Chapter 4 Globalisation and the Indian Economy

Question 1: What do you understand by globalisation? Explain in your own words.
Answer:

1. Globalization is a process of interaction and integration among the people, companies, and governments of different nations, a process driven by international trade and investment and aided by information technology.
2. Under globalization the countries that hitherto closed to trade and foreign investment open up their economies and go global. The result is increasing interconnectedness and integration of the economies of the world.
3. Under globalization more and more goods and services, investments and technology are moving between countries.
4. In addition to goods, services, investments, and technology, there is a movement of people who move from one country to another in search of better income, better jobs or better education.

Question 2: What was the reason for putting barriers to foreign trade and foreign investment by the Indian government? Why did it wish to remove these barriers?
Answer:
(1) The government had put restrictions on the import of goods to protect domestic producers from foreign competition because industries were coming up in the 1950s and 1960s, and competition from imports at that stage would not have allowed these industries to come up. Thus, the government allowed imports of only essential items such as machinery, fertilizers, and petroleum. These restrictions helped to attain technological capability within the country.

(2) Starting around 1991, the government wished to remove the barriers due to reasons as mentioned below :

- India had attained technological capability.
- The government decided that the time had come for Indian producers to compete with producers around the globe.
- It felt that competition would improve the performance of producers within the country since they would have to improve their quality.
- There would be an unrestricted exchange of capital, technology, and experience between India and other countries of the world.

Thus, barriers to foreign trade and foreign investment were removed. Now goods could be imported and exported easily. The government reduced taxes on imported goods, and encouraged investors from abroad to invest in India.

Question 3: How would flexibility in labour laws help companies?
Answer:
Flexibility in labour laws will help companies in being competitive and progressive. By easing up on labour laws, company heads can negotiate wages and terminate employment, depending on market conditions. This will lead to an increase in the company's competitiveness.

Question 4: What are the various ways in which MNCs set up, or control, production in other countries?
Answer:
MNCs set up, or control, production in other countries in the following ways :

1. MNCs set up production on the basis of the following factors :
   - Closeness of the place to the markets.
   - Availability of skilled and unskilled labour at low costs.
   - Availability of other factors of production e., raw material, etc.
   - Government's favourable policies.
2. After assuring above conditions, MNCs set up factories and offices for production. They buy assets such as land, buildings, machines and other equipment.
3. At times MNCs set up production jointly with local companies because the local company has knowledge of the local business conditions. Moreover the domestic company has an established framework of business. MNCs provide money and latest technology for production.
4. MNCs buy up local companies to expand production. MNCs with huge wealth can quite easily do so.
5. Some MNCs start as an independent entity right from the beginning.
6. While some of the MNCs produce entirely for the local market, many others produce for the exports markets.
7. MNCs in developed countries place orders for production with small producers of developing countries for various products such as garments, footwear. These products are supplied to the MNCs which sell them under their own brand names to the customers. The MNCs decide their price, quality, delivery, and labour conditions for these distant producers.

Thus we see that there are a variety of ways in which MNCs are spreading their production and interacting with local producers in various countries across the globe. As a result, production in these widely dispersed locations is getting interlinked.

Question 5: Why do developed countries want developing countries to liberalise their trade and investment? What do you think should the developing countries demand in return?
Answer:
Developed countries want developing countries to liberalise their trade and

investment because then the MNCs belonging to the developed countries can set up factories in less-expensive developing nations, and thereby increase profits, with lower manufacturing costs and the same sale price. In my opinion, the developing countries should demand, in return, for some manner of protection of domestic producers against competition from imports. Also, charges should be levied on MNCs looking to set base in developing nations.

Question 6: “The impact of globalisation has not been uniform.” Explain this statement.
Answer:
The impact of globalisation has not been uniform as explained below :
(1) Positive impact :

1. Globalization has resulted in more choices for the consumers who now get better quality and at lower prices several products.
2. This has improved the standard of living of people, particularly living in urban areas.
3. MNCs have increased their investments in developing countries like India in industries such as cell-phones, automobiles, electronics, soft drinks, etc. As a result of it new jobs have been created in developing countries.
4. Some local companies that supply raw materials to MNCs have also benefited.
5. Some local companies in countries like India have been able to invest in newer technology and production methods. They are successful in raising their production standards.
6. Globalisation has enabled some large companies such as Tata Motors, Infosys to emerge as multi-national companies.
7. Companies providing services particularly in the field of information and communication technologies have also benefited by globalisation. Similar is the case in services like data entry, accounting, administrative tasks and engineering.

(2) Negative impact: The impact of globalisation has been harmful too as mentioned below :

1. Creation of special economic zones has disrupted the lives of people who are displaced such as tribals. Sometimes to produce more electricity dams are constructed and their land is submerged and the people are left without any job.
2. **Flexibility in labour laws:** Flexibility in labour laws is allowed by the government to attract foreign investment. This has resulted in worsening the condition of workers because they are appointed on a temporary basis to avoid payment of provident fund and other facilities. No overtime is paid for extra hours of work. The workers are paid low wages.

3. **Effect on small producers:** Globalisation has hit the small producers because they are unable to compete with MNCs or the big producers or manufacturers. Several units have been shut down rendering many workers jobless. In India, small industries which employ about 20 million workers have been hit adversely.
4. From above description, it is clear that the impact of globalisation has not been uniform. It has positive as well as a negative impact.

Question 7: How has liberalisation of trade and investment policies helped the globalisation process?
Answer: Liberalisation of trade and investment policies has helped the globalisation process by making foreign trade and investment easier. Earlier, several developing countries had placed barriers and restrictions on imports and investments from abroad to protect domestic production. However, to improve the quality of domestic goods, these countries have removed the barriers. Thus, liberalisation has led to a further spread of globalisation because now businesses are allowed to make their own decisions on imports and exports. This has led to a deeper integration of national economies into one conglomerate whole.

Question 8: How does foreign trade lead to the integration of markets across countries? Explain with an example other than those given here.
Answer:

1. Foreign trade leads to the integration of markets across countries because it creates an opportunity for the producers to reach beyond the domestic markets i.e., markets of their own countries. Producers can sell their products in the markets of their own country as well as in other countries all over the world. They can also compete in markets located in other countries of the world.
2. The buyers too have a choice between the goods produced in different parts of the world. It enables the consumer to buy according to his requirement.
3. The competition among the producers bring them closer to each other.
4. Sometimes the producers of other countries set up joint ventures as AIG have set up joint venture in insurance sector and are selling their products in India.
   Thus in general, with the opening of trade, goods travel from one market to another. Prices of similar goods in two markets tend to become equal. And producers in the two countries now closely compete against each other even though they are separated by thousands of miles. Foreign trade, thus, results in connecting the markets or integration of markets in different countries.

Question 9: Globalisation will continue in the future. Can you imagine what the world would be like twenty years from now? Give reasons for your answer.
Answer: Globalisation will continue in the future. Twenty years from now, the world will be more globally connected and integrated into one international economy, if this

process continues on a fair and equitable basis. Trade and capital flows will increase alongside the mobility of labour. This will occur because liberalisation will get augmented and MNCs will converge with other companies producing the same goods.

Question 10: Supposing you find two people arguing: One is saying globalisation has hurt our country's development. The other is telling, globalisation is helping India develop. How would you respond to these organisations?
Answer:
Both the arguments have some truth as mentioned below :
Globalisation has helped India develop as mentioned below :

- Many MNCs are making an investment in India in different sectors like insurance banking and food processing.
- These investments have benefited people in a, number of ways which has resulted in the development of the country.
- Now people have choices. They can buy anything of their choice costly or cheap.
- People are getting jobs with a handsome salary.
- The living standard of people has increased.
- Many projects are going on with the help of foreign investment. Different states are making efforts to attract foreign companies to make an investment in their states and are successful in their mission.

The globalisation, however, has hurt the country's development as mentioned below :

- For a large number of small producers globalisation has posed many challenges. Batteries, capacitors, plastics toys, tires, dairy products and vegetable oil industries have been hit badly due to competition.
- Many small units have been shut down rendering many workers jobless.
- As the small industries in India employ the largest number of workers (20 million) in the country, next only to agriculture, it has hurt the development.
  Thus, both arguments have some truth in them. However, if steps are taken to have a fair globalization, then the adverse effects may be minimised and may not hurt the country's development.

Question 11: Fill in the blanks.
Indian buyers have a greater choice of goods than they did two decades back. This is closely associated with the process of _____________. Markets in India are selling goods produced in many other countries. This means there is increasing _____________ with other countries. Moreover, the rising number of brands that we see in the markets might be produced by MNCs in India. MNCs are investing in India because ____________. While consumers have more choices in the market, the effect of rising ______________ and _____________has meant greater _______________among the producers.

Answer:
Indian buyers have a greater choice of goods than they did two decades back. This is closely associated with the process of **globalisation**. Markets in India are selling goods produced in many other countries. This means there is increasing **trade** with other countries. Moreover, the rising number of brands that we see in the markets might be produced by MNCs in India. MNCs are investing in India because **of cheaper production costs**. While consumers have more choices in the market, the effect of rising **demand** and **purchasing power** has meant greater **competition** among the producers.

Question 13: Choose the most appropriate option.
(i) The past two decades of globalisation has seen rapid movements in
(a) goods, services and people between countries.
(b) goods, services and investments between countries.
(c) goods, investments and people between countries.

(ii) The most common route for investments by MNCs in countries around the world is to
(a) set up new factories.
(b) buy existing local companies.
(c) form partnerships with local companies.

(iii) Globalisation has led to an improvement in living conditions
(a) of all the people
(b) of people in developed countries
(c) of workers in the developing countries
(d) none of the above
Answer:
(i) (b)
(ii) (b)
(iii) (d)