CHAPTER 10

Globalisation

What you see above is an advertisement for a magazine published from London. It is trying to get more subscribers in India. To woo Indian readers it seems to be suggesting that countries like China are turning to India and learning Indian languages. This could be to communicate with Indian traders and manufacturers or to train Chinese workers who want to go to India to find work etc. Thus you can see several dimensions of globalisation in this ad: a magazine published in English from Britain looking for buyers in India; Chinese trying to learn Indian languages; Chinese hoping to sell their products in India or sending their workers to India or doing business with Indian partners.

Globalisation is a major change that occurred across the globe in the late 20th century. This has political, cultural as well as economic dimensions. Some

If you have access to internet watch the entire advertisement in following link:
http://www.youtube.com/watch?v=VHYIsKIXS10
of these aspects you have learned in the context of service sector during Class IX and VIII where new job opportunities like call centres are emerging. You will also recognise that there is large number of consumer products available in the market. We identify three types of movement within international economic exchanges. The first is the flow of trade in goods as well as services. The second is the flow of labour – the migration of people in search of employment. The third is the movement of capital for short-term or long-term investments over long distances. Besides, there are political and cultural dimensions of globalisation. For instance last year several nations in Western Asia and Northern Africa like Tunisia, Egypt were influenced by each other’s revolutions and uprooting of dictators. This was called ‘Arab Spring’ in the media. In these countries media played a crucial role. Television Channels that were owned and run by people from other countries supported such mobilisation which resulted in regulating the powers of local leaders. While events like civil war or natural disasters like Tsunami are discussed within the national boundaries they also receive support and sympathy from around the world. Globalisation is not merely about the market, ideas are also being shared and expanded.

Choose any one single item like Mobile phones, or vehicle; identify the number of Brands available in the market. Are they owned and manufactured in India or abroad? Discuss with your parents or other adults and find out how many such brands were available 30 years ago.

Besides, there are political and cultural dimensions of globalisation. For instance last year several nations in Western Asia and Northern Africa like Tunisia, Egypt were influenced by each other’s revolutions and uprooting of dictators. This was called ‘Arab Spring’ in the media. In these countries media played a crucial role. Television Channels that were owned and run by people from other countries supported such mobilisation which resulted in regulating the powers of local leaders. While events like civil war or natural disasters like Tsunami are discussed within the national boundaries they also receive support and sympathy from around the world. Globalisation is not merely about the market, ideas are also being shared and expanded.

### 19th Century Labour Migration

Many think of globalisation as a late 20th century phenomenon. While it is true that the present form of globalisation has emerged in the last thirty to forty years, there have been important phases in the history of the world, when nations have been inter-connected. The 19th century witnessed an accelerated pace of foreign trade, foreign investment and labour migration. Though labour movement was not as free as movements of goods and capital, it is estimated that nearly 50 million people emigrated from Europe to America and Australia. All over the world some 150 million are estimated to have left their homes. Hundreds of thousands of Indian and Chinese labourers went to work on plantations, in mines and in road and railway construction projects around the world as part of the colonial plan. Many of these were indentured migrants. An indentured labourer is a bonded labourer under contract to work for an employer for a specific amount of time, to pay off his passage to a new country or home. The main destinations of Indian indentured migrants were the Caribbean islands, Mauritius, Fiji, Malaya, Ceylon etc. Living and working conditions were often harsh, and there were few legal rights. Many migrants settled permanently in the destination countries and thus emerged new blends of cultural expressions.

It is noteworthy that such huge movement of labourers has not been observed in the recent experience of globalisation. Today there is demand for migration from professional people, but this is often restricted, leading to issues of conflict.
In this chapter our focus is mostly on the economic aspects of globalisation as they have unfolded in the past thirty to forty years.

**Production across Countries**

Until the middle of the twentieth century, production was largely organised within countries. Raw materials, food grains and finished products only crossed the boundaries of these countries. Colonies such as India exported raw materials and food grains and imported finished goods. Trade was the main channel connecting distant countries. This was before large multinational companies (MNCs) emerged on the scene. An MNC is a company that owns or controls production in more than one nation. MNCs set up offices and factories for production in regions where they can get cheap labour and other resources. This is done so that the cost of production is low and the MNCs can earn greater profits.

Consider the following example. 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 is carried out through call centres located in India. (Identify these countries on a global map.)

In this example the MNC is not only selling its finished products globally, but more important, the goods and services are produced globally. As a result, production is organised in increasingly complex ways. The production process is divided into small parts and spread out across the globe. In the above example, China provides the advantage of being a cheap manufacturing location. Mexico and Eastern Europe are useful for their closeness to the markets in the US and Europe. India has educated English speaking youth who can provide customer care services. And all this probably can mean 50-60 per cent cost-savings for the MNC! The advantage of spreading out production across the borders to the multinationals can be truly immense.

**Interlinking Production Across Countries**

In general, the criteria for selecting a site for operations of MNCs are: proximity to the markets; availability of skilled and unskilled labour at low costs; assured availability of other factors of production, government policies that protect their interests. The money that MNCs spend to buy assets such as land, building, machines and other equipment is called foreign investment. Any investment is made with the hope that these assets will earn profits.

At times, MNCs set up production jointly with the local companies of these countries. The local company benefits by the additional investments and the latest technology that the MNCs bring.

But the most common route for MNC investments is to buy up local companies and then to expand production. MNCs with huge wealth can quite easily do so. For example, Cargill Foods, a very large American MNC, has bought over smaller Indian
companies such as Parakh Foods. Parakh Foods had four oil refineries and a large marketing network in various parts of India, where its brand was well-reputed. With the takeovers, Cargill is now the largest producer of edible oil in India.

In fact, many of the top MNCs have wealth exceeding the entire budgets of the developing country governments. With such enormous wealth, imagine the power and influence of these MNCs!

There’s another way in which MNCs control production. 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. The products are supplied to the MNCs, which then sell these under their own brand names to the customers. These large MNCs have tremendous power to determine price, quality, delivery, and labour conditions for these distant producers. As a result of the MNCs, production in widely dispersed locations is getting interlinked.

Ford Motors, an American company, is one of the world’s largest automobile manufacturers with production spread over 26 countries of the world. Ford Motors came to India in 1995 and spent Rs. 1700 crore to set up a large plant near Chennai. This was done in collaboration with Mahindra and Mahindra, a major Indian manufacturer of jeeps and trucks. By the year 2004, Ford Motors was selling 27,000 cars in the Indian markets, while 24,000 cars were exported from India to South Africa, Mexico and Brazil. The company wants to develop Ford India as a component supplying base for its other plants across the globe.
Foreign Trade and Integration of Market

For a long time trade has been the main channel of connecting countries. In history you would have read about the trade routes connecting India and South Asia to markets both in the East and West and the extensive trade that took place along these routes. Also, you would remember that it was trading interests which attracted various trading companies such as the East India Company to India. What then is the basic function of foreign trade?

To put it simply, foreign trade creates an opportunity for the producers to reach beyond the domestic markets. Similarly, for the buyers, trade expands the choice of goods beyond what is domestically produced. Foreign trade thus results in connecting the markets or integration of markets in different countries.

What was the main channel connecting countries in the past? How is it different now?

Distinguish between foreign trade and foreign investment.

In recent years China has been importing steel from India. Explain how the import of steel by China will affect:
(a) steel companies in China.
(b) steel companies in India.
(c) industries buying steel for production of other industrial goods in China.

How will the import of steel from India into the Chinese markets lead to integration of markets for steel in the two countries?
Chinese manufacturers started exporting plastic toys to India. Buyers in India now have the option of choosing between Indian and the Chinese toys. Because of the cheaper prices and new designs, Chinese toys became popular in the Indian markets. Within a year, 70 to 80 per cent of the toy shops have replaced Indian toys with Chinese toys. Toys are now cheaper in the Indian markets than earlier. For the Chinese toy makers, this trade provided an opportunity to expand their business. The opposite is true for Indian toy makers. Competition has forced some of the Indian producers to innovate, whereas others have perished.

**MNCs and Globalisation**

In the past three or four decades, more and more MNCs have been looking for locations around the world which would be cheap for their production. Foreign investment by MNCs in these countries has been rising. At the same time, foreign trade between countries has been rising rapidly. A large part of the foreign trade is also controlled by MNCs. For instance, the car manufacturing plant of Ford Motors in India not only produces cars for the Indian markets, it also exports cars to other developing countries and exports car components for its many factories around the world. Likewise, activities of most MNCs involve substantial trade in goods and also services.

The result of greater foreign investment and greater foreign trade has been greater integration of production and markets across countries. Globalisation is this process of rapid integration or interconnection between countries. MNCs are playing a major role in the globalisation process. More and more goods and services, investments and technology are moving between countries. Most regions of the world are in closer contact with each other than a few decades back.

The flow of capital, people, technology is supposed to have created a borderless world. As a result, states lose power to determine many aspects of life even within their borders. For instance, the most important decisions regarding the value of a currency which were at the high point of the nation state made by sovereign governments are today, made outside government corridors and more often by market players and forces over which governments have very little control.
Factors that have enabled Globalisation

Technology

Rapid improvement in technology has been one major factor that has stimulated the globalisation process. For instance, the past fifty years have seen several improvements in transportation technology. As a result goods are delivered faster across long distances at lower costs.

The developments in information and communication technology have been even more remarkable and rapid. Telecommunication facilities (telegraph, telephone including mobile phones, fax) are used to contact one another around the world, to access information instantly, and to communicate from remote areas. This has been facilitated by satellite communication devices. Computers have now entered almost every field of activity. You might have also ventured into the amazing world of internet, where you can obtain and share information on almost anything you want to know. Internet also allows us to send instant electronic mail (e-mail) and talk (voice-mail) across the world at negligible costs.

What is the role of MNCs in the globalisation process?
What are the various ways in which countries can be linked?

Choose the correct option: Globalisation, by connecting countries, results in
(a) lesser competition among producers.
(b) greater competition among producers.
(c) no change in competition among producers.

Some 20 years ago:
Urban India “We got fast connections for computers.” Rural India “still has powercuts.”

Currently:
Urban India “We got internet on mobiles too.” Rural India “What is 3G and 4G? still struggling for stable connections.”
A news magazine published for London readers is to be designed and printed in Delhi. The text of the magazine is sent through Internet to the Delhi office. The designers in the Delhi office get instructions on how to design the magazine from the office in London using telecommunication facilities. The designing is done on a computer. After printing, the magazines are sent by air to London. Even the payment of money for designing and printing from a bank in London to a bank in Delhi is done instantly through the Internet (e-banking)!

**Liberalisation of foreign trade and foreign investment policy**

Let us return to the example of imports of Chinese toys in India. Suppose the Indian government puts a tax on import of toys. And because of the tax, buyers will have to pay a higher price on imported toys. Chinese toys will no longer be as cheap in the Indian markets and imports from China will automatically reduce. Indian toy-makers will prosper.

Tax on imports is an example of trade barrier. It is called a barrier because some restriction has been set up. Governments 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.

The Indian government, after Independence, had put barriers to foreign trade and foreign investment. 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 survive. Thus, India allowed imports of only essential items such as machinery, fertilisers, petroleum etc. Note that all developed countries, during the early stages of development, have given protection to domestic producers through a variety of means.

However, starting 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.

Thus, barriers on foreign trade and foreign investment were removed to a large extent. This meant that goods could be imported and exported easily and also foreign companies could set up factories and offices here.
Removing barriers or restrictions set by the government is known as liberalisation. With liberalisation of trade, businesses are allowed to make decisions freely about what they wish to import or export. The government imposes much less restrictions than before and is therefore said to be more liberal.

We must now ask ourselves what actually drives globalisation. Is it a political decision or is it an economic and technological revolution? Economic proponents of globalisation argue that it is economic forces that are responsible for globalisation and control its contours and borders. Those holding the political line argue it is the government decisions that allow movement in the first place. Governments place restrictions or ease regulations. The attractiveness or unattractiveness of places has to do with the political climate and not necessarily the market conditions and therefore territory still matters. In reality, both are connected. We must remember that political decisions are taken in a particular context, which accounts for the economic and technological change that has already taken place.

Institutions of Global Governance

Today, many decisions on key issues that affect large parts of the world are taken by institutions of global governance. A good example is the issue of climate change. Initially the issue of reducing carbon emissions were left to individual countries. However, it was soon found that if one country were to attempt to reduce carbon emissions, industry could just shift to another location, where there are lower regulations. Consequently, the issue of emissions and climate change have to be tackled by countries coming together.

Let us look at another institution of global governance, the WTO in slightly more detail.

World Trade Organisation (WTO)

We have seen that the liberalisation of foreign trade and investment in India was supported by some very powerful international organisations. These organisations say that barriers to foreign trade and investment are harmful. Trade between countries should be ‘free’ without any barriers. World Trade Organisation (WTO) is one such organisation whose aim is to liberalise international trade. Started at the initiative of the developed countries, WTO establishes rules regarding international trade, and sees that these rules are obeyed. Nearly 150 countries of the world are currently members of the WTO.
Though WTO is supposed to allow free trade for all, in practice, it is seen that the developed countries have unfairly retained trade barriers. On the other hand, WTO rules have forced the developing countries to remove trade barriers. An example of this is the current debate on trade in agricultural products.

The agriculture sector provides the bulk of employment in India. Compare this to a developed country such as the US with the share of agriculture in GDP at 1% and its share in total employment a tiny 0.5%! And yet this very small percentage of people who are engaged in agriculture in the US receive massive sums of money from the US government for production and for exports to other countries. Due to this massive money that they receive, US farmers can sell the farm products at abnormally low prices. The surplus farm products are sold in other country markets at low prices, adversely affecting farmers in these countries. Developing countries are, therefore, asking the developed country governments, “We have reduced trade barriers as per WTO rules. But you have ignored the rules of WTO and have continued to pay your farmers vast sums of money. You have asked our governments to stop supporting our farmers, but you are doing so yourselves. Is this free and fair trade?”

WTO was started at the initiative of _______ countries. The aim of the WTO is to ______. WTO establishes rules regarding ______ for all countries, and sees that ______. In practice, trade between countries is not ______. Developing countries like India have ______, whereas developed countries, in many cases, have continued to provide protection to their producers.

What do you think can be done so that trade between countries is fairer?

In the example on the left, we saw that the US government gives massive sums of money to farmers for production. At times, governments also give support to promote production of certain types of goods, such as those which are environmentally friendly. Discuss whether these are fair or not.

Impact of Globalisation in India

What has been the effect of globalisation on the lives of people? Globalisation has been of advantage to consumers, particularly the well-off sections in the urban areas. There is greater choice before these consumers who now enjoy improved quality and lower prices for several products. As a result, these people today enjoy much higher standards of living than was possible earlier. Among producers and workers, the impact of globalisation has not been uniform.

Firstly, MNCs have increased their investments in India, which means investing in India has been beneficial for them. MNCs have been interested in industries such as cell phones, automobiles, electronics, soft drinks, fast food or services such as banking in urban areas. These products have a large number of well-off
buyers. In these industries and services, new jobs have been created. Also, local companies supplying raw materials, etc. to these industries have prospered.

Secondly, 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.

Moreover, 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) are some Indian companies which are spreading their operations worldwide.

Globalisation has also created new opportunities for companies providing services, particularly those involving IT. The Indian company producing a magazine for the London based company and call centres are some examples. Besides, 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.

- How has competition benefited people in India?
- Should more Indian companies emerge as MNCs? How would it benefit the people in the country?
- Why do governments try to attract more foreign investment?
- Elsewhere we read what may be development for one may be destructive for others. The setting of SEZs has been opposed by some people in India. Find out who are these people and why are they opposing it.

In recent years, the central and state governments in India are taking special steps to attract foreign companies to invest in India. Industrial zones, called Special Economic Zones (SEZs), are being set up. SEZs are to have world class facilities: electricity, water, roads, transport, storage, recreational and educational facilities. Companies who set up production units in the SEZs do not have to pay taxes for an initial period of five years. Government has also allowed flexibility in the labour laws to attract foreign investment. Instead of hiring workers on a regular basis, companies hire workers ‘flexibly’ for short periods when there is intense pressure of work. This is done to reduce the cost of labour for the company. However, foreign companies are demanding further flexibility in labour laws.
Small producers: Compete or perish

For a large number of small producers and workers globalisation has posed major challenges.

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 Hosur, 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 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.

- What are the ways in which Ravi’s small production unit was affected by rising competition?
- Should producers such as Ravi stop production because their cost of production is higher compared to producers in other countries? What do you think?
- Recent studies point out that small producers in India need three things to compete better in the market: (a) better roads, power, water, raw materials, marketing and information network, (b) improvements and modernisation of technology, and (c) timely availability of credit at reasonable interest rates. Explain how these three things would help Indian producers.
- Do you think MNCs will be interested in investing in these? Why?
- Do you think the government has a role in making these facilities available? Why?
- Think of any other steps that the government could take. Discuss.
**The struggle for a fair Globalisation**

The above evidence indicates that not everyone has benefited from globalisation. People with education, skill and wealth have made the best use of the new opportunities. On the other hand, there are many people who have not shared the benefits. Since globalisation is now a reality, the question is how to make globalisation more ‘fair’? Fair globalisation would create opportunities for all, and also ensure that the benefits of globalisation are shared better.

The government can play a major role in making this possible. Its policies must protect the interests, not only of the rich and the powerful, but all the people in the country. You have read about some of the possible steps that the government can take. For instance, 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. If necessary, the government can use trade and investment barriers. It can negotiate at the WTO for ‘fairer rules’. It can also align with other developing countries with similar interests to fight against the domination of developed countries in the WTO.

In the past few years, massive campaigns and representation by people’s organisations have influenced important decisions relating to trade and investments at the WTO. This has demonstrated that people also can play an important role in the struggle for fair globalisation.

**Other issues**

An important question that has been debated is whether globalisation has seen the demise of nation state or not. For most part of the time, the nation state with people organised on territorial grounds was the main form of political organisation when it came to demarcating countries. This territorial division created divisions of us and them, of outside and inside and laid the psychological foundations for creating a feeling for one’s own country, the feeling of nationalism. The single most important impact of globalisation is the gradual dilution of this feeling.

Another issue that received attention is about

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**WB & IMF and their power**

The International Bank for Reconstruction and Development (IBRD) and the International Development Association (IDA) are referred as World Bank. Both these Institutions have more than 170 members each. Countries like United States of America control the functioning of these institutions. Even today USA’s voting is valued at 16%. Few other countries like Japan, Germany, United Kingdom, France have more than 3 to 6 % voting powers. Value of voting by the poorer countries is lower. Today India or China too have much more voting powers than poorer countries. World Bank is able to advice and impact the way governments frame their polices and guide them.
whether globalisation leads to cultural homogenisation or increases cultural diversity? While some argue that the impact of modern communication and technology has led to the spread of certain cultures and ideas which have marginalised local and small cultures, others argue that globalisation has also given space to and allowed the spread of distinctive and often marginalised cultural practices. It has been pointed out that while some languages have become widely used and are the languages of international communication, others have been neglected and some are on the verge of extinction.

**Conclusion**

Globalisation is the process of rapid integration of countries. It is a major change that occurred across the globe in the late 20th century. This has economic, political as well as cultural dimensions. Integration of markets and production through trade and investments controlled by the multinational corporations with huge wealth and power is one hallmark of the present phase of globalisation. Liberalisation by removing barriers to trade and investment has opened the economies to the forces of globalisation.

The benefits of globalisation have been unevenly distributed. It has benefited well-off consumers and also producers with skill, education and huge wealth. Certain services, enabled with technology, have expanded. On the other hand, thousands of small producers and workers have seen their employment and workers’ rights erode. It is important to understand the two-sided nature of globalisation.

The other dimension of inequality, which we saw, is in the dominating influence of the rich countries on matters of policy. Be it policies on international economic exchange – trade, investment, migration - or domestic matters, rich western countries have an undue influence over the rest of the world. International organisations like WTO, WB and the IMF represent the interests of the developed countries far more than that of the developing world. Thus, while the supporters of globalisation speak of the advantages of global integration and see globalisation as an opportunity for growth and prosperity, its critics point out that it is another attempt by some countries - read the west - to dominate the world. They argue that it harms democracy, workers rights, and the environment in many of the poorer countries.

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<td>Foreign investment</td>
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**Improve your learning**

1. What were the reasons for putting barriers to foreign trade and foreign investment by the Indian government? Why did it wish to remove these barriers?
2. How would flexibility in labour laws help companies?
3. What are the various ways in which MNCs set up, or control, production in other countries?
4. Why do developed countries want developing countries to liberalise their trade and investment? What do you think should the developing countries demand in return?
5. “The impact of globalisation has not been uniform.” Explain this statement.
6. How has liberalisation of trade and investment policies helped the globalisation process?
7. How does foreign trade lead to integration of markets across countries? Explain with an example other than those given here.
8. Globalisation will continue in the future. Can you imagine what the world would be like twenty years from now? Give reasons for your answer.
9. Supposing you find two people arguing: One is saying globalisation has hurt our country’s development. The other is telling, globalisation is helping India develop. How would you respond to these arguments?

10. Fill in the blanks.
    Indian buyers have a greater choice of goods than they did two decades back. This is closely associated with the process of ______________. Markets in India are selling goods produced in many other countries. This means there is increasing ______________ with other countries. Moreover, the rising number of brands that we see in the markets might be produced by MNCs in India. MNCs are investing in India because ______________ _________________.
    While consumers have more choices in the market, the effect of rising ________________ and ______________ has meant greater ________________ among the producers.

11. Match the following.
    (i) MNCs buy at cheap rates from small producers
        (a) Automobiles
    (ii) Quotas and taxes on imports are used to regulate trade items
        (b) Garments, footwear, sports
    (iii) Indian companies who have invested abroad
        (c) Call centres
    (iv) IT has helped in spreading of production of services
        (d) Tata Motors, Infosys, Ranbaxy
    (v) Several MNCs have invested in setting up factories in India for production
        (e) Trade barriers