Chapter 21: Globalisation and the Indian Economy

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Exercise 21.1 — Short and Long Answer Questions

Q1 What do you understand by globalisation? Explain in your own words.

SOLUTION

Globalisation is the process of rapid integration or interconnection between countries. It refers to the growing interdependence of the world's economies through the movement of goods, services and investments across countries.

MNCs are playing a major role in this process. More and more goods and services, investments and technology are moving between countries. Foreign trade and foreign investment have integrated the markets of different nations, making the world increasingly interconnected.

Answer: Globalisation is the rapid integration or interconnection of countries through the movement of goods, services, investments and technology across borders, driven largely by MNCs.

Q2 What were the reasons for putting barriers to foreign trade and foreign investment by the Indian government? Why did it wish to remove these barriers?

SOLUTION

After Independence, the Indian government put barriers to foreign trade and foreign investment mainly to protect the producers within the country from foreign competition. Industries were just coming up in the 1950s and 1960s, and competition from imports at that stage would not have allowed these industries to develop. India therefore allowed imports of only essential items such as machinery, fertilisers, petroleum, etc.

Around 1991, the government decided to remove these barriers because it felt

that Indian producers were now ready to compete with producers around the world. It was assumed that this competition would improve the quality of goods produced within the country. This decision was supported by powerful international organisations, and thus barriers on foreign trade and foreign investment were removed to a large extent.

Answer: Barriers were put to protect the newly developing Indian industries from foreign competition; they were removed around 1991 as Indian producers were considered ready to compete internationally, which would improve quality.

Q3 How would flexibility in labour laws help companies?

SOLUTION

Companies, especially MNCs, look for the cheapest way to produce goods so as to earn greater profits. To reduce costs, they seek flexibility in labour laws.

Flexibility in labour laws allows companies to hire workers 'flexibly' for short periods when there is intense pressure of work and to let them go when the work is over. This helps companies reduce the cost of labour, since they do not have to keep a permanent workforce or provide the security and benefits associated with regular employment, thereby increasing their profits.

Answer: Flexibility in labour laws lets companies hire workers for short periods during heavy work and release them afterwards, reducing labour costs and increasing profits.

Q4 What are the various ways in which MNCs set up, control or produce in other countries?

SOLUTION

MNCs set up, control and produce in other countries in several ways.

First, they set up production jointly with some of the local companies of these countries, providing money for additional investments and bringing in the latest technology for production.

Second, and the most common route, MNCs buy up local companies and then expand production. With their huge wealth they can easily do so.

Third, MNCs place orders for production with small producers. Garments, footwear, sports items, etc., are examples of these industries where production is

carried out by a large number of small producers around the world; the products are supplied to the MNCs which then sell these under their own brand names to customers.

Answer: MNCs set up production jointly with local companies, buy up existing local companies to expand production, or place orders with small producers who supply goods sold under the MNC's brand name.

Q5 Why do developed countries want developing countries to liberalise their trade and investment? What do you think should the developing countries demand in return?

SOLUTION

Developed countries want developing countries to liberalise their trade and investment so that their MNCs and goods can enter and operate freely in the markets of developing countries. Removing trade and investment barriers gives developed countries and their companies wider markets and greater freedom to invest and produce.

In return, developing countries can demand that developed countries also remove their own trade barriers. In practice, developed countries have unfairly retained trade barriers, for example large sums given as subsidies to their farmers, while pressing developing countries to open up. Developing countries should therefore demand a fair and equal opening of markets and the removal of such subsidies so that trade is conducted on fair terms.

Answer: Developed countries want liberalisation so their MNCs and goods can enter developing-country markets freely; in return developing countries should demand that developed countries also remove their own trade barriers and unfair subsidies.

Q6 “The impact of globalisation has not been uniform.” Explain this statement.

SOLUTION

Globalisation has had different effects on different people, and its benefits have not been shared equally.

It has benefited well-off consumers and also producers with skill, education and wealth. Consumers, particularly the well-off sections in urban areas, enjoy greater choice of goods and improved quality at lower prices. New jobs have been

created in industries such as cell phones, automobiles, electronics and in services like IT. Top Indian companies have benefited from increased competition, and some have emerged as MNCs themselves.

However, for a large number of small producers and workers the impact has been harmful. Many have been hurt by rising competition; several units producing goods such as batteries, plastics, tyres and dairy products have been forced to shut down, causing unemployment. The pressure to cut costs has also worsened the conditions of workers. Thus the benefits of globalisation have reached mainly the powerful, while many others have been left behind.

Answer: Globalisation has benefited well-off consumers and skilled, wealthy producers and large companies, but has hurt many small producers and workers through intense competition, closures and poor working conditions — so its impact has been unequal.

Q7 How has liberalisation of trade and investment policies helped the globalisation process?

SOLUTION

Liberalisation means the removal of barriers or restrictions set by the government on foreign trade and foreign investment. With liberalisation, businesses are allowed to make decisions freely about what they wish to import or export, and the government imposes much fewer restrictions than before.

By removing these barriers, liberalisation allowed foreign goods, services, investments and MNCs to move more freely across countries. This led to a much greater flow of trade and investment between nations, integrating markets across countries. Since globalisation is precisely this increasing integration and interconnection, liberalisation of trade and investment policies has directly speeded up and deepened the globalisation process.

Answer: By removing government restrictions on foreign trade and investment, liberalisation allowed goods, services, investments and MNCs to move freely across countries, greatly increasing trade and integrating markets — thus speeding up globalisation.

Q8 How does foreign trade lead to integration of markets across countries? Explain with an example other than those given here.

SOLUTION

Foreign trade creates an opportunity for producers to reach beyond the domestic markets, i.e., markets of their own countries. Producers can sell their goods not only in markets within the country but also compete in markets located in other countries. Similarly, buyers can import and purchase goods produced in other countries besides those produced within their own country. As a result, producers and buyers in distant locations are connected through trade, and goods travel from one market to another. Hence, foreign trade results in connecting the markets of different countries, leading to their integration.

Example: Suppose India produces cotton shirts of good quality at a low price. A trader in a country like Germany can import these shirts from India and sell them there. If Indian shirts are cheaper or better, buyers in Germany will prefer them, and the price of shirts in the two countries will tend to become similar. In this way, the markets for shirts in India and Germany get connected and integrated through foreign trade.

Answer: Foreign trade lets producers sell and buyers purchase across countries, so goods flow between distant markets and their prices come closer, integrating the markets — e.g., cheap Indian cotton shirts sold in Germany link the two shirt markets.

Exercise 21.2 — Fill in the Blanks

Q1 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.

SOLUTION

The greater choice of goods for Indian buyers is a result of the process of globalisation.

Markets in India selling goods produced in many other countries shows increasing foreign trade / trade with other countries.

MNCs are investing in India because of the availability of cheap labour and other resources here, which lowers their cost of production. Because of rising competition and investment, there is greater competition among the producers.

Answer: globalisation; foreign trade (trade); cheap labour/resources are available (lower production cost); competition and investment → greater competition among producers.

Exercise 21.3 — Match the Following

Q1 Match the following. (i) MNCs buy at cheap rates from small producers (ii) Quotas and taxes on imports are used to regulate trade (iii) Indian companies who have invested abroad (iv) IT has helped in spreading of production of services (v) Several MNCs have invested in setting up factories in India for production — (a) Automobiles (b) Garments, footwear, sports items (c) Call centres (d) Tata Motors, Infosys, Ranbaxy (e) Trade barriers

SOLUTION

(i) MNCs buy at cheap rates from small producers → (b) Garments, footwear, sports items — these are made by small producers whose goods MNCs buy and sell under their brand names.

(ii) Quotas and taxes on imports are used to regulate trade → (e) Trade barriers — quotas and taxes are examples of trade barriers.

(iii) Indian companies who have invested abroad → (d) Tata Motors, Infosys, Ranbaxy — these Indian companies have become MNCs by investing abroad.

(iv) IT has helped in spreading of production of services → (c) Call centres — call-centre services spread across countries because of IT.

(v) Several MNCs have invested in setting up factories in India for production → (a) Automobiles — MNCs have set up factories in India for producing automobiles.

Answer: (i)-(b), (ii)-(e), (iii)-(d), (iv)-(c), (v)-(a).

Exercise 21.4 — Choose the Most Appropriate Option

Q1 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.

SOLUTION

Globalisation over the past two decades has seen a rapid increase in the movement of goods, services and investments between countries.

There has not been a similar free movement of people between countries, so options mentioning 'people' are incorrect.

Answer: (b) goods, services and investments between countries.

Q2 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.

SOLUTION

The most common route for MNCs to invest in other countries is to buy up existing local companies and then expand their production.

With their enormous wealth, MNCs can easily buy local companies, which is a quicker and more common route than setting up new factories or forming partnerships.

Answer: (b) buy existing local companies.

Q3 Globalisation has led to improvement in living conditions (a) of all the people (b) of people in the developed countries (c) of workers in the developing countries (d) none of the above

SOLUTION

The impact of globalisation has not been uniform. It has not improved the living conditions of all people; many small producers and workers have in fact been harmed.

Since globalisation has not improved living conditions for all people, nor uniformly for people in developed countries or for workers in developing countries, the correct choice is 'none of the above'.

Answer: (d) none of the above.