Revision Notes

Class 10 - Economics

Chapter 4 - Globalization and Indian Economy

PRODUCTION ACROSS COUNTRIES

The main mode of communication between distant countries was trade. Large corporations, now known as Multinational Corporations (MNCs), play a significant role in trade.

- A multinational corporation (MNC) is one that owns or controls production in more than one country.
- MNCs locate production headquarters and factories in areas where labour and other resources are cheap. This is done to keep production costs down and allow MNCs to make more money.
- MNCs locate production near markets, where skilled and unskilled labour is readily available at low rates, and where the availability of other production elements is ensured.
- Furthermore, MNCs may seek government measures that protect their interests.

INTERLINKING PRODUCTION ACROSS COUNTRIES

- Investment refers to money spent on assets such as land, buildings, machineries, and other equipment.
- MNC investment is referred to as foreign investment. Any investment is made in the hopes of profiting from the assets.

MNCs are spreading their production and interacting with local producers in numerous nations throughout the world in a variety of methods, as listed below:

- **Joint Production:** MNCs partner with an existing local company in joint production or partnership. The investment enables local producers to obtain new and improved assets as well as cutting-edge technologies.
- **Acquisition of Local Companies:** MNCs purchase large established local enterprises with vast networks in order to grow their production.
- **Controlled Production:** MNCs source materials and make orders with local companies who create goods, resulting in controlled production. The MNC's brand name is used to market the products.

MNCs collaborate with local businesses to set up production, which benefits local businesses in the following ways:

1. MNCs can give funds for extra investments, such as the purchase of new machines to increase production speed.
2. Multinational corporations may bring cutting-edge manufacturing technology with them.

FOREIGN TRADE AND INTEGRATION OF MARKETS

- Foreign trade allows producers to expand their reach beyond their home markets, i.e. markets within their own countries.
- Producers have the option of selling their products not only in domestic markets, but also in marketplaces around the world.
- Similarly, importing items manufactured in another country is one way for purchasers to increase their options beyond what is offered domestically.

Thus, foreign trade leads to the connection or integration of markets in other countries.

GLOBALISATION

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.

Globalisation has been enabled by the following factors:

1. Technology:

- One of the primary factors that has accelerated the globalisation process is rapid technological advancement. This has allowed for considerably speedier and more cost-effective distribution of commodities over great distances.
- Information is now readily accessible because of advancements in information and communication technologies.
- These advancements enabled India's IT revolution by allowing workers to be located in different regions while yet being integrated into a virtual workspace.

- Automation and precise control of production, as well as homogeneity, have been made possible thanks to advanced computing facilities.

2. Trade Liberalisation:

- Government-imposed trade restrictions are known as trade barriers. The government can employ trade barriers to control or enhance international trade, as well as decide what sorts of goods and how much of each should be imported. Import taxes are an example of a trade barrier.
- Liberalisation is the process of removing government-imposed trade obstacles or limitations. The government is said to be more liberal when it imposes fewer restrictions than before.
- In a developing economy, trade restrictions can help to boost growth and productivity. It can, however, be harmful after a certain level of development.
- India liberalised its trade in 1991, allowing companies to freely import and export materials and goods. This was backed up by organisations like the World Bank.

3. Foreign Investment Policy:

- A company's considerable investments in a foreign enterprise are known as foreign direct investments (FDI).
- The investment could be used to acquire a material source, expand a company's territory, or establish an international presence.

WORLD TRADE ORGANIZATION (WTO)

- 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

To begin with, MNCs have expanded their investments in India during the last 20 years, indicating that investing in India has shown to be profitable.

- MNCs have shown an interest in urban industries such as cell phones, autos, electronics, soft drinks, fast food, and banking.
- There are a lot of wealthy people who buy these things. New employment has been created in these industries and services. Local businesses that supply these sectors with raw materials and other necessities have also prospered.

Second, increased competition has benefited a number of prominent Indian firms.

- They have increased their production standards by investing in modern technologies and production methods.
- Successful relationships with international enterprises have benefited some.

THE STRUGGLE FOR A FAIR GLOBALISATION

Fair globalisation provides possibilities for everyone while also ensuring that the advantages of globalisation are distributed more evenly. The government has a significant role to play in making this happen.

Some of the steps that the government can take are:

1. It has the potential to help small producers boost their output.
2. It can ensure that labour rules are followed and that workers' rights are protected.
3. The government can deploy trade and investment obstacles if required.
4. It can negotiate for "fairer rules" in the WTO.
5. It can also band together with other developing countries with similar interests to combat the WTO's hegemony of developed countries.

Important Question and Answer

1. How has globalisation transformed the markets?

Ans: Globalisation is the process of establishing tight interconnections between countries' output and markets. The following modifications have occurred as a result of it:

1. Due to globalisation-induced competition, the variety and quality of goods and services on the market has substantially increased/improved.
2. Consumers can now purchase items and services that were previously only available in far-flung international markets.
3. Producers may now sell their goods and services on a broader global market and obtain greater rates.
4. Due to the impacts of trade, the price of the same items on different markets tends to equalise.

2. “The advantage of spreading out production across the borders to the multinationals can be truly immense.” Explain.

Ans: The following points can be used to explain the above statement:

1. Multinational corporations can drastically reduce production costs by placing production in areas with low resource and labour prices.
2. They can more easily reach markets by placing production in different locations of the world.
3. They can afford to hire the best-skilled individuals for higher-level employment.

3. How do MNCs spread their production facilities in new countries?

Ans: In order to locate their production in new regions, MNCs employ three basic strategies:

1. Joint Production: MNCs form a joint production or partnership with a local enterprise. Local producers will be able to receive new and enhanced assets as well as cutting-edge technologies as a result of the investment.

2. Acquisition of Local Companies: MNCs purchase huge, well-established local businesses with extensive networks in order to expand their production.

3. Controlled Production: MNCs acquire supplies and place orders with local companies that produce items, resulting in regulated production. The products are marketed under the MNC's brand name.

4. What are the changes that led to the dense interlinkages across markets present in the world today?

Ans: a. Technology: Rapid technical improvement is one of the key elements that has expedited the globalisation process. This has resulted in far faster and more cost-effective distribution of goods over long distances. Because of developments in information and communication technologies, information is now easily available.

b. Trade Liberalisation: It has resulted in the reduction of trade barriers such as tariffs and quotas on imports and exports, has enabled countries to produce in one location but sell in multiple locations. Local producers have also been able to import semi-finished goods and grow their operations as a result. Consumers connect markets by purchasing goods made outside of the country.

c. Foreign Investment Policy: Foreign direct investments are a company's significant investments in a foreign enterprise (FDI). The money might be used to buy a material source, expand a company's territory, or start a business in another country.

5. Explain how MNCs have contributed to the increased competition in local markets. How has this been beneficial and for whom?

Ans:

- MNCs have a low cost of production due to the advantages of locating production in areas with cheap resource and labour costs. As a result, their products are less expensive than those produced locally.
- MNCs have superior production technology, allowing them to manufacture higher-quality items than local producers.
- MNCs can produce more than local competitors due to their large capital availability.
- These factors combine to generate a competitive atmosphere in both production and sales. To compete with the price and rating of MNCs' goods and services, local producers should lower their production costs and increase the quality of their goods and services.
- Large enterprises have benefited from the rivalry, allowing them to emerge as formidable local and worldwide actors.
- Customers have reaped the benefits of higher quality at lower costs.
- Small and medium producers, on the other hand, have been left behind due to a lack of resources to expand production or obtain better technology.

6. What are Special Economic Zones?

Ans: SEZs (Special Economic Zones) are industrial zones where governments provide special incentives for businesses to set up shop. These are some of them:

- Infrastructure that meets international standards is provided.
- For the first five years, you'll be on a tax rampage.
- Within the zones, labour regulations are applied more flexibly, allowing for cheaper wage costs.

7. What is WTO? Why are their policies criticized?

Ans: The World Trade Organization (WTO) was founded in 1947 as a result of the General Agreement on Tariffs and Trade (GATT) (GATT). The goal of the World Trade Organization is to ensure that trade flows as smoothly and predictably as possible.

- The World Trade Organization (WTO) is a global organisation that controls international trade rules and has 164 member countries.
- WTO liberalisation measures disproportionately hurt developing countries.
- Developing countries are frequently put under increased pressure to liberalise, and their early economies may not be able to withstand the fierce

international competition.
- Developed countries, on the other hand, have unfairly preserved barriers while benefiting from their less fortunate peers' free trade policies.

8. Identify two sections who are harmed by globalisation. Explain how.

Ans: Globalisation has not benefited small manufacturers or workers in the informal/unorganized industries. They are currently confronted with the following challenges:

1. MNC competition is fierce, and they may not be able to keep up.
2. Insufficient funds to improve technology or expand manufacturing.
3. MNCs emphasise on employing a flexible workforce at low prices, hence workers in the unorganised sector are paid very low pay.
4. Poor working conditions have resulted from a lack of state policy to safeguard workers. They are not eligible for benefits such as fixed contracts or pensions.

9. Who can ensure fair globalisation and how?

Ans: Governments have the power to ensure that globalisation is fair.

1. The government can enact labour laws and policies to safeguard workers in the unorganised sector from MNC exploitation. It has the ability to provide insurance and pension benefits to all employees.
2. The government can also work with international organisations to put in place trade restrictions that protect economically fragile and essential sectors. Agriculture in India, which provides income to about half of the people, can be protected against international competition.

10. List different factors which affect the choice of location by MNCs.

Ans: The consideration of manufacturing costs has an impact on MNCs' decision to site production in different countries.

1. When deciding on a location for a business, the people are the most crucial factor to consider. Most businesses will fail if they do not have the right employees to carry out the duties that drive success.
2. The cost of operating in a foreign nation encompasses a wide range of factors, including not only the direct costs of space and staff, but also indirect expenditures that affect the bottom line and level of productivity.
3. A country must give the institutions, human capital, infrastructure, collaboration opportunities, market sophistication, and business aptitude to assist a firm prosper in today's fast-paced market.