIA



Positive impact of globalisation

1. MNCs have increased their investments in India.
 - MNCs have been interested in industries such as cell phones, automobiles, electronics, soft drinks, fast food, or services such as banking in urban areas.
 - In these industries and services, new jobs have been created.
 - Local companies supplying raw materials, etc. to these industries have prospered.
2. Several of the top Indian companies have been able to benefit from the increased competition.
 - They have invested in newer technology and production methods and raised their production standards.
 - Some have gained from successful collaborations with foreign companies.
3. Globalisation has enabled some large Indian companies to emerge as multinationals themselves.
 - Tata Motors (automobiles), Infosys (IT), Ranbaxy (medicines), Asian Paints (paints), Sundaram Fasteners (nuts and bolts)



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IMPACT OF GLOBALISATION IN INDIA



Tata Motors (automobiles)



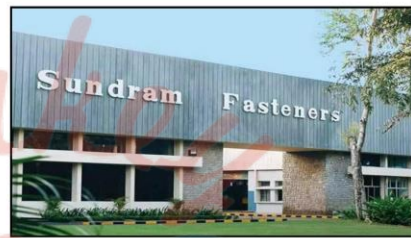
Infosys (IT)



Ranbaxy (medicines)



Asian Paints (paints)



Sundaram Fasteners (nuts and bolts)

4. Globalisation has also created new opportunities for companies providing services.

- Example of IT services.
- A host of services such as data entry, accounting, administrative tasks, engineering are now being done cheaply in countries such as India and are exported to the developed countries.

Negative impact of globalisation

Negative impact of globalisation

Small Producers: Complete or Perish

Story Of Ravi



Rising Competition

Ravi did not expect that he would have to face a crisis in such a short period of his life as an industrialist. Ravi took a loan from the bank to start his own company producing capacitors in 1992 in Hissar, an industrial town in Tamil Nadu. Capacitors are used in many electronic home appliances including tube lights, television etc. Within three years, he was able to expand production and had 20 workers working under him.

His struggle to run his company started when the government removed restrictions on imports of capacitors as per its agreement at WTO in 2001. His main clients, the television companies, used to buy different components including capacitors in bulk for the manufacture of television sets. However, competition from the MNC brands forced the Indian television companies to move into assembling activities for MNCs. Even when some of them bought capacitors, they would prefer to import as the price of the imported item was half the price charged by people like Ravi.

Ravi now produces less than half the capacitors that he produced in the year 2000 and has only seven workers working for him. Many of Ravi's friends in the same business in Hyderabad and Chennai have closed their units.

Competition and uncertain

Story Of Sushila

A Garment Worker

35 year old Sushila has spent many years as a worker in garment export industry of Delhi. She was employed as a "permanent worker" entitled to health insurance, provident fund, overtime at a double rate, when Sushila's factory closed in the late 1990s. After searching for a job for six months, she finally got a job 30 km. away from where she lives. Even after working in this factory for several years, she is a temporary worker and earns less than half of what she was earning earlier. Sushila leaves her house every morning, seven days a week at 7:30 a.m. and returns at 10 p.m. A day off from work means no wage. She has none of the benefits she used to get earlier. Factories closer to her home have widely fluctuating orders and therefore pay even less.

GLOBALISATION AND THE INDIAN ECONOMY**IMPACT OF GLOBALISATION IN INDIA**

Small producers: Compete or perish.

- Posed challenges for small producers.
- Batteries, capacitors, plastics, toys, tyres, dairy products, and vegetable oil are some examples of industries where the small manufacturers have been hit hard due to competition.
- Several of the units have shut down rendering many workers jobless.

Competition and uncertain employment

Competition

Most employers these days prefer to employ workers 'flexibly'.

MNCs

Try to cut their cost.

Look for the cheapest supplier.

- Hiring of workers on temporary basis.
- Long working hours.
- Low wages are paid to the workers.



MNCs make large profits, workers are denied their fair share of benefits brought about by globalisation.

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THE STRUGGLE FOR A FAIR GLOBALISATION

There was a struggle for fair globalisation because not everyone has benefited from globalisation, it cannot be considered as fair.

Meaning of fair globalisation

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

How to make globalisation more fair?

Government can play a major role in making globalisation fairer.

- The government can ensure that labour laws are properly implemented, and the workers get their rights.
- It can support small producers to improve their performance till the time they become strong enough to compete.
- The government can use trade and investment barriers.
- It can negotiate at the WTO for 'fairer rules.'
- Developing countries can come together to fight against the domination of developed countries in the WTO.
- Also, people can also play an important role. (Campaigns, demonstration, Protest, etc.)



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MIND MAP

