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INDIAN ECONOMY IN THE GLOBAL CONTEXT

You know that India is one among many countries in the world. Countries do interact with one another and keep relationship in various areas of interest. Citizens of one country travel to other countries as tourists, to seek jobs, to do business, to study, to do charity and on some government assignments etc. In this lesson the major focus is on economic relationship between India and rest of the world.



OBJECTIVES

After completing this lesson, you will be able to:

- *understand the meaning of economic relationship between countries;*
- *understand the importance of Trade;*
- *know the exports and imports of goods and services by India;*
- *understand the meaning of globalization;*
- *know a brief over view of two most important economies, USA and China so that you can have an idea about India's comparative position in the world.*

22.1 MEANING OF ECONOMIC RELATIONSHIP BETWEEN COUNTRIES

If you are in need of money you can borrow it from a friend or from a bank. If you want to buy a book you can pay money to your local book shop and get the book. If you are a seller of goods such as stationery or garments or shoes etc. then you sell them to consumers who pay you. If you want to produce any good, you can invest some money and start a factory and give jobs to people who can provide their labour. All these are examples of economic activities inside your country in which

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the citizens of your country participate. But when such activities take place between the citizens of two or more countries then we call it economic relationship between these countries. Take the example of India. Since we are citizens of India, we call India our domestic country and rest of the world consists of foreign countries. So when there is economic relationship between India and other countries then we mean that Indian citizens are exchanging goods and services (both buying and selling) with citizens of foreign countries and going to foreign countries to do jobs and business. Similarly, foreign citizens are coming to India to do jobs and business etc. Accordingly some examples of Economic relationship can be given as follows:

1. Selling of goods and services by the domestic citizens to citizens in a foreign country. This is called exports.
2. Buying of goods and services by domestic citizens from the foreign countries. This is called imports.
3. Sending gifts to some body in a foreign country and receiving the same from foreign countries.
4. Sending money to and receiving money from foreign countries respectively.
5. Visits made by tourists, business persons and government delegation.

When a country has economic relationship with other countries, then it is called an open economy.

22.2 IMPORTANCE OF TRADE

Examples (i) and (ii) above are part of “trade”. People buy and sell goods and services through markets inside the country. When the same thing takes place between citizens of various countries, we called it international trade.

Exports and imports are international trade in goods and services.

Trading activities are integral part of the economy. It is very difficult to look at life without trade in the economy. Goods are constantly transported from one place to other by trains, trucks, etc inside the country. Similarly aero planes, ships are used to transport goods between countries.

The aim is to provide the goods or service to the person who wants to pay for it, no matter, wherever the buyer resides. It means that distribution of goods or service is possible because of trade. That is why trade is so important. We can think of many other advantages of trade as given below.

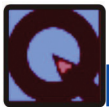
1. Through trade people get a lot of varieties of goods and services. During summer you would always like to have cold drinks. Some of the cold drinks available in the market are coca cola, pepsi cola etc. Do you know from where coca cola came to India first? It was manufactured in USA which is far away from India. Now of course coca cola plants are established in India. But it is still a foreign



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company. Similarly Indian pickles are sold abroad in many countries by Indian business men. There are many examples of Indian goods being consumed by foreign people and foreign goods consumed by Indian people for satisfaction of wants.

2. Trade encourages production of new goods and services. Through trade sellers and buyers interact with each other. So sellers know the choice and preferences of the buyers and accordingly provide the goods and services for consumption.
3. People of different countries meet and interact through trade. Accordingly people of one country can know the culture, tradition, language etc. of another country.
4. Because of international trade it is possible to produce the goods more efficiently because it leads to specialization. This means goods can be produced at lower cost so that people will get them at lower prices. How? A good may be produced in more than one country. But one country may have better raw materials and technology to produce it. Take for example the case of India. In India spices and cotton etc. are easily cultivated due to climatic and soil conditions. Because of its rich customs, tradition and culture India's handicrafts are world famous. So they are easily produced in India at less cost. Accordingly India can specialize in the production of these goods. Hence other countries can buy these goods from India at cheaper price. Similarly in South Africa diamond are easily available because of the mines existing there. You can get many other such examples. The main thing is that if a country can produce a good with better quality and at lower cost, the country will become efficient in the production of that good and gain by exporting the good to other countries.



INTEXT QUESTIONS 22.1

1. Give one advantage of international trade?
2. What do you mean by export?
3. Define import?

22.3 EXPORT AND IMPORT BY INDIA

India is having economic relationship with many countries in the world. As a result India exports many commodities to foreign countries and imports many commodities from the foreign countries. The countries with which India is engaged in export and import activities are called India's trading partners.

(a) India's Exports

The major items that India exports to different countries are engineering goods, handicrafts, chemicals and allied products, readymade garments, cotton yarn, iron



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ore, leather, fish, rice, fruits and vegetables etc. Some of the countries where Indian exports reach, are : France, Germany, UK, USA, Iran, UAE, China, Hongkong, Singapore and some African and Latin American countries.

(b) India’s Imports

Petroleum and lubricants are the most important items that India imports from the Oil and Petroleum Exporting Countries (OPEC) such as Iran, UAE, and Saudi Arabia etc. India also imports non-ferrous metals, capital goods and fertilizer. Capital goods include electrical and non-electrical machinery and transport equipment. India’s imports come from most of the countries to which it exports its goods and services.



INTEXT QUESTIONS 22.2

1. Name two main items of India’s exports?
2. Name two items of India’s imports?
3. Name two major trading partners of India?

22.4 MEANING OF GLOBALIZATION

Now a days the word globalization is commonly used. The reason is obvious. Today television and internet and mobile phones become easily available. People in remote areas can now talk and keep in touch through mobile phones. Today you can watch India-West-Indies cricket match live on television. You can talk to your friend in USA or Europe through mobile phone. There is no need of sending letters if you want to say something in detail. Getting a letter in USA from India takes at least 3 to 7 days. But through internet you can send e-mail which can reach your friend in seconds.

You can order a new good produced in Germany or Japan through internet and it will reach you in India. Because of these developments we think that the world has become very small and looks like various households staying in one village. We should not forget that this development has not taken place in a few days. The process has been there from a long time. In earlier days individuals or groups used to travel to different countries through sea routes to trade goods and services. Travel and sending of goods became easier with the invention of aero plane and ships. Then governments of different counties started interacting with one another in order to minimize any obstacle that may arise so that citizens of all nations can exchange things without any problem. Technological and scientific developments in the field of transport and communication that you see today have made this process of interaction among citizens of different countries easier now. So we are no longer separate in the world even if we are living separately in different places in different countries. Rather people

have come closer to each other through trade, transport and communication systems. People can consume both domestic and foreign goods, go to foreign countries to do jobs and exchange ideas with foreign citizens, export goods and services to different countries etc.

The different countries of the world seem to be coming closer. This process is known as globalization in simple term.



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22.5 COMPARISON OF ECONOMIC DEVELOPMENT IN INDIA, CHINA AND USA

USA is world's one of the most – developed economies. The common thing between India and USA is that they are the two largest democracies in the world i.e. both the countries are governed by the elected representatives of people. The common thing between India and China is that both are part of the Asian continent and are neighbors. Some time back the level of economic development both in India and China was almost similar. Both were developing nations. But in the last few years Chinese economy has been developing very fast. So it is worthwhile to compare these economies. You have already studied Indian economy in previous three lessons. Here, do have a bird's eye view of the economies of USA and China respectively.

22.5.1 Brief account of USA economy

One of the most important features of USA economy is that the private sector plays a major role in production of goods and services. The government does not interfere much in business activities. There are 30 million small business in USA. Out of 500 largest companies in the world, 139 are in USA. About 40 percent of world's richest people stay in USA. American businessmen and corporations have got influence and presence all over the world. Multinational corporations such as ford motors, general electric, coca cola, wall mart etc. have emerged from USA.

USA's agriculture is also very advanced. It is one of the biggest exporters of food grains, such as wheat, corn, fruits and vegetables.

In terms of manufacturing, USA manufacturing output was greater than that of China, India and Brazil combined. Only recently i.e in 2010 China is said to have over taken USA. Petroleum, steel, automobiles, construction machinery, and agricultural machinery are some of the major manufacturing industries in USA.

Education and health care services are of high quality in USA. 85 percent of children enter public schools in USA AS AGAINST 15 percent in India.

USA is one of the top three exporters of goods and services in the world and biggest importer from rest of the world. Every one knows its currency called US dollar (\$) which is an international currency as it is circulated almost everywhere because of USA's dominance in world trade.



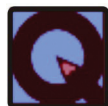
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In spite of its richness USA does have poverty and unemployment. About 16 percent of its population did not have access to good food in 2008. Its unemployment rate in 2010 was 9.9 percent.

22.5.2 The Economy of China

It is said that Chinese economy is now the second largest after USA in the world. Till the 1980s China was not very important in terms of its economic power. Its position was the same as that of India. But after 1980s, China’s economy grew very fast because of the economic reforms it pursued. You should know that unlike India and USA China does not have democracy or rule of people. In China one party rules and people do not enjoy freedom of expression. But Chinese government slowly allowed private sector to establish business and produce goods and services in large quantities. As a result China could export large quantities to different countries and earn large amount of foreign money.

Like India China has also adopted a five year plan strategy. Its twelfth five year plan has started recently and its duration is 2011-2015. The first plan period of China was 1953-57. Through planning and strict implementation of economic reforms China is achieving faster economic development. Now China’s national income and per capita income are growing faster than India’s. During the first half of 2010 China has 10 percent share in the total world exports as compared to only 1.4 percent for India. In the area of controlling its population, China is performing better than India. It is said that India will even overtake China in population in future. Because of its better economic environment China is attracting more money than India from foreign countries towards its industrialization and development of services. Today China’s standard of living has improved so much that its poverty ratio fell from 51 percent in 1981 to 2.5 percent in 2005 while India had 27.5 percent of poor population at that time.



INTEXT QUESTIONS 22.3

1. Tell one common economic feature of India and China.
2. Compare India, China and USA with regard to poverty.



WHAT YOU HAVE LEARNT

- Meaning of economic relationship and benefits of international trade between countries.
- Which commodities India exports and imports.

- The meaning of globalization at elementary level.
- The status of the economies of USA and China respectively so that you can compare them with India which is given in earlier lessons.



TERMINAL EXERCISE

1. Explain the benefits of international trade?
2. Give examples of India's trading partners and some of the commodities it trades?
3. Write a short note on USA economy?
4. Write a short note on Chinese economy?



ANSWERS TO INTEXT QUESTIONS

Intext Questions 22.1

1. International trade leads to specialization and efficient production of goods and services.
2. Selling goods and services to rest of the world is called export.
3. Buying goods and services from rest of the world is called import.

Intext Questions 22.2

1. engineering goods, handicrafts
2. Petroleum, electrical machinery
3. USA, UAE

Intext Questions 22.3

1. Five year planning
2. In 2005, India's poverty ratio was 27.5 percent while that of China was only 2.5 percent. In USA 16 percent of its population did not have access to food in 2008.



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MODULE-8

CONTEMPORARY ECONOMIC ISSUES

23. Environment and Sustainable Development
24. Consumer Awareness

