

10th - Globalisation & Indian Economy - I



Globalisation is the integration between countries through foreign trade and foreign investment by Multinational Companies (MNCs). In recent years, markets in India have transformed due to globalisation. Today, there is a wide range of choice in goods which are available in Indian markets. Now the latest models of digital cameras, mobile phones, television, cars, etc. made by the leading manufacturers of the world are within our reach. The advances in communication, transportation and infrastructure have made possible this transformation of markets.

Production across Countries: The early phase of globalisation involved export of raw materials from colonial countries such as India and import of finished products from industrially developed European countries and the USA. But from the middle of the 20th century, things began to change. Some companies became Multinational Corporations (MNCs) as they spread their economic activities to various parts of the world.

Multinational Corporations (MNCs): An MNC is a company that owns or controls production in more than one country. MNCs set up offices and factories for production in regions where they can get cheap labour and other resources, to minimize cost and maximize profit they sell their finished products globally and also produce the goods and services globally. The production process was divided into small parts and spread out across the globe.

Spreading of Production by an MNC: The nature of working of a large MNC is a complex process. An example given below will describe the working of MNC. Suppose a large MNC produces industrial equipment, designs its products in research centres in the United States and manufactures its components 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. At the same time, the company's customer care is carried out through call centres located in India. This is how an MNC works. 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 organized in increasingly complex ways. The production process is divided into small parts and spread out across the globe.

Advantages of Spreading out MNC in different countries

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Advantage of Spreading Out MNC in Different Countries: And 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 highly skilled engineers who can understand the technical aspects of





production Also has educated English speaking youth who can provide customer care services.

And all this causes about 50-60% cost-savings for the MNC. Thus, it can be said that the advantage of spreading out production across the borders to the multinationals can be truly immense.

INTERLINKING PRODUCTION ACROSS COUNTRIES: Usually, MNCs want to minimize their costs and thus set-up production centres in countries where the factors of production like raw materials, skilled labour, etc are assured at cheap rates. They also look for government policies that look after their interests.

Ways/Modes of Interlinking Production across Countries

MNCs are spreading their production and interacting with local producers in various countries across the globe by setting up partnership with local companies, by using local companies for supplies, by competing with local companies or by buying them up. Due to their strong influence, a production of MNCs in widely dispersed locations is getting interlinked.

Some modes that interlink production across countries are given below

Foreign Direct Investment (FDI): It is an investment made by a company or entity based in one country (usually an MNC), into a company or entity based in another country. MNCs set-up the production units through investment in the concerned country either by setting up factories or offices in the foreign country. The money that is spent to buy assets such as land, building, machines and other equipment is called investment and any investment made by MNCs is called Foreign Direct Investment. An investment is made with the hope to earn profits.

By Entering into Partnerships/Joint Venture: Sometimes MNCs join hands with local companies and produce jointly. This way local company can get two-fold production. First, MNCs can provide money for additional investments like buying new machines for faster production. Second, MNCs might bring latest technology with them for production.

Buying Out Local Companies/Mergers/Takeover: The most common route adopted by MNCs is to buy local companies and expand production. A wealthier MNC can easily do so. In fact, many of the top MNCs have wealth exceeding the entire budgets of the developing country's government. This way they have much power and influence. An example of merger of local company by an MNC is Cargill Foods. It is a very large American MNC which bought Parakh Foods (after starting a joint venture with it), an Indian company, which had four edible oil refining units and a large marketing network in all over India. Now, Cargill is the largest producer of edible oil in India with capacity to produce 5 million pouches daily.

By Giving Orders/Contracts to Local Companies for Supplies: Another method of controlling production by MNCs is by placing orders around the world with a large number of small producers of items, like garments, footwear, sports items, etc. Then the MNC sells these products under its brand name. The MNC determines the price, quality, delivery and labour conditions for these distant producers.

FOREIGN TRADE AND INTEGRATION OF MARKETS: Foreign Trade is a trade between the different countries of the world. It is also called international trade, external trade or inter-regional trade. It consists of imports, exports and entrepot. Integration of Markets occurs through foreign trade, when goods from the market in one country travel to the market in another country, thus connecting them.



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Since earlier times, foreign trade has been connecting the different countries. Early trade routes helped in connecting Asia to the rest of the world. These trade routes not only facilitated movement of goods, but also movement of people and ideas. Later on, trading interests attracted various trading companies such as the East India Company was attracted towards India,

Thus, foreign trade creates an opportunity for producer reach beyond the domestic markets and competes in markets located in other countries of the world. Similarly, the buyer has more choice of goods, beyond domestically production goods. With the opening of trade, goods travel from one market another and choice of goods in the markets rises. Prices similar goods in the two markets tend to become equal. Producers in the two countries compete against each of even though they are separated by thousands of miles. Thus foreign trade results in connecting the markets or integration of markets in different countries.

Chinese Toys in Indian Market: Chinese manufacturers export plastic toys to India because Indian toy cost very high price. Chinese toys have low prices and new design compared to Indian toys: So, Chinese toys have replaced Indian toy in most shops. Chinese toys came into the Indian markets due trading. In the competition between Indian and Chinese toys, Chinese toys prove better because of lower prices and great variety. For the Chinese toy makers, this provides an opportunity to expand business On the other hand Indian toy makers face losses, as their toys are selling much less.

GLOBALISATION : Globalisation is the process of rapid integration interconnection between countries. Due to greater for investment and great foreign trade there are an integration markets as well as production centers. In the process of globalisation, MNCs are playing major role more and more goods and services, investments, technology is moving between countries of the world. In past 20 years, more and more MNCs have been looking for locations around the world which would be cheap their production. Foreign investment by MNCs in this country has been rising. For example, Ford Motors' car manufacturing plant in li produces cars and car components both for the In markets as well as for export around the world. Activities most MNCs involve substantial trade in goods and services.

Globalization and Migration: Besides the movements of goods, services, investments technology, countries can be connected through movement of people between them, i.e. migration. People usually move from one country to another in search better life, higher income, better jobs or better education. This has been going on for many centuries, but now slowed down due to various restrictions imposed by n countries.

FACTORS THAT BOOSTED GLOBALISATION: Many factors have enabled globalisation. Here some major factors are discussed that boosted globalisation

Technology: Fast improvement in technology during the last 50 years, such as improvements in transportation technology have suited in much faster delivery of goods across long instances at lower costs. The developments in Information and Communication Technology (ICT) have totally revolutionized the way trade conducted. Telecommunication facilities (telegraph, Telephone, mobile phones, fax) and satellite communication devices are used to contact one another round the world, to access information instantly and to communicate from remote areas.



Containers for Transport of Goods

The standardised containers (20 and 40 footer sizes) are used for surface (by rail, road and sea) transportation of heavy or bulky goods. This has reduced port handling costs and increased the speed with exports can reach markets. Also, cost of air transport has fallen, enabling much greater volumes of goods being transported

- Air lines, saving transportation time significantly.

