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GLOBALISATION

Drastic changes can be witnessed across various sectors in the post-Independence India. This development can be seen in production sectors, marketing, consumption behavior, etc. For example, during the period till the 1990s we had limited choice for any product. In respect of television , the important brands were Keltron, Dynaro , BPL, etc. But what is the present situation?

- Name the companies which sell TVs in the market now.
- Which of them are Indian companies?

The 1990s were the decade which saw such rapid changes in the Indian economy. This can be attributed to the deviation from the economic policies followed prior to this period. We will see in detail what these changes were:

Pre- 1990s	Post-1990s
Most of the goods which we consumed were mainly produced by Indian companies. The foreign companies had to face strong restrictions imposed by the government, especially regarding capital and investment. The import duty was high and foreign technology transfers were restricted. The public sector units were active in the production. India followed a policy of protecting domestic industries and discouraging import. It was called Import Substitution Policy.	The production of most of the consumer goods saw an increasing presence of foreign companies. The markets of various consumer durables are dominated by these companies. Most of the restrictions on these companies by way of capital and market operations have been lifted. The import duties are less and foreign technology transfer restrictions have been shelved. Most of the PSUs have been privatized. India generally followed export-oriented policies.

Import duty

The tariff or duties imposed on goods which are imported from foreign countries are known as Import Duties. The imposition of high import duties is essential for controlling the flow of imports to an economy. For example, consider a product worth ₹ 50/- on which a 300% import duty is imposed. This would lead to an import duty of ₹ 150/- for this particular item. This would lead to a rise in the price of the commodity, thereby leading to a fall in its consumption and also import. On the other hand, an import duty of 10% would result in ₹ 5/- as import duty . It would lead to a rise in the consumption of this product, leading to a rise in its imports.

Study Box 9.1 and try to analyze the changes in the economic policies of India.

The result of such changes discussed in Box 9.1 can be seen in various markets. The goods which we now use in our day-to-day life are either mostly imported from foreign countries or made by foreign companies in India.

Find out how this is applicable to commodities like pen, pencil, calculator, soap, tooth paste, etc. which are used in our day-to-day life.

GLOBALISATION

The change which we were talking about can be seen in most of the countries around the world. As a result, market system became more free, extensive and powerful. The government control over the market weakened rapidly . Many new sectors came under the purview of market. Market as a solution to all the issues facing the economy became a widespread notion. The process of including these aspects and the political and economic system gaining strength around the world is called globalization. The results are:

- Foreign direct investment became extensive.
- Trade of goods and services across the borders became free from restrictions.
- Technology transfers among countries were also liberalized.

Globalisation is made possible through the process of avoiding trade restrictions among countries and opening up the market for all countries.

The following factors led to the acceleration of the process of globalization:

- International organizations and international agreements - World Trade Organisation (WTO), International Monetary Fund (IMF), World Bank, free trade agreements.

Free Trade Agreement

We have already seen how import duties can create barriers for the free flow of goods and services among countries. The process leading to the phased elimination of such barriers which helps to improve the trade relations among countries is known as free trade agreements. The trade agreement between India and ASEAN nations (Singapore, Malaysia, Indonesia, Vietnam, etc.) is an example of free trade agreement. Similarly, India has entered into free trade agreements with Sri Lanka and South Korea.

- Multi National Companies (MNCs) - foreign investment.
- Growth of information technology --- internet
- Changes in information and broadcasting - TV, mobile phone.
- Progress in transport - jet planes, container ships.

Figure - 11.1- Container ship

Globalisation - Background

The phase after Industrial Revolution saw the strengthening of the capitalist mode of production. New technologies, inventions, new production techniques, etc, all led to the rapid growth of Western countries. Colonisation process led these Western countries to expand their influence over other countries.

The capitalist countries implemented policies which gave maximum freedom to conduct economic transactions for individuals and institutions. This led to the strengthening of colonial exploitation. The Great Depression of 1930s led these capitalist countries to one of its biggest crises. To overcome this major crisis, the government imposed restrictions on economic activities. The Soviet Union which followed a socialist system challenged the dominance of capitalism. To counter this challenge, the capitalist countries started implementing many welfare schemes. With the end of Second World War, the United States emerged as the dominant country overcoming the challenge from European countries in the capitalist system.

Economic Depression of the 1930s

The Great Depression which affected most of the countries during the 1930s is considered as one of the biggest financial crises of the 20th century. The fall of stock market in the United States in1929 drew increased attention to this situation. The financial crisis resulted in a fall in production, income and employment. This crisis which severely affected the United States led to an increase in the unemployment rate to 22%.

Figure 11.2 - People queing up for food after the economic depression in the 1930s

The 1970s also saw such a crisis affecting the nations of the world. The capitalist countries tried to come out of this crisis by strengthening the market system. This led to the widening of liberalization and privatization. The fall of the Soviet Union led to further strengthening of the dominance of the United States. This paved the way for the acceleration of the economic reforms which were initiated to strengthen the market system. The monetary reforms initiated as a part of the economic reforms led to the economic crisis of 2008.

Economic Crisis of 1970s

This crisis which was precipitated by the rising crude oil prices started in 1973. The formation of a cartel known as OPEC among petroleum producing companies and the Arab- Israel War triggered a rise in crude oil price. This caused a general price rise and also an economic crisis.

World Economic Recession of 2008

The crisis of 2008 started in the US. The lack of repayment of home loans led to the fall of banks and financial institutions. This created an adverse impact on the production sector and an increase in unemployment.

LIBERALISATION

You must have understand how the government controls the economic activities in a country. Poverty-alleviation programmes and public distribution system are some of the examples of government intervention in the economy. We would see how the government intervened in economic activities in the post-Independence period.

- Development of basic infrastructure - road, electricity, information and broadcasting service, etc.
- Development of basic industries - iron and steel, ship making.
- Monitoring of the financial sector - bank nationalization, role of central bank.
- Steps to improve the productivity of agriculture sector - Green Revolution, irrigation, farm subsidy.
- Planning and implementation - fund allocation on the basis of social priorities.
- Encouragement of exports-- Loans at low rate of interest and tax and concessions
- Restrictions on foreign investment - identifying the sectors for foreign investments, limiting the foreign investment.
- Restrictions on industries permission for starting industries (licence), control over private sector.
- Control over imports - high import duty, identifying the goods which need to be imported.

We have seen how the government interferes in and controls the economy. Discuss how the government intervenes in education, public health, social security, etc.

Reducing the intervention of the state in the form of controls in the economy is known as liberalization. The process of liberalization led to the exit of government from the sectors so far cared for to market economy, which in turn increased the importance of the private sector.

Discuss how liberalization impacted the following sectors-education, health services, social security, and public distribution system. Present the findings as short notes in the class.

PRIVATISATION

Globalisation policies aim at reducing the intervention by the state and increasing the role of market. The process of reducing the role of the public sector in the economy and increasing the role of the private sector is known as privatization. This is done by reducing the stake of the government either fully or partially and thereby increasing the stake of the private sector in the Public Sector Units (PSUs). The sectors which were previously reserved for the public sector would also be opened up for private participation which is another form of privatization.

The period after 1991 saw the privatization of various public sector undertakings in India. For example, the Modern Bread Company was privatized and now it is a private sector undertaking. Many of the PSUs which were privatized were actually enterprises making profit.

Explain how far privatization of public sector undertakings would be beneficial for the economy. Make short notes.

The role of foreign investment in accelerating the process of globalization is very high. This takes place through multi national corporates.

Foreign Capital

The act of investing one country's capital in another country's companies, land, bank deposits, bonds, shares, etc. is known as foreign investment. There are two types of foreign investment: foreign direct investment as well as foreign portfolio investment.

Foreign Direct Investment (FDI) would directly help in increasing the production level of the economy. On the other hand, foreign portfolio investment (FPI) need not increase the production level in an economy. Investing a country's capital in another country's industries, agricultural sector, power sector, etc. is known as Foreign Direct Investment. On the other hand, when capital is used for investing in another country's bank deposits, bonds, shares, etc. it is known as foreign portfolio investment. Foreign portfolio investments are mainly made by foreign financial institutions. This is also known as foreign institutional investment. In modern days, most of the foreign investments are made in the form of portfolio investments.

Globalisation would lead to a situation where the financial institutions of a country can freely invest in any of the stock markets across the world. For example, consider a case where such institutions invest a huge amount in one of the stock markets abroad. This would lead to a rise in the price of the shares in that market following great demand for shares. In this scenario, they would sell the shares and thereby make profit from such a rise in the price.

Bonds

Bonds are debt instruments issued by government or government institutions to raise money and can be bought from the market. Those investing in bonds get interest on their deposits.

Shares

The amount which a company intends to raise from the open market is known as Share Capital. The share capital is divided into equal units which are known as Shares. These shares help the companies in raising the required capital. The investors who buy shares get dividends.

Share market

The system for selling and buying shares is known generally as stock market. The prices of shares can rise or fall. The stock markets witness the speculation regarding fall and rise in price, thereby making profit in the process.

Multi National Corporations (MNCs)

Most of the foreign investments in the 19th century were made mainly by banks and individuals. MNCs appropriated this role in the 20th century. These companies which are registered in one country and whose operation is in various other countries are known as MNCs. Most of these MNCs have their headquarters in developed nations. About 20% of the goods and services consumed around the world are produced by these MNCs. Most of these MNCs have a turnover in excess of the national income of many small countries.

During the colonial days, the raw materials from colonies were imported and made into processed goods to be exported back. For example, cotton from India was imported by Britain and then exported back to India as finished cloth. The MNCs invest their capital in developing countries and exploitated their raw materials, labour and market. These MNCs employ their economic clout on developing countries to make the policies and laws suitable for them.

Foreign capital and technology are catalysts of growth for developing countries. The developing nations are mostly backward in these two aspects. In this background, the developing countries fight among themselves to attract MNCs which have both capital and technology with them. The developing countries try to bring out policies which are suitable for these MNCs.

Identify the goods which we use in our day-to-day life and fill the following table. Then find out the companies which produce these goods and also their countries where there are registered and find out whether they are MNCs or not. If the company is an MNC then find out whether their home nation is developed or not. Use internet. Add more goods and services.

Product	Name of the company	Home nation of the company	Whether MNC or not. Mark yes or no

Table - 11.1

International Organisations

The role played by international organizations like IMF, World Bank and WTO are vital for the implementation of the globalization process. IMF and World Bank came into existence following the Bretton Woods Conference held in the United States in 1944.

Figure -11.3- Bretton woods Conference

IMF

IMF came into existence in 1944 with its headquarters in Washington. The functions of IMF are the following:

- Mobilizing the required funds for world trade.
- Stability in exchange rates.
- Loans to member countries.
- Advising member nations on matters relating to budget, finance and foreign exchange.

World Bank (WB)

WB was established in 1945 with its headquarters in Washington. The functions of the World Bank are:

- Reconstruction of war-torn economies in the post-world war-II period.
- Developmental aid for member countries.
- Encouraging foreign investment.

The countries in economic crisis approach the World Bank and IMF. The countries taking loan from such international institutions also have to adhere to the conditions prescribed by them. These conditions mostly strengthen the process of globalization.

There were attempts to form an international organization to regulate world trade. This led to a common agreement relating to trade and tariff. This was known as GATT (General Agreement on Tarrif and Trade). GATT, which came into being in 1947, aimed at removing the barriers (for example, high custom duty) to trade. The developed nations tried to influence the consequent agreements with developing countries to suit the former's interests. Developing countries protested against such attempts of the developed nations.

GATT conferences are known as various 'Rounds'. The first 'round' was held in Geneva. The most important of the 'rounds' was the Uruguay Round in 1986.

WTO came into existence in 1995 in lieu of GATT, on the basis of the consensus reached during the Uruguay Round. The headquarters of WTO is in Geneva. The free trade agreements following the Uruguay Round and WTO strengthened the gloablisation process. The main recommendations of these agreements are:

- Import duties on goods and services to be reduced in phases.
- Subsidy to exports to be reduced.
- Reduction in agricultural subsidy.
- Reforms in patent laws.

Patent Law

The protection offered to the inventor of a new product, new technology and new production method for a fixed period is known as patent. There are two types of patent: product patent and process patent. In the 'process patent', if an individual or a company obtains patent for its new product, it is open for others to produce the same commodity through different methods. On the other hand, in the case of 'product patent' nobody has the right to produce that commodity even by another method. As a commitment to international agreement, India moved from 'process patent' to 'product patent'.

- Allow foreign investment in media, telecom, banking, insurance, etc. in the service sector.
- Extending the privilege enjoyed by domestic capital to foreign capital also.

GLOBALISATION IN INDIA

Post-Independence India followed an economic policy based on planning. As part of this, government effectively controlled the operation of the economy and laid emphasis on public sector. In the beginning of the 90s, India faced a severe foreign exchange crisis. To tide over this crisis, India sought the help of the IMF. In line with the change in the economic policies of other countries, India also changed the economic policies. This accelerated the globalization process in India.

Foreign Exchange crisis of 1991

Every country keeps a certain portion of their foreign exchange as reserve. Dollar, Pound, Euro, etc. are the main currencies in the reserves. On an average, a country keeps foreign exchange to meet the import payments for 10-20 weeks. In 1990, India's foreign exchange was hardly enough to meet the requirements for 2 weeks.

As part of this India took the following steps:

- Except a few selected industries, the government abolished the restrictions on setting up industries.
- Most of the sectors reserved for public sector units were opened up for private participation.
- Foreign technology transfer contracts were liberalized.
- Permitting the use of foreign brand names.
- Phased removal of import duties.
- Personal Income tax rate reduced.
- Corporate income tax rates reduced.
- Tax rate on commodities reduced.
- Subsidy on agriculture reduced.

Follow up activities

- It is over two decades since reforms were implemented in India. On the basis of the hints given, evaluate the consequences of these reforms in the country.

Hints

- Privatization of PSUs.
- Changes in market
- Growth rate of Indian economy
- Foreign investment
- Foreign exchange reserves.
- Economic inequality
- Liberalization of import and agriculture
- Privatization of PSUs
- Reforms in patent laws
- Government participation in the economy.
- Employment security
- Retail Trade, Small scale industry, traditional industry

- We have seen how the import duties have come down thanks to gloablisation. Discuss the effect of reduced import duties on the Indian economy.

Hints for discussion

- Import and import duty.
- Reduced import duty and the agricultural sector
- Reduced import duty and domestic industries
- Changes in the goods market.

There are various views both for and against globalization. Some of them are given below in table. Examine the views and organize a discussion in the class on globalization:

Views For	Views against
(1) Availability of a wide variety of goods at low prices. (2) Market makes the functioning of the economy efficient. (3) Better technology and efficient management (4) More ways to get foreign capital. (5) High export potentiality (6) Indian companies also benefit by way of getting chances to invest in foreign countries.	(1) Increasing inequality of income and wealth (2) Adversely affects farm workers, small scale producers, and traders. (3) Privatization of PSUs would lead to fall in government income. (4) The role of government in controlling the economy is greatly reduced. (5) Job security is reduced. There is also a wide gap in wages/salary. (6) MNCs exploit markets, raw materials and labour.