

Indian Economy and Globalization

- There can be various criteria for classifying economic activities by sectors.
- The agricultural or the primary sector generates wealth out of activities that are dependent on natural factors.
- The secondary or industrial sector uses goods produced in the primary sector as raw materials. The tertiary or the services sector helps in the development of both other sectors.
- The three sectors are inter-dependent. Agriculture supplies raw materials to industries and is helped by the services sector. Industries provides agricultural equipments while service sectors provides finance. Each sector has an assigned role and acts in combination with other sectors in producing goods and services for consumption.
- The size of an economy can be determined by adding up the contribution of different sectors to the national income. In this process we must avoid double counting.
- In India the share of the primary sector to gross domestic product of the country has been declining. The share of secondary sector has shown a steady increase while the share of the service sector has improved vastly.
- The increase in expenditure on welfare oriented policies has led to an unusual increase in the contribution of the services sector.
- The primary sector employs half the country's population but produces just a quarter of the GDP. The agriculture sector suffers from a high degree of under employment. The same is the case with unskilled workers in the urban situations.
- Provision of cheap loans to farmers can enable them to make improvements on their land. That could provide employment to more members of the family. Setting up of rural based small scale industrial hubs near the villages can also help in reducing rural unemployment.
- The National Employment Guarantee Scheme is a quick fix measure for reducing the impact of rural unemployment.
- Job security and codified privileges are exclusive to workers in organized sectors of economy. They comprise only 7% of the total work force.
- The unorganized sector offers no such facilities to its workers even though the sector contributes to GDP far in excess of the contribution of the organised sector. Economic development can be meaningful only if the workers in the unorganized sectors are also covered by schemes and legislations as applicable to workers in organized sectors. The need for protection against exploitation is much higher in their case.
- Sectors can also be classified by ownership (Public or Private). Public ownership becomes necessary where huge investments are needed in states interest and where the gestations periods are likely to be very long. Trading by State may also become necessary for protecting the poor against the vagaries of market forces specially in the field of necessities of life.
- Goods imported from a large number of foreign countries are now freely available in Indian markets.
- Foreign companies now prefer to get their products manufactured in countries like China where labour costs are low. They also prefer to outsource their business operations to countries like India for similar reasons.
- Multinational companies no longer manufacture goods in their country and export the way they did many years ago. They enter into collaboration with partners in developing countries where operational costs are low and where they have a potential market.
- In some cases they take over a company operating in some other country and then expand their operations. The MNCs have vast financial resources and are as such in a position to determine the labour costs and product prices that suit them.
- Foreign trade is almost as old as human civilization. Foreign trade expands the available choices for the consumers. It also helps in equalizing prices over different parts of the world competition improves quality and lowers prices.
- The process of integration between different countries on the globe for purposes of trade is referred to as globalization. It promotes economic development in countries short of capital and technology but rich in labour and natural resources.
- Developments in communication technologies have greatly helped in expansion of foreign trade.
- In some cases it may be necessary to protect local manufacturers from imports. Countries set up trade barriers to protect their national interest. They may be in the form of high import duties or quota restrictions.
- With the establishment of the World Trade Organization, member countries are not expected to raise barriers to free trade. However, countries like USA are unwilling to stop subsidizing their own farmers. However, they do expect that India should allow their insurance and banking companies free access in India.
- Globalization has been a mixed blessing to countries like India. More variety of goods have become available to Indian consumers. However, unable to face competition, a number of Small Scale industrialists have closed down their shops. Globalization has created a new type of jobs at the Call Centers. Foreign Direct Investment is flowing into India and accelerating the tempo of industrial development.
- Foreign companies want India to relax their labour laws. They also expect government to acquire land for them so that they set up joint enterprises. In the absence of any national insurance schemes, the workers cannot be exposed to the hire and fire at will culture. Similarly, agricultural land cannot be handed over to foreign industrialists as that would displace the farmers who would have nowhere else to go for making a living.

- Indian entrepreneurs are now acquiring foreign owned industries in a big way. India needs to develop manufacturing so that funds become available for social service schemes. Unemployment and underemployment in the rural and agricultural sectors can be taken care of. There is a shift from marginal agriculture to large scale industrialization.
- The Small Scale Indian producers however need government support for survival against competition from foreign goods getting freely imported in the country.
- The government should provide better infrastructural facilities. The technologies being used need to be updated. We cannot expect MNCs to support their rivals. Only the government of India has to do the job.
- Globalization can provide jobs only to skilled and highly skilled workers. Even in their case their earnings may low as they cannot bargain with MNCs that have huge resources of labour and capital at their disposal.
- The government would also need to provide social security net to workers as more and more jobs shift to private enterprises.
- While developed countries demand free access to their products they are unwilling to allow free access so far as labour is concerned. Globalization would help people across the world only when all barriers to free trade are removed and free movement of labour is allowed all over the world.

Important Terms

- **Gross Domestic Product** : Value of all goods and services produced within a country during a particular year.
- **Intermediate Goods** : Goods that are used up in producing final goods.
- **Organized Sector** : Enterprises where terms of employment are regular.
- **Primary Sector** : Sector producing goods by exploiting natural resources.
- **Private Sector** : Sector in which ownership of assets and delivery of services is in the hands of the private individuals.
- **Public Sector** : Sector where the government owns most of the assets.
- **Secondary Sector** : Sector in which natural resources are changed into other forms through manufacturing.
- **Service Sector** : Essential services in the tertiary sector like teachers, administrators, etc.
- **Tertiary Sector** : Activities that help in the development of primary and secondary sectors.
- **Under-Employment** : A situation in which there are more people on a job than necessary.
- **Call Center** : An office equipped with telecom facilities and access to internet to provide information and support to customers abroad.
- **Foreign Investment** : Investment made by MNCs.
- **Globalization** : Process of integration or inter connection between countries.
- **Liberalization** : Removing restrictions on foreign trade set by government.
- **Multinational Corporation** : Company that owns or controls production in more than one nation.
- **Special Economic Zones** : Industrial zones with world class facilities for electricity, water roads, transport storage, etc.
- **World Trade Organization** : An organization aiming to liberalize international trade.

Exercise

1

Directions : This section contains multiple choice questions. Each question has 4 choices (1), (2), (3) and (4) out of which only one is correct.

- What is the other name of Primary sector?
 - (1) Service sector
 - (2) Industrial sector
 - (3) Agriculture and related sector
 - (4) None of them
- What does the secondary sector deal with?
 - (1) Manufactured goods
 - (2) Semi-finished goods
 - (3) Raw goods
 - (4) Agricultural goods
- When we produce a good by exploiting natural resources, it is an activity of the sector.
 - (1) primary
 - (2) secondary
 - (3) tertiary
 - (4) none of them
- What does the tertiary sector do?
 - (1) Provides services and goods
 - (2) Provides natural goods
 - (3) Provides manufactured material
 - (4) Provides minerals
- What are Intermediate Goods?
 - (1) These goods are used up in producing final goods and services
 - (2) These goods are directly exploited from nature
 - (3) These goods are raw materials
 - (4) None of them
- GDP is the total value of product during a particular year.
 - (1) all goods and services
 - (2) all final goods and services
 - (3) all intermediate goods and services
 - (4) None of them

7. In terms of GDP the share of tertiary sector in 2003 was
 - (1) between 20% to 30%
 - (2) between 30% to 40%
 - (3) between 50% to 60%
 - (4) 70%
8. Why is tertiary sector becoming so important in India?
 - (1) In a developing country, the government has to take responsibility for the provision of basic necessities.
 - (2) Greater the development of the primary and secondary sectors more would be the demand for tertiary sector.
 - (3) Increase in income levels, leads to more demand of services like tourism, shopping, etc.
 - (4) All of them
9. Are Disguised Unemployment and Under-employment the same?
 - (1) No
 - (2) Yes
 - (3) Might be
 - (4) Can't say
10. What is the 'Right to Work' implementation called in terms of act?
 - (1) MRTTP
 - (2) WHO
 - (3) NREGA
 - (4) UNESCO
11. What was aimed in NREGA 2005?
 - (1) People in need of work have been guaranteed 100 days of employment in a year by government.
 - (2) If the government fails in its duty to provide employment, it will give unemployment allowances to the people.
 - (3) Both (1) and (2)
 - (4) None of them
12. Besides the need of more work, there is also a need for more and of the workers in unorganized sector.
 - (1) protection; support
 - (2) support; entertainment
 - (3) hygiene; healthcare
 - (4) None of them
13. Which sector still government owned and there is no other private owned sector for the same?
 - (1) Railways
 - (2) Airways
 - (3) Postal service
 - (4) Telecommunication
14. In general, where does MNC prefer to set up production?
 - (1) Where it is close to markets
 - (2) Where there is skilled and unskilled labour available at low costs
 - (3) Where availability of other factors of production are assured
 - (4) All of them
15. What is the major benefit to the local company of a joint production with MNC?
 - (1) MNCs can provide money for additional investments
 - (2) MNCs might bring with them latest technology for production
 - (3) MNCs put a status symbol on the local company
 - (4) Both (1) and (2)
16. What is the basic function of foreign trade?
 - (1) Foreign trade creates an opportunity for the producers to reach beyond the domestic markets.
 - (2) Foreign trade creates an opportunity for only the buyer to approach wide variety.
 - (3) Foreign trade uses damaged goods
 - (4) None of them
17. Information and communication technology has played a major role in spreading out across countries.
 - (1) manufacturing of goods
 - (2) processing data
 - (3) production of services
 - (4) improvement in communication
18. Tax on imports is an example of
 - (1) Trade enhancer
 - (2) Trade barrier
 - (3) State regulator
 - (4) None of them
19. How can government use a trade barrier?
 - (1) To increase or decrease foreign trade
 - (2) To decide what kinds of goods should come into the country
 - (3) To decide how much of any commodity should come into the country
 - (4) All of them
20. What is the aim of WTO?
 - (1) To liberalize international trade
 - (2) To support only the least developed countries
 - (3) To promote trade only in developed countries
 - (4) All of them

Exercise

2

Matching Based MCQ

DIRECTIONS (Qs. 1 to 4) : Match Column-I with Column-II and select the correct answer using the codes given below the columns

- | 1. | Column-I | Column-II |
|-----|------------------------------------|------------------------------------|
| (A) | Primary sector | (p) helps to develop other sectors |
| (B) | Secondary Sector | (q) Generates service |
| (C) | Tertiary sector | (r) Produces natural goods |
| (D) | Service sector | (s) Produces manufactured goods |
| (1) | A → (r); B → (p); C → (s); D → (q) | |
| (2) | A → (q); B → (s); C → (r); D → (p) | |

2.

- | Column-I | Column-II |
|------------------------------|--|
| (A) Unirrigated land | (p) Settling up agro based mills |
| (B) Debt burden | (q) Procurement of foodgrains by goods |
| (C) No job in the off season | (r) Banks to provide credit with low interest. |
| (D) Low prices for crops | (s) Construction of canals by the goernment |
| (1) | A → (r); B → (q); C → (p); D → (s) |
| (2) | A → (s); B → (r); C → (p); D → (q) |
| (3) | A → (q); B → (p); C → (s); D → (r) |
| (4) | A → (p); B → (s); C → (r); D → (q) |

3. **Column-I** **Column-II**
- | | |
|----------------------|----------------------|
| (A) Vegetable vendor | (p) Organised sector |
| (B) Teacher | (q) Primary sector |
| (C) Cobbler | (r) Public sector |
| (D) Soldier | (s) Private sector |
- (1) $A \rightarrow (q); B \rightarrow (p); C \rightarrow (s); D \rightarrow (r)$
 (2) $A \rightarrow (s); B \rightarrow (q); C \rightarrow (p); D \rightarrow (r)$
 (3) $A \rightarrow (p); B \rightarrow (s); C \rightarrow (q); D \rightarrow (r)$
 (4) $A \rightarrow (r); B \rightarrow (q); C \rightarrow (s); D \rightarrow (p)$
4. **Column-I** **Column-II**
- | | |
|---------|---|
| (A) MNC | (p) Attract foreign investments |
| (B) SEZ | (q) Arbitrator handling trade disputes |
| (C) WTO | (r) Total value of all goods and services in a year |
| (D) GDP | (s) Controls or owns production in more than one country. |
- (1) $A \rightarrow (s); B \rightarrow (p); C \rightarrow (r); D \rightarrow (q)$
 (2) $A \rightarrow (r); B \rightarrow (s); C \rightarrow (q); D \rightarrow (p)$
 (3) $A \rightarrow (q); B \rightarrow (p); C \rightarrow (s); D \rightarrow (r)$
 (4) $A \rightarrow (s); B \rightarrow (p); C \rightarrow (q); D \rightarrow (r)$

Statement Based MCQ

5. Consider the following statements :
- Globalisation has enabled many companies to enlarge as multinationals.
 - Foreign trade gives opportunity to the producers to reach buyers in domestic market.
 - Globalisation has led to improvement in living condition of workers in the developing countries.
 - Globalisation involves increase of taxes in imports.
- Which of the above statements are correct?
- (1) (a), (c) and (d) (2) (a) and (b)
 (3) (b) and (d) (4) (a), (b) and (d)
6. With reference to multi-national companies, consider the following statements :
- It controls or owns production in more than one nation.
 - It employs labour only from its own country.
- Which of the above statement(s) is/ are correct?
- (1) (a) only (2) (b) only
 (3) Both (a) and (b) (4) Neither (a) nor (b)
7. Consider the following statements :
- Under this Act, all the people who are able and are in need of work have been guaranteed 100 days of employment in one year.
 - It is implemented in 200 districts and also called right to work.
- Which of the above statement(s) is/are correct?
- (1) (a) only (2) (b) only
 (3) Both (a) and (b) (4) Neither (a) nor (b)

Passage Based MCQ

DIRECTIONS (Qs. 8 to 14) : Read the passage(s) given below and answer the questions that follow.

PASSAGE - 1

Over the thirty years between 1973 and 2003, while production in all the three sectors has increased, it has increased the most in

the tertiary sector. As a result, in the year 2003, the tertiary sector has emerged as the largest producing sector in India replacing the primary sector all. The primary sector is the largest employer in the year 2000 which produces only a quarter of the DGP. The secondary and tertiary sectors produce three fourth of the produce whereas they employ less than half the people.

8. Which one is considered as the largest producing sector in 2003?
- | | |
|----------------------|----------------------|
| (1) Primary sector | (2) organised sector |
| (3) Secondary sector | (4) Tertiary sector |
9. Which sector is largest employer in India ?
- | | |
|---------------|--------------|
| (1) Secondary | (2) Primary |
| (3) Tertiary | (4) Tertiary |
10. The secondary and tertiary sectors employ less than the people.
- | | |
|---------------|------------------|
| (1) half | (2) three fourth |
| (3) two third | (4) total |

PASSAGE - 2

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 ' 1700 crore to set up a large plant near Chennai. This was done in collaboration with Mahindra and Mahindra, major Indian manufacturer of jeeps and trucks. By the year 2004, Ford motors was selling 27000 cars in the Indian markets, while 24000 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.

11. In how many countries production of Ford Motors are spread over ?
- | | |
|--------|--------|
| (1) 25 | (2) 26 |
| (3) 28 | (4) 21 |
12. With whom Ford Motors collaborated to set up a plant ?
- | | |
|-------------------------|------------|
| (1) Mahindra & Mahindra | (2) Tata |
| (3) Fiat | (4) Maruti |
13. How many cars were exported from India in 2004 ?
- | | |
|-----------|------------|
| (1) 27000 | (2) 21000 |
| (3) 24000 | (4) 30,000 |
14. Mahindra & Mahindra was a major manufacturer of –
- | | |
|-----------|--------------------|
| (1) Buses | (2) Small cars |
| (3) SUVs | (4) Jeeps & trucks |

Assertion Reason Based MCQ

DIRECTIONS (Qs. 15 and 16) : Following questions consist of two statements, one labelled as the 'Assertion' and the other as 'Reason'. You are to examine these two statements carefully and select the answer to these items using the code given below.

Code :

- Both A and R are individually true and R is the correct explanation of A.
- Both A and R are individually true but R is not the correct explanation of A.
- A is true but R is false.
- A is false but R is true.

15. **Assertion :** Workers in the unorganised sectors suffer from economic exploitation and social discrimination.

Reason : Workers belonging to the scheduled castes, scheduled tribes, Backwards communities work in large numbers in the unorganised sector.

16. **Assertion** : Foreign trade gives opportunity to the buyers to reach producers in the domestic market.

Reason : Special economic zones have been set up to attract foreign companies to invest in India.

Correct Definition Based MCQ

17. What is the correct definition of unemployment ?
 (1) It is a situation when people do not want to work.
 (2) It is a situation when people are not paid for their work.
 (3) It is a situation when people are working in a lazy manner.
 (4) It is a situation when people are working less than what they are capable of doing.
18. What is the correct definition of multi-national companies?
 (1) It is a company that owns or controls production in more than one nation.
 (2) It is a company that owns or controls production in one nation.
 (3) It is a company that owns or controls production outside the nation.
 (4) It is a company that owns production in the country and controlled by the other country.

Feature Based MCQ

19. On the basis of following features identify the correct option
 (I) Its aims is to liberalise international trade.
 (II) Its main function is to establish rules regarding international trade and insure that these rules are obeyed.
 (III) It has 150 countries as its members.
 (IV) It forced the developing countries to remove trade barriers -
 (1) SEZ (2) WTO
 (3) MNC (4) GDP
20. On the basis of following features identify the correct option
 (I) It covers activities in which natural products are changed into other forms.
 (II) It is also called industrial sector -
 (III) It is associated with manufacturing goods.
 (IV) Constructions, hotels are its example.
 (1) Primary sector (2) Secondary sector
 (3) Tertiary sector (4) Public sector

Hints & SOLUTIONS

Exercise 1

1. (3) Since the most of the natural products we get from agriculture, dairy, fishing, forestry, this sector is also called agriculture and related sector.
2. (1) The secondary sector covers activities in which natural products are changed into other forms through ways of manufacturing that we associate with industrial activity.
3. (1) A raw material is converted into a semi-finished good in primary sector. Primary sector makes the base for all other products we make later.
4. (1) Tertiary sector helps primary and secondary sectors to develop.
5. (1) Intermediate Goods are used up in production of final goods and services. The value of intermediate goods is not counted.
6. (2) GDP is the value of all final goods and services produced within a country during a particular year.
7. (3) When compared from 1973 to the year 2003, there has been around 30% expansion in tertiary sector.
8. (4) Tertiary sector plays a major role in ensuring that the final goods and services reach the consumers at the right time and at the right place.
9. (2) Under-employment is hidden in contrast to someone who does not have a job and is clearly visible as unemployed. Hence, it is also called disguised unemployment.
10. (3) Right to work is the original form of NREGA. NREGA stands for National Rural Employment Guarantee, 2005.
11. (3) The types of work that would in future help to increase the production from land will be given preference under this act.
12. (1) In unorganized sector, there are low earnings.
13. (1) Railway is still in the hands of government.
14. (4) MNCs set up offices where they get the best at the cheapest rate. In addition, MNCs might look for government policies that look after their interests.
15. (4) The local company expands with an MNC and is able to achieve more profits. Most common route for MNC investments is to buy up local companies and then to expand production.

16. (1) Foreign trade results in connecting the markets of different countries.
17. (3) Internet which is the most significant invention of the IT sector has changed the face of telecommunication and information sector.
18. (2) Tax is called a 'barrier' because it is a restriction in the field of transportation.
19. (4) Government of India had put trade barriers on foreign trade and foreign investments to protect Indian producers from foreign competition.
20. (1) WTO says that 'there should be no barrier in trade'.

Exercise 2

1. (4) 2. (2) 3. (1) 4. (4)
5. (2) Globalisation is the process of rapid integration between countries and different countries of the world become economically inter - dependent on each other because of it.
6. (1) MNCs are spread across the borders because in many regions, they hope to get cheap labour and other resources.
7. (3) NREGA, 2005 is called National Rural Employment Guarantee Act. According to this Act, 100 days of employment to those persons who are able to and are in need of work.
8. (4) 9. (2) 10. (1) 11. (2)
12. (1) 13. (3) 14. (4)
15. (1) In the unorganised sector, workers are deprived of provident fund, gratuity kind of facilities.
16. (4) Special Economic zones have been set up to attract foreign countries to invest in India and in such zones, world class facilities are available.
17. (1) 18. (1)
19. (2) WTO promotes free trade among the different countries of the world. It has provided an effective mechanism for the settlements of disputes among trading countries.
20. (2)