21

Globalisation

Discuss: What are the things you see around you that are connected to other countries?

- You may have seen toys made in China in your home or in the homes of your neighbours. Chinese mobiles and electronic items that we use in our daily lives are easily available in the market. Huge quantities of Chinese toys are imported into India.

Figure 21.1: Raipur bazar

- Television brings you direct coverage of events and incidents happening around the world. Today, we get instant informaion about many things in the world on the internet.
- The food we eat these days contains many items that originated in other countries, such as pizzas, burgers, noodles, chow mein, etc.
- Many patients from abroad come to India for treatment because they get better and cheaper medical care here compared to other countries.
- Students go to schools and colleges in other countries to pursue their studies. One estimate puts the number of students who go abroad for studies every year at 2.5-3.0 lakhs.

- People also travel to visit other places. For example, many tourists from abroad come to see the spectacular Chitrakoot falls in Bastar. The Kutumbsar caves, Bharamdev temple in Kawardha, etc are also tourist spots that are attracting visitors. Similarly, tourists from India are visiting Indonesia, Malaya, Thailand etc.

Figure 21.2: Some tourist spots

- More and more people are beginning to learn English in recent years because a knowledge of the language is considered necessary for getting a job. This is also the reason why people are also learning Chinese and other languages.

- You may have also heard foreign music that is popular among young people. Have you also seen a foreign film?

Figure 21.3 Chinese language teaching institution

These examples indicate that people and countries around the world are becoming more closely connected these days. There are many dimensions to these interconnections. It is also clear that these processes have gained momentum over the past few decades. Distances between countries have decreased and inter-relationships have increased. People can easily access goods and services from other countries. Our daily needs are being met on an international scale and countries are also getting culturally integrated. We shall try to understand some of the economic and social aspects of these processes in this chapter. We shall also try to identify their causes and effects.

Global production

A few decades ago, we mostly depended on Indian goods and products to meet our daily needs. The range of goods was also limited. Things are different today. The markets are flooded with a bewildering range of foreign goods such as different types and brands of mobiles, shoes, cameras, electronic products, etc. Similarly, we see many new local and international models of cars, motorcycles, trucks etc plying on the roads. The cities are packed with shops overflowing with foreign products. Behind all this is

Figure 21.4: A Bazar

the phenomenon of global production - the manufacturing process is spread across several countries and the finished products are sold in the international market.

Let us try to understand the process of global production from the following examples:

1. In the 1960s and thereafter, Ford Escort in the UK and Germany joined hands to produce a car whose components were manufactured in America, Canada, France, Spain, Italy, Switzerland, Austria, Denmark, Belgium and a dozen other countries including Japan.

   Under this policy, Ford Escort chose to manufacture the car in countries with cheap labour and low taxes. The governments of these countries also extended several concessions to the company. Today, India has several such companies that acquire their component materials from across the globe.

   (Source: Wealth and Illfare by C.T. Kurien)

2. Look at Figure 21.5, which shows two women working in a call centre run by a local company in Bengaluru. This company is one of many such companies that provide customer services on the 800 customer care number for global multinationals like General Electric, Dell Computer, America Online and British Airways. The multinationals outsource these services cheaply to Indian companies. When a company makes its products or services available from an outside source, the process is called outsourcing. The local companies that run the call centres train their English-speaking employees by showing them films and teaching them American accents and behaviour so that they can converse in American English. In this way, the American customers do not feel they are talking to foreign nationals but are being served by an American company.

Figure 21.5 : Women working in a call centre

This process of large companies outsourcing their work to call centres run by local companies is called business process outsourcing (BPO). It enables them to lower their costs in providing these services. These centres are set up in countries that have extensive and well-developed communication and other basic facilities.

These two examples show how the process of global production of goods and services takes place. Let us now examine the nature of these companies and how they work.

Multinational corporations (MNCs)

Multinational corporations are companies that control and own production facilities in more than one country. They source their raw materials from across the globe and also sell their products on a global scale. Most MNCs give priority to setting up their production units in countries where raw materials are easily available and there is no shortage of skilled and unskilled labour. Before setting up their facilities, they examine the policies of their target countries and choose those countries with flexible policies and low tax rates. They want the policies to be in consonance with their decisions.

MNCs have huge capital reserves. When they invest in a country, they bring with them the latest technology. This enhances their production capacity, enabling them to introduce the latest state-of-the-art models of their products in the market, being vigilant about their quality and brand image.

Many MNCs acquire local companies to expand their production capacity. For example, Lafarge France is a prestigious international cement company that has established factories in countries like Britain and Uganda to expand its market. Its main output is cement and concrete. The company began production in India after acquiring the factories of Tata Steel's Cement Division in 1999 and Raymond Cement in 2001. These factories are located in Chhattisgarh, which has abundant limestone deposits, the raw material for manufacturing cement & cheap labour is easily available. The company also had the vast Indian market to sell its product.

In some sectors such as apparel, footwear, sports goods and toys, the MNCs farm out production to small producers, buying their output and selling it in the market under their brand name. For example, in Punjab state, the MNCs contract women in Ludhiana to undertake football production activities in their homes. The MNCs provide the design and manufacturing details, farming the work out to the artisans through contracting agents. The finished products, produced at cheap rates by these artisans, are checked for quality and then sold at high margins in big stores and malls.

Figure 21.6

MNCs also sometimes launch joint ventures with local companies. For example, American company Ford Motors entered into a joint venture with Indian company Mahindra in 1995 to manufacture cars. These cars were sold in the Indian market and also exported to other countries.

We learned about the different ways in which multinational production is carried out in these examples. MNCs are, thus, able to expand their activities and their production capacity to remain ahead of the competition. They become stronger as their production is centralised by the acquisition of small companies and producers.

How do MNCs establish their control over production in other countries?

Fill in the blanks in the following:

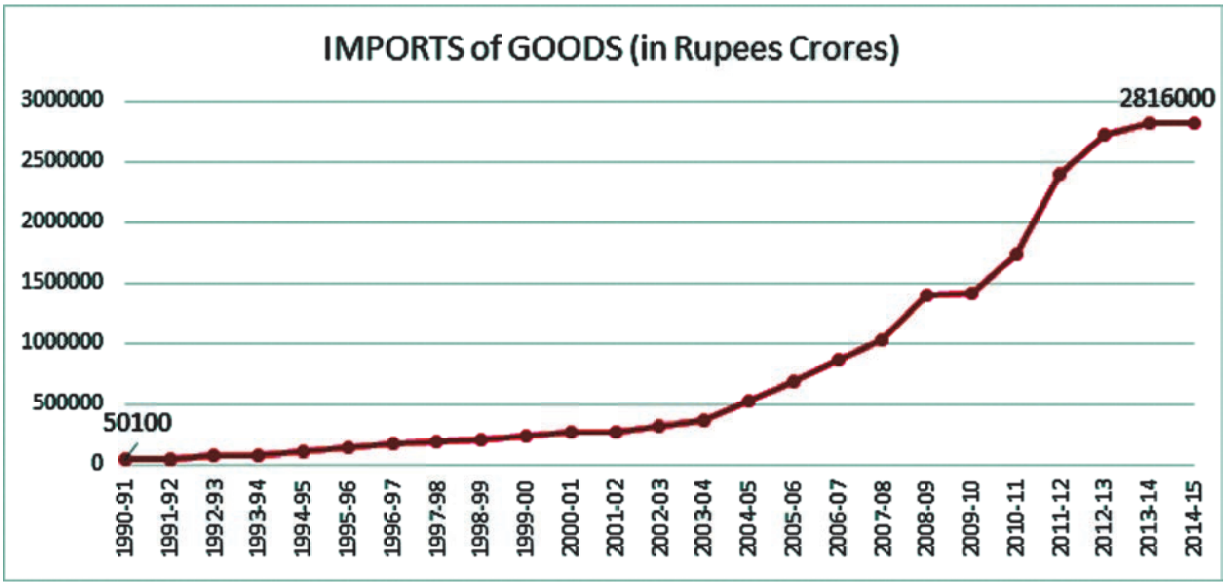
Indian consumers have much more choice today than they had three decades ago. Products from other countries are sold in the Indian market. This means that .... with other countries is expanding. In addition, we are seeing a growing number of brands produced by .... in India. These companies are .... in India because ....

Globalisation

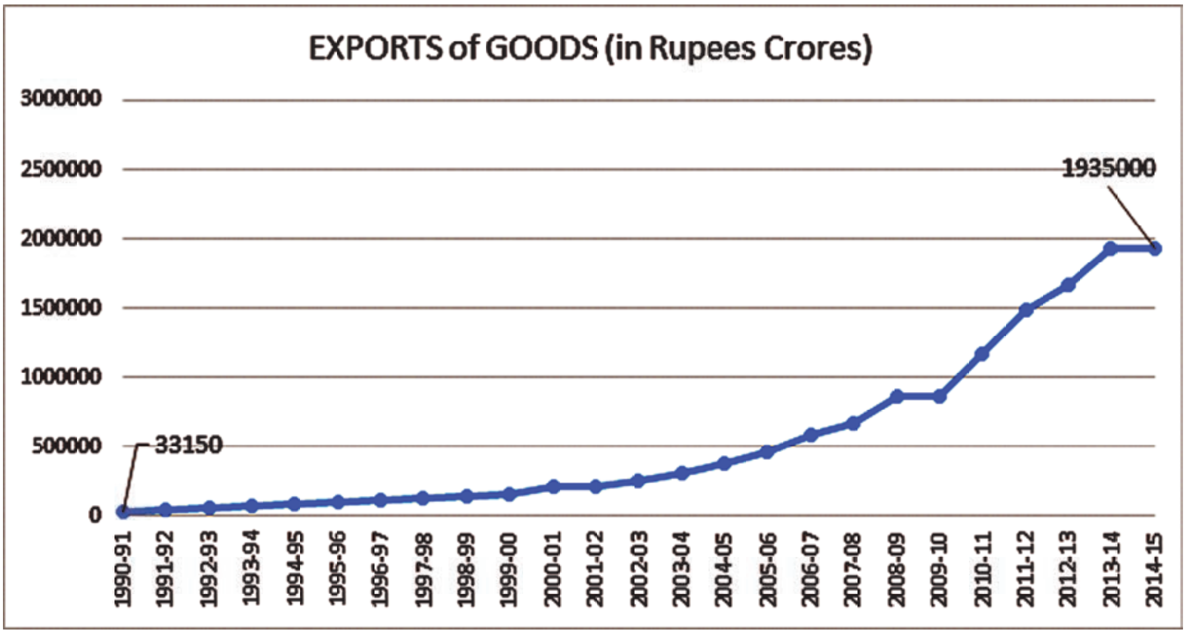
Over the last two-three decades, MNCs have been in search of places where they can lower their production costs. They have increased their investments in these locations. At the same time, trade between nations is growing. MNCs control a large segment of foreign trade. Growing trade and growing investment is integrating the markets and production of most countries. The growing mutual ties between countries and the process of their integration is called globalisation. There is growing exchange of more and more goods, services and technology, accompanied by growing flow of investment.

The import and export figures given in Graph 21.1 illustrate India's growing foreign trade. Foreign trade multiplied several-fold between 1990-91 and 2014-15. India exported Rs33150 crores of goods in 1990-91. In 2014-15, exports totalled Rs19,35,000 crores.

Graph 21.1: Growth of India's foreign trade



Graph 21.2: Growth of India's foreign trade



Source: RBI Handbook of Statistics on the Indian Economy, Table 144 : Key Components of India's Balance of Payments in Rupees

Estimate the percentage increase in exports over the past 25 years on the basis of figures contained in Graph 21.2. From which year did the growth in exports register a sharp increase?

The import figures contained in Graph 21.1 reveal that imports, too, increased several-fold. Can you tell which showed higher growth – imports or exports?

We saw the import and export figures of goods. Imports and exports of services also grew rapidly. India is one of the top exporters of services. Exports of services are far higher than imports. During this period, investment in India also increased several-fold.

Causes of globalisation

Technology: Information and communication technology (ICT) has played an important part in speeding up the process of globalisation. You know that facilities like computer networks, mobile, e-mail, e-commerce, WhatsApp etc have become an indispensable part of our life in this day and age. The development of communications satellites has streamlined this communication system. The call centre in Bengaluru, which we used as an example earlier, could function only because of this technology. Innumerable companies are using this communication system to expand their activities. They can control the entire **production** process from one location. They also get production-related information instantaneously, which they can analyse to help them make decisions. The working pattern of banks has also been streamlined and RTGS has made money transactions easier.

Figure 21.7

The development of means of transportation is also a major contributor to the process of globalisation. Nowadays, large containers are packed with goods at harbours. These similar-sized containers can be easily stacked in ships for transport. There are even air-conditioned containers that preserve perishable goods for long periods of time. There are around 360 million containers today that are used to transport goods around the world. Around 90% of world trade is done by container traffic. The cost of transporting goods by sea has fallen considerably over the past 60 years.

Fall in transport and communication costs

Transport and communication costs have declined rapidly in the past decade and have been falling steadily over the past 50 years. Rail transport costs fell by around 50% between 1970 and 2000. Road transportation costs fell 40% during this period. If we examine global air transportation costs today, they are just 6% of 1955 costs. And in communications, a three-minute telephone call from London to New York, which would have cost $3,000 in 1931, costs a few coins today.

Can you identify some examples of information and communication technology in your neighbourhood? How has ICT changed the lives of people?

Discuss in class how foreign trade and foreign investment are affected by the decline in transportation and communication costs.

Liberalisation of foreign trade and foreign investment

We earlier talked about international trade and how rapidly trade grew over the past few decades. What was the reason for this growth in trade? Let us try to understand from the following example. Suppose the Indian government levies an import duty on Chinese toys. What would happen? Indian importers of Chinese toys would have to pay the duty on their imports so the price of these toys that the consumer would have to pay will go up. Chinese toys would become expensive in the Indian market so demand would decline, leading to a fall in imports. Indian toymakers would benefit and would be able to sell larger numbers of their products.

A tax on imports restricts trade because it places an obstacle in the free flow of goods. The government usually uses this obstacle to either increase or restrict foreign trade. Which commodities should the country import and in what volume? That decision is reflected in the form of import duty.

After independence, the Indian government imposed restrictions on foreign trade and investment in order to protect Indian producers from foreign competition. Indian industry was establishing itself in the decade of the 1950s and 1960s and allowing unrestricted imports at this stage would have compromised this process. The government allowed only imports of essential commodities such as machinery, fertilisers and petroleum. It should be borne in mind that all the developed nations had protected their domestic industry during the initial stages of their development.

But the Indian government made some far-reaching changes in its economic policies in 1991 in response to the wide-ranging changes in trade patterns that were occurring on a global scale and the impact of globalisation. Some people felt the time had come for Indian producers to face the competition from global producers. It was felt that such competition would lead Indian producers to improve their productivity and become more competitive in the international market. Influential international organisations supported this decision.

As a result, many obstacles in the way of foreign trade and investment were removed. This made import and export of goods easier. Foreign companies were permitted to invest in several sectors and were even given incentives to do so. As a result, foreign companies could establish their offices and production facilities in India. The process of removing obstacles and easing restrictions is called liberalisation. It allows producers the freedom to take decisions, with the government exercising less control than earlier. That's why such a government is seen as more liberal.

Was the decision of the Indian government to place restrictions on foreign trade and investment after independence correct? Discuss in class.

Explain the concept of liberalisation in your own words.

Explain the difference between foreign trade and foreign investment.

Globalisation's impact on India

Globalisation has not had an even impact on all classes of Indian society. The increasing competition between Indian and foreign producers that globalisation has brought has benefited consumers, especially rich urban consumers. They have greater choice of better quality products at lower prices. They, thus, enjoy a better standard of living than before.

Many top Indian companies have benefited from competition. They have raised their production standards by investing in new technology and adopting new production practices. Some have benefitted from collaborating with foreign companies. Globalisation has led to some large Indian companies developing into multinational corporations that are showing their excellence on the global stage. It has also opened out new opportunities for ICT companies to show their creativity.

However, globalisation is posing challenges for large numbers of small producers and working class people. The toy, tyre, dairy products and edible oil industries are some examples where small producers have not been able to survive the competition. Many units have shut down, leaving their workers unemployed. In India, small-scale industries account for the largest number of workers (2 crores) after agriculture.

Competition and employment uncertainty

Globalisation and competition have drastically affected the life of the working class. The majority of employers prefer flexible employment norms in a scenario of growing market competition. This causes employment uncertainty for the working class.

Figure 21.8: A garment export factory

In the textile industry, many American and European MNCs place orders for the supply of readymade garments with Indian garment exporters. They look for the cheapest rates so they can reap the greatest profits by selling the garments across their worldwide sales network. The Indian exporters try to win these large orders by keeping their costs to the minimum. Since they cannot save on the cost of raw materials, the only possible cost-cutting avenue open to them is reducing their wage labour costs. Where factories used to employ permanent workers earlier, they now offer only temporary employment.

35-year-old Sushila was employed for many years in a garment export factory. As a permanent worker, she was entitled to medical insurance, provident fund and double wages for overtime. The factory shut down sometime in the 1990s. After being unemployed for six months, Sushila finally found work in another factory about 30km from her home. However, even after working in this factory for several years, she continued to be a temporary worker earning less than half her previous wage. She left her home at 7.30 in the morning and returned at 10.00 at night all seven days of the week. If she missed work on any day, she was not paid wages for the day. She also did not receive any of the benefits she had enjoyed earlier. The factory received export orders irregularly hence it paid less wages.

How did competition affect MNCs, Indian exporters and workers in the garment export industry?

What can the following classes do to ensure that workers get a fair wage as their due share in the benefits of globalisation?

a) Government

b) Employers in exporting factories

c) MNCs

d) Workers

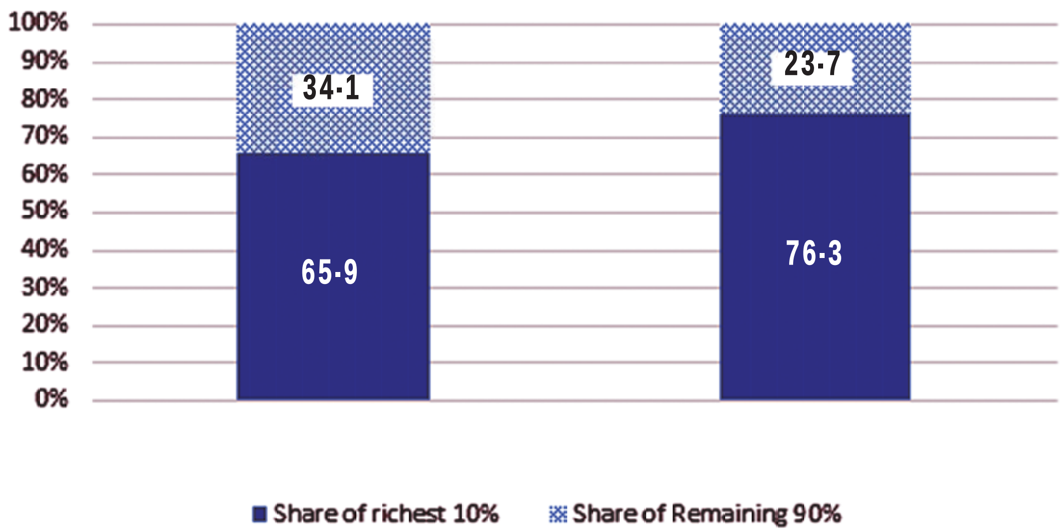
The debate in India today is whether companies should adopt flexible employment policies or not. Based on what has been discussed in this chapter, explain in brief the perspectives of employers and employees on this issue.

Widening disparities

Globalisation presents two contrasting pictures of the distribution of wealth in the world today. On one side, we see the rich getting richer and stronger while, on the other, the majority of people wage a continuing struggle for employment and livelihoods.

In 2000, 66% of the wealth in the country was in the hands of the richest 10% of the population. This was an inequitable distribution of wealth. By 2015, the share of the rich increased to 75%. In contrast, the share of the remaining 90% of the population dropped from 34% in 2000 to 24% in 2015 (see Bar diagram 21.3). It is abundantly clear that a large portion of the benefits of the present development paradigm is accruing to the rich. Even now, a big segment of the population has to be satisfied with only limited opportunities for temporary employment at minimum wages. As we saw in the chapter on the services sector in Class IX and Sushila's case discussed earlier in this chapter, opportunities for permanent and secure employment are limited. So the majority of workers are forced to look for employment in the unorganised and informal sector.

Graph 21.3: Share in total wealth of the richest 10%



Wealth is calculated by deducting debt from the total assets of the individual, which include shares, bonds, bank deposits, real estate, etc.

(Source: Credit Suisse Wealth Report)

Impact on environment

The phenomenon of globalisation may have conferred benefits in several sectors but it has also raised new concerns. Rapid growth has led to rising consumerism but the impact of this growth on the environment is also raising questions.

A World Health Organisation study has revealed that Delhi is one of the most polluted cities in the world. The study of ambient air pollution levels showed that the PM2.5 concentration (particulates smaller than 2.5 micrometres) was 122 micrograms per cubic metre. The concentration should normally not exceed 10 micrograms. In 2008, a National Pollution Control Board study found that pollution caused permanent lung damage in 40% of school-going children in Delhi.

These problems are linked to growing vehicular traffic in the city. One of the sectors that have grown rapidly as a result of globalisation is the market for motor vehicles. When Maruti Udyog launched the industry in 1988, production was a mere 1.78 lakh motor vehicles. Within a decade to 1999, production totalled 5.33 lakh motor vehicles. After 2000, foreign investment was permitted in the automobile industry. By 2004, the production of cars alone practically doubled, after which production grew by leaps and bounds. One estimate places the number of new vehicles plying on Delhi's roads at 1,400 per day.

If seen from the perspective of growth and development, these growing production numbers are a matter of pride. But if seen from the perspective of the quality of life, these numbers are depressing, because vehicles need roads and roads require land. Our cities are turning into a concrete jungle with their buildings and web of roads. Trees are being cut. A water crisis looms as the rainwater absorbing capacity of the land diminishes. The consequences affect all.

Figure 21.9

We saw in the chapter on development how dangerous one person's development can be for another. Explain this in the context of the growing vehicular traffic.

Towards equitable globalisation

We studied the current phase of globalisation in this chapter. Globalisation is a process of rapid integration of nations. It is largely driven by foreign trade and foreign investment. The dominant role in the process is played by MNCs. Most MNCs look for places where their costs or production are the lowest. As a result, the production process forms an intricate web. Technology, in particular ICT technology, plays an important role in integrating production across nations. At the same time, liberalisation removes obstacles to trade and investment, thereby facilitating the process of globalisation.

Globalisation has benefited the rich consumer and the capable, educated and rich producer. However, competition has adversely affected the small producer and industrial worker. Social inequalities have widened as wealth gets concentrated with the rich. Growing environmental degradation has widespread repercussions.

Globalisation is an inescapable reality today. The question now is: How can it be made more just and equitable? Just globalisation would provide better opportunities to all social classes and share its benefits equitably. Development can be just and sustainable only when the government, people's organisations and the common people play an important role in the process.

EXERCISES

1. Explain globalisation in your own words.
2. The process of globalisation is driven by the flow of these components. What are they?
3. Why did the Indian government restrict foreign trade and foreign investment? Why did it want to remove obstacles in their flow?
4. How does flexibility in labour policies help companies?
5. Globalisation has unequal effects. Explain this statement in your own words.
6. How does liberalisation of trade and investment policies help the process of globalisation?
7. Globalisation will continue in future. Imagine what the world would be like 20 years from now. Describe it in your own words.
8. Suppose you hear two people debating the merits of globalisation. One says globalisation has had a negative impact on our country's development while the other says the impact has been positive. How will you respond to their arguments?
9. Explain the growing inequalities in India with the help of data and examples.
10. How has globalisation affected our environment? Discuss in class.
11. If you have to work in a call centre that services a British company, what abilities should you have?
12. What are the factors that MNC considers before setting up production facilities in any country?
13. What are the different production methods MNCs use?

14. What was the major change the Indian government made in 1991 in the direction of globalisation?

15. What challenges do small producers have to face in the process of globalisation?

16. How does globalisation affect the lives of industrial workers?

17. Why do MNCs set up joint ventures?

18. Match the following:

1) MNCs buy from small producers at cheap rates	a) motor vehicles
2) Import duty, trade regulation	b) garments, footwear, sports goods
3) Indian companies investing abroad	c) call centres
4) ICT helps production and spread of services	d) Tata Motors, Infosys, Ranbaxy
5) Many MNCs have invested in their production	e) trade obstacles