NCERT Class 10 Economics Chapter 4: Globalization & Indian Economy Complete Notes Part 2

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Foreign Trade

- Producer reach beyond domestic market
- Buyers expand choice of goods beyond what is produced domestically
- Chinese toys in India – cheaper, competitive, replaced Indian market
- Choice for goods arises – price stabilizes
- It connects and integrates market.

So based on that you have the basic concept of trade that arises. So as we said still the pre-British period or independence period what India witnessed was mainly trade, now this concept of trade is moving forward towards the globalization. Let's talk about an example of toy market in India, in 1990 in Indian toys were consider as expensive and the toys used to come in market were more expensive.

What happened with the opening of the market post-1991 reforms in India, that are known as LPG or Liberalization, Privatization and globalization, India opened market for foreign nationals and as a result you have the market been flooding with Chinese toys. Now Chinese toys are much cheaper, much more competitive and easily replace Indian market, so that is how globalization impact the local economics.

As we can see here you can have positive impact and negative impact that could be seen. One of the positive impact would be it is creating competition for the local market and that competition could be healthy, however the negative consequence was it replaced the Indian market and as a result number of Indian labor and poor involved in the labor Industry lost their jobs or it became hard to earn more.

Now basic idea is when you are promoting foreign trade in a nation, you are giving more opportunity to the buyer so the as a buyer I have more choice to the buy the product, I have more diversity and I have more range of product. So as a buyer I look on the price, I would look on to the qualities and would look to the availabilities, so this become three key aspects. What foreign trade is trying to do is it is trying to reach beyond what exist and tries to integrates in the market. So that was on behalf of a consumer, when it comes to producer as a producer if I'm producing locally and selling within the region, I'm living in my livelihood in limited way but if I'm producing really good, I can expand my market with the given opportunity of globalization in hand. I can expand my market within the nation or even internationally so for the producer it gives a really opportunity, if you have quality they you can maintain it.

Globalization

- Ford – manufactures for India and exports
- More trade + more investment + more integration or interconnection
- What moves? Goods, services, investment & technology
- Why people move? Job, education & income

Now in simple terms, I can say if you have more trade, you have more investment and more integration you can definitely lead to better interconnection and kind of globalize economics. A good example again is the Ford company, the Ford company manufactures car for India, now it is exporting to other developing nation in the world. So is not only being established based in India but slowly it has try to export to other developing nation. Previously, in India name of cars which were predominant were Ford, now because of globalization it is moving to other developing nations. Now when we talk about globalization what exactly moves, so there are four predominate factor that we can consider to move. First is goods that moves, goods could be produced in country A and B, then next important thing moves is services so cheaper services move to the location where you have skill sets, goods skill set which could be aware at a lower cost and finally you look for investment where you have the tribal government policies and the investment easier with good infrastructure, multinational company try to establish there and finally above that is technology. So all these four components work together under globalization and when we say there is a movement in the economics it is movement among all these components,

Why do people move that? The very important question under globalization we are trying to answer is why goods moves, why services move, why there is a need for movement, investment and technology but why do people move? People move pre-dominantly for three basic aspects first is to get a good job, to get a good income and finally because of educational skill set. So this are the three reason because of which there is movement of labor or movement of skill people which is promoted more by the globalization.

- Interdependence of world's economies
- Globalization + Connectivity & Digitization = Innovation & Value Creation
- Prior – Trade (export of raw material & import of finished product)

What is basically happening is through globalization, there is Interdependence of economics. Previously you would not find kind of Subway, McDonald's in India, now with the opening of the market you have more of the multination company coming in.

Similarly happens for clothing, for textile, you have international brand coming up into the market in India and you are kind of creating a interdependence of world economics. So it's not that you can find one things in particular countries and it is now available globally. So as we discussed prior to globalization it was predominantly trade that use to exist. With globalization increasing and rising connectivity and digitization there is more scope for value creation and innovation.

Technology – Enabled Globalization

- Containers for transport
- Movement of goods and services
- ICT – telecom, computers, internet (e-mail or voice talk – negligible cost), satellite devices
- Payment wallets and e-banking (upcoming)

How has technology enabled globalization? How a sound technology is need for globalization?

Let's say I have production center and distributor throughout the world but do not have good technology to transfer my technology from countries A to B. It won't be of any use, so what is important a good technological skill set that come from good infrastructure, good transportation that is available. You have good movement, good service from one place to another, then information and technology system by means of telecom, computers, internet and satellite devices have improved the scenario of globalization now you have rather than physical post, electronic mail and voice talk which could be done from client setting in different parts of the world as a negligible cost again. In India, you have upcoming concept of Payment wallets and e-banking.

Liberalization

- What if taxes on import of toys from China?
- Trade barrier – taxes on import – govt. use to $\uparrow or \downarrow$ foreign trade
- Quota – limit number of goods imported
- India had trade restrictions till 1950-60s to protect local artisans
- Only essential item imports were allowed (fertilizer, petroleum)
- 1991- policy changes – LPG – compete globally to improve performance
- No barrier on foreign trade – easy imports and exports – removing barriers - liberalization

Coming on to the next concept it's a liberalization. It's a bit variant, it's very important to understand globalization and liberalization are one thing. Liberalization means you are opening your trade relations. Till 1950-60 what used to happen in India was, Indian economy was a kind of close economy. I would say they did not allow much of foreign import to come in, the only imports allowed were for essential group and this was mainly fertilizers, petroleum and import of essential commodity was allowed. However there was restriction on cap of other commodity it imported, the basic region was to promote and protect the local farmer, local artesian and the local businesses, in order to promote local businesses the idea was to keep the economics closed. However of late in 1991, it was discovered to improve system we need to interact globally so there was in improvement in global performance and the many of industries in India sort help to move outside. There was decrease in the barrier on trade, taxes on an import was reduced, so that like to decrease in the trade barrier as a result the economic opened up and there was more things coming in the market like Chinese toys in India (refer previous example).

Liberalization in 1991: There are two ways you can restrict the amount that is coming in to the nation the first is to put taxes on the import so let's say I'm importing 100 tons of any commodity in the country, and I give taxes 20% that means the final rate that comes to me is an increment of 20 % to the original price. However, I can do another thing, I can cap the amount that is coming into the nation so at present let's say 100 tons is coming into the nation but are countries original requirement is 35 tons, so remaining 65 tons that is coming into the nation is additional and that remaining 65 tons is affecting the local market or the local businesses in India.

These are two ways under which you can protect: the first is to put higher taxes on the import so let's say if you are importing Chinese toys at given price and you increment that taxes rate and you say every import on toys that are coming from China would have to be extra 10% charge so cost of the toys would automatically increase as a result what would happens, when it comes to market in India, person in India would either think to buy a toys from China or he would rather think to buy toys from India because now this stand at competitive price. So you have a kind of same price that comes up ultimately into the market when a customer is buying it as a result you are protecting your individual or the local market.

So second way is Quota restriction, so let's say only the number of toys we can allow in India from China would be say 12,000. So that is the upper cap and only that much toys are allowed at market in any rate, beyond that you would that no entry of toys in China. You would have automatically the local market that would come into play. So that are two ways of protecting the local economies, this dues to be on high end on till 1990 but post 1990 scenario changed. However of present under 2017 economics serve the idea was to move forward back to a global economy to a protection economy that means now country is change idea of opening rather than it is trying to close the economy back.