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Globalisation and The Indian Economy

- ⇒ Globalisation is the process of integration of economies of the world under conditions of free flow of trade, capital and movement of persons across borders.
- ⇒ In this process goods and services are produced and marketed throughout the world.
- ⇒ In this process foreign trades are increased.
- ⇒ Due to globalisation, there is a movement of people between countries besides the movement of goods, services, investment and technology.

⇒ Production Across Countries

- ⇒ Trade was the main conjunction for connecting distant countries.
- ⇒ MNCs (Multinational Companies) own or control the production in more than one nation.
- ⇒ They set up their production units or branches in many countries for its operations.

⇒ Interlinking Production across Countries.

- ⇒ The money that is spent to buy assets such as land, building, machines and other equipment is called investment.
- ⇒ An investment made by MNCs is called foreign investment. MNCs are exerting a strong influence on production at these distant locations. As a result, production in these widely dispersed locations is getting interlinked.
- ⇒ They operate jointly with some local companies of the existing country.
- ⇒ They set up their own companies and production units in a new country.
- ⇒ They buy the local companies and expand their production with the help of modern technology and investment.
- ⇒ They place orders for production with small producers and sell their products under their own brand name to the customers worldwide.

⇒ Advantage of Foreign Trade

- ⇒ Exchange of goods across different countries creates opportunity for producers and buyers to reach beyond the domestic market.
- ⇒ Attract trading interest.
- ⇒ Competition among producers.
- ⇒ Easy availability of goods and services across Nations.
- ⇒ Expansion of choices for buyers.

⇒ Reduction of prices of goods and services because of competition.

⇒ Factors that have enabled Globalisation:-

1. Technological Development:-

⇒ Developments in transport technology like different fastest means of transportation.

⇒ Developments in information and communication technology like the internet, computer, mobile, e-mails, fax, etc.

2. Liberalisation:-

⇒ Removing trade barriers set by the government is called *liberalisation*. If the country uses the policy of liberalisation, it means that it allows other country to interact, which will lead to globalisation

3. Trade Barrier:-

⇒ Restriction set by the government to increase or decrease the foreign trade. i.e. tax, quota.

⇒ World Trade Organisation (WTO)

⇒ WTO was started at the initiative of developed countries.

⇒ The aim of the WTO is to liberalise International Trade.

⇒ WTO forces the developing countries to remove the trade barriers.

⇒ Reasons to put barriers to foreign trade:

1. The Indian government after independence had put barriers to foreign trade and investment. This was done 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 develop and grow. Imports of only essential items such as machinery, fertilizers, petroleum etc. was allowed.
2. To protect the Indian economy from foreign infiltration in industries affecting the economic growth of the country as planned. India wanted to move faster to catch up with the main industries in the world market and therefore had to keep an extra watch on its progress in international trade and give incentives to the more rapidly growing industries through fiscal tariff and other means.

⇒ Functions of WTO:

⇒ Establishing rules for international trade.

⇒ Ensuring that the rules are followed.

⇒ Promote removal of restrictions on trade barriers.

⇒ Impact of globalisation in India:

- ⇒ Creates tough competition among domestic and foreign producers
- ⇒ Create greater choices before consumers
- ⇒ Reduction of prices
- ⇒ Increase job opportunities
- ⇒ Establishment of production units
- ⇒ Raise production standards of Indian companies
- ⇒ Emergence of Indian multinational companies
- ⇒ Creates new opportunities for services involving information technology (IT).
- ⇒ Increment of foreign investment

⇒ **Special Economic Zones(SEZs)**

- ⇒ The Indian government has taken some special steps to attract foreign investors to invest in India.
- ⇒ Government provides world class facilities for electricity, road, water, transport, recreational and educational facilities in SEZs.
- ⇒ MNCs will not have to pay taxes for an initial period of 5 years if they set up their production units in the SEZs.
- ⇒ *Flexibility in Labour law* – Government has given the permission to the MNCs to hire the workers flexibly on a temporary basis.

⇒ **Role of the government in Fair Globalisation:-**

- ⇒ Government policies should protect both rich and the poor producers.
- ⇒ The government should use trade barriers, if required.
- ⇒ Government should negotiate at the WTO for fairer rules.
- ⇒ The government can campaign and protest regarding the unfair rules.
- ⇒ Labour law should be implemented properly.
- ⇒ Government should support the small producers
- ⇒ The government should align with the other countries to fight against the domination of developed countries in the WTO.
- ⇒ **World Trade Organization (WTO)** was started at the initiative of the developed countries. Its main objective is to liberalize international trade.
- ⇒ **Privatization** means transfer of ownership of property from public sector to private sector.
- ⇒ **Business Process Outsourcing (BPO)** is the contracting of non primary business activities and functions to a third party service provider.
- ⇒ **Economic Reforms or New Economic Policy** is policy adopted by the Government of India since July 1991. Its key features are Liberalization, Privatisation and Globalisation (LPG).