GLOBALISATION AND THE INDIAN ECONOMY

CHAPTER COVERAGE

- Multinational Corporations.
- Globalisation
- Liberalisation
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- Interlinking Production Across Countries
- Foreign Trade, Foreign Direct Investment and Integration of Markets
- Factors That Have Enabled Globalisation
- Impact of Globalisation in India
- The Struggle for a Fair Globalisation
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PRODUCTION ACROSS COUNTRIES

Until the middle of the 20th century, production was organised within countries. Even in our country most of the production was in the hands of the government. But with the entry of MNCs (Multi National Corporations) the whole world market has changed.

◈ **MNC :**

A MNC is a company that owns or controls production in more than one country for e.g. Pepsi, Samsung, Onida, Glaxo, Ponds, LG etc.

FEATURES OF MULTINATIONAL CORPORATIONS

1. **International Operations :**

   Activities of MNCs are spread over many countries their parent corporation is located in one country and subsidiaries are scattered in many countries. For e.g. ITT, a very large American MNC design its products in research centres in the U.S.A. and then the components are manufactured in China. These components are then shipped to mexico and Eastern Europen Countries where these are assembled and the finished products are sold all over the world.

2. **Giant size :**

   Most of the MNC are giant sized. Their assets, sales and profits run into multi-crores.

ADVANTAGES OF MULTINATIONAL CORPORATIONS

1. **Availablity of capital and foreign investment :**

   MNC help to solve the problem of capital and foreign investment by under developed and developing countries. MNCs set up factories, and offices for production in these developing and underdevloping countries and make huge investment. The money that is spent to buy assets is called investment. Investment made by these MNCs is called foreign investment.

2. **Availability of foreign exchange :**

   MNCs can be helpful in solving the problem of foreign exchange of the underdeveloped and developing countries. In 1905 India faced a huge shortage of foreign exchange but with the entry of MNCs it has surplus foreign exchange reserves.

3. **Promotion of small scale industries :**

   Most of the MNCs take help from small scale and local industries in manufacturing. Manufacture of garment, footwear, sports items etc carried out by a large number of small producers around the world. The products are supplied to the MNCs which then sell these under their own brand names to the customers.

4. **Foreign Trade and Integration of Market :**

   With the entry of MNCs even the small countries have depended on their domestic markets.

- ◆ It increases foreign trade.
- ◆ It creates an opportunity for the local producers to reach beyond the domestic market.
- ◆ Producers can sell their products not only in local market but also in foreign market.
- ◆ Buyers and consumers are getting variety of goods of their choice.
- ◆ Prices of most of the consumer goods have fallen down due to the competition.

❖ **Availability of modern techniques and management :**

Modern technology and managerial services are made available to the local companies. As a result the productivity of the local enterprises increases and resources are optimally utilised.

➢ DISADVANTAGES OF MULTINATIONAL

1. **Harmful for host country :**

   The main objective of the MNCs is to earn maximum profit. They over exploit the natural resources of the host country.

2. **Harmful for the local producers :**

   Most of the local producers have failed to compete with the MNCs so, either they hve sold their units to MNCs or have been wiped off.

3. **Harmful for Economic Equality :**

   (1) MNCs are interested in setting up industries in particular region and hence those regions develop very rapidly and other regions remain under developed.

   (2) As MNC's pay more salaries & perks, it creates gap between the local employers & those of MNC's.

4. **Harmful for freedom :**

   (i) The corporation make all efforts to bring to power in the host country a political party that is favourably inclined to them.

   (ii) As MNC's pay more salaries & wages it creates is a gap between the workers of local employers and those of MNC's.

➢ GLOBALISATION

❖ **Globalisatioin :**

It is the process of integration or inter-connection between countries. It allows free flow of trade, capital and human resources across borders.

❖ **Various levels of Globalisation :**

(i) Producers and sellers from outside India can enter Indian market and in the same way Indians can also enter international market.

(ii) Entrepreneurs from outside can invest in India, and in the same way Indian entrepreneurs can invest outside India.

(iii) Indian labor can move out of India in search of better job portunities and in the same way labors from outside can enter India.

◈ Factors responsible for Globalisation :

1. Rapid improvement in technology has been one of the major factors that has stimulated the globalisation process. Due to major improvement in transportation technology, goods can be transported throughout the world in a short period of time and a lower cost.
2. Development in telecommunications, computers, internet has given a big boost to the process of globalisation. It is very easy to access information instantly and to communicate from remote areas.

◈ Use of IT in Globalisation :

1. Helps in communication across the world at negligible cost.
2. Transfer of data and other information.
3. Transfer of money across the countries.
4. To link the market.
5. To setup customer care centres.

➤ LIBERALISATION

◈ Trade Barriers :

It refers to the various restrictions which are used by the government to increase or decrease foreign trade. e.g. tax on imports.

The Indian government, after independence has put many such barriers to foreign trade and foreign investment. This was considered due to the following reasons.

1. All the basic industries required huge investment which was beyond the reach of private sector. So all these industries were developed under public sector.
2. Government wanted to control basic industries because it was felt that the government control of critical industries would provide necessary resources to under take development activities in different segment of the economy.
3. The private sector was allowed to establish industries and business enterprises, but was subject to controls and regulations that came in the form of laws. This was considered necessary so that resources and wealth would not get concentrated in a few hands.
4. The main purpose behind the mixed economy strategy was to eliminate poverty, inequalities in the distribution of income and wealth, unemployment and to achieve economic growth and social justice.

◈ Liberalisation :

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

In 1991 it was decided to lift all the unwanted restriction such as industrial licensing system, price control, import license etc.

For this following steps were taken :

1. All the industries except three industries were exempted from any kind of industrial licensing.
2. Under the policy of liberlisation industries are free to expand and produce according to the need of market.
3. Now the producers are free to import the machinery and raw material from abroad.
4. Now the industries are also free to import modern technology from other countries.

➢ PRIVATISATION

Privatisation was another component of liberalisation.

It means allowing the private sector to setup industries which were earlier reserved for the public sector.

The following steps have been taken :

1. The number of industries reserved for public sector has been reduced from 71 to 3.
2. Now public sector can enter in core industries like iron and steel, electricity, transportation communication, ship building etc.
3. Process of disinvestment has been initiated by the governement in respect of those public sector industries which have been running in loss.
4. The private sector has been free from many restrictions such as licensing, permission to import raw materials, regulation of prices and restriction on investment.

➢ POSITIVE IMPACT OF GLOBALISATION IN

1. Variety of products :

Many MNCs have invested their capital in India. So the Indian consumers are getting variety and quality products at cheaper rates.

2. Development in infrastructure :

Due to this policy the condition of infrastructure has improved considerably. The government is building Golden Quadrilateral which will connect all major cities. Much progress can be seen in the communication sector.

3. Boost to Indian Companies :

Due to this policy the private sector has gained a big push. Now the private sector is free to import raw material and technology from other countries. Many restrictions on the import and exports have been lifted. Globalisation has enabled some large Indian companies to emerge as multinational companies themselves. Tata motors, Infosys, Ranbaxy, Asian paints are some companies which are spreading their operation world wide.

4. Boost to service sector :

Globalisation has also created new opportunities for companies providing services, particularly those involving information and communication technology.

5. **Foreign currency and Foreign direct investment :**

   The foreign currency reserves have multiplied to a great extent due to new economic policy. Foreign direct investment which was just Rs. 174 crore in 1991 has risen to Rs. 9, 338 in 2000.

6. **Global form of modern business :**

   Due to globalisation the business has now become global. Now India exports and imports of goods. Our industries have also entered in the all kinds foreign market.

7. **Increase in competition :**

   The process of globalisation and liberalisation has increased the competition among the different industries. The competition has increased the efficiency and productivity levels of the private as well as public sector.

➢ NEGATIVE ASPECT OF GLOBALISATION

1. **Exploitation of workers :**
   Large MNCs with world wide network look for the cheapest goods in order to maximise their profits. Workers are forced to work for long hours and work night shifts on a regular basis during the peak season. Workers are denied their fair share of benefits brought by globalisation.
2. **Less importance to agriculture :**
   New economic policy of globalisation has ignored the significance of agriculture sector in the Indian economy.
3. **Failure in poverty alleviation :**
   It has failed to solve the problem of poverty which is a major economic problem of India. The process of globalisation has widened the gap between the rich and poor.
4. **Problem for small scale Industries :**
   The MNCs have entered in the production of such items which were earlier reserved for small scale industries. The small scale industries have failed to compete with the MNCs.
5. **Competition and uncertain employment :**
   Globalisation and the pressure of competition have substantially changed the lives of workers. Faced with growing competition, most employers these days prefer to employ workers ‘flexibly’. This means that workers jobs are no longer secure.

➢ THE STRUGGLE FOR A FAIR GLOBALISATION

The above evidences indicate that not every one has been benefitted from globalisation. People with education, skill and wealth have made the best use of the new opportunities on the other hand, there are many who have not shared the benefits. So now there is need for fair globalisation i.e. where all get equal opportunities and development takes place but not at the cost of poor people and environment.

❖ **Role of Government :**

1. Government should prepare such policies that must protect the interest, not only of the rich and the powerful, but of all the people in the country.
2. Government can ensure that labour laws are properly implemented and the workers at their rights.
3. Government can reserve some items exclusively for small scale and local producers.
4. If necessary, the government can use trade and investment barriers like quota system, imports duties etc.

5. It can negotiate at the WTO for fair rules.

❖ World Trade Organisation :

Introduction :

GATT (General Agreement on Tariffs and Trade) is a multilateral treaty or arrangement which was instituted in 1948 by 102 contries with the objective of bringing down tariff and non-tariff barriers to international trade by providing a multilaterally accepted framework of principles and norms to govern the trade relations among member countries of GATT. Until 1994, the main concerns countries. India was of the original members of GATT were to regulate 'dumping' and unfair business practises and to ensure that member nations gradually reduce protectionist measures. Moreover, it is only now (1994) that GATT members have accepted the commitment establish an international organization to implement the objectives and provisions of GATT. Then original GATT agreements were revised several times through the Kennedy Round in 1960s and the? Tokyo Round in 1970s.The latest round of talks for wide rang revision started in Uruguay in of talks for wide ranging revision started in Uruguay in 1986. The prolonged talks and negotiations under the Uruguay Rond has resulted in a comprehensive, radical revision of GATT. The draft for this comprehensive revision was prepared by the exchairman of GATT, Arther Dunkel. Hence, it is popularly known as the Dunkel Draft. The Uruguay Round Agreements envisages the establishment of an institution called the World Trade Organisation (WTO) to provide a common institutional framework to conduct trade relations among member nations in accordance with the provisions of these agreements.

(a) Expectations of WTO from its member countries :

Bilateral agreements is held between two countries for the smooth flow of trade.

Import Quotas : Government put restrictions on imports to protect their local manufactures.

Export Quotas : Government put restrictions on exports to protect their local consumers.

WTO wants to abolish import and export quota, and to have multinational agreement instead of bilateral agreements.

(b) Impact of WTO on Indian economy :

Positive Impact :

(i) Increased opportunities to have trade with other countries.

(ii) Availability of modern technology at reduced rates.

Negative impacts :

(i) Benefits to developing countries are very limited.

(ii) Companies of developing countries would not be able to complete with international companies, can face closure, reducing employment opportunities.

(iii) Developed countries will interfere in the domestic economy of developing countries.

(iv) Price of many essential and life saving drugs may go up.

GLOSSARY

1. **Globalisation :** It means free interaction of an economy with the economies of the rest of the world.
2. **Liberalisation :** Liberalisation of the economy means to free it from direct or physical controls imposed by the government.
3. **Privatisation :** It means allowing the private sector to set up industries which were earlier reserved for the public sector.
4. **MNC :** It is a company that owns or controls production in more than one country.
5. **Investment :** The money that is spent to buy assets such as land, building, machines and other equipment is called investment.
6. **Foreign investment :** Investment made by MNCs is called foreign investment.
7. **Fair Globalisation :** It refers to globalisation which creates opportunities for all and ensures that its benefits are better shared.
8. **WTO :** It is an organization which is in favour of increasing the world trade through globalization.