Chapter 4 – Globalisation and the Indian Economy

In a matter of years, our markets have transformed.

Production Across Countries

Trade was the main channel connecting distant countries. Large companies, which are now called Multinational Corporations (MNCs) play a major role in trade. An **MNC** is a company that owns or controls production in more than one nation. MNCs set up offices and factories for production in regions where they can get cheap labour and other resources so that the company can earn greater profits.

Interlinking Production Across Countries

The money that is spent to buy assets such as land, building, machines and other equipment is called **investment**. An investment made by MNCs is called **foreign investment**. MNCs are exerting a strong influence on production at these distant locations. As a result, production in these widely dispersed locations is getting interlinked.

There are a variety of ways as mentioned below, in which MNCs are spreading their production and interacting with local producers in various countries across the globe.

1. By setting up partnerships with local companies
2. By using the local companies for supplies
3. By closely competing with the local companies or buying them up

MNCs set up production jointly with local companies which benefits local companies in the following ways:

1. First, MNCs can provide money for additional investments, like buying new machines for faster production.
2. Second, MNCs might bring with them the latest technology for production.

Foreign Trade and Integration of Markets

Foreign trade creates an opportunity for the producers to reach beyond the domestic markets. Producers can sell their products not only in markets located within the country but can also compete in markets located in other countries of the world. Similarly, buyers have the options to choose among various goods beyond domestically produced goods. Thus, foreign trade results in connecting the markets or integration of markets in different countries.

What is Globalisation

Globalisation is the process of rapid integration or interconnection of countries. MNCs are playing a major role in the globalisation process.

- More and more goods and services, investments and technology are moving between countries.
- There is one more way in which the countries can be connected. This is through the movement of people between countries.

Factors that have Enabled Globalisation

Technology

Rapid improvement in technology has been one major factor that has stimulated the globalisation process. This has made possible much faster delivery of goods across long distances at lower costs. The developments in information and communication technology have made information instantly accessible.

Liberalisation of Foreign Trade and Foreign Investment Policy

Trade barriers are some restrictions that have been set up by governments. The government can use trade barriers to increase or decrease (regulate) foreign trade and to decide what kinds of goods and how much of each, should come into the country. Tax on imports is an example of trade barrier.

Removing barriers or restrictions set by the government on trade is known as **liberalisation**. When the government imposes less restrictions than before, it is said to be more liberal.

World Trade Organisation

World Trade Organisation (WTO) is an organisation whose aim is to liberalise international trade. At present, 164 countries of the world are currently members of the WTO. It has established rules for developed countries regarding international trade so that these countries can allow free trade for all.

Impact of Globalisation in India

Globalisation has impacted the lives of people in India in the following manner:

1. It has provided greater choices to consumers who now enjoy improved quality of and lower prices on several products.
2. It has resulted in higher standards of living.

Globalisation has also created new opportunities for companies providing services, particularly in the IT sector.

The Struggle for a Fair Globalisation

Fair globalisation creates opportunities for all and also ensures that the benefits of globalisation are shared better. The government can play a major role in making this possible.

Some of the steps that the government take are:

1. It can ensure that labour laws are properly implemented and the workers get their rights.
2. It can support small producers to improve their performance.
3. If necessary, the government can use trade and investment barriers.
4. It can negotiate at the WTO for 'fairer rules'.
5. It can also align with other developing countries with similar interests to fight against the domination of developed countries in the WTO.

Exercises

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

Answer: Globalisation is defined as the integration between countries through foreign trade and foreign investments by multinational corporations (MNCs). Increase in foreign trade, migration of people from one country to another, the flow of capital finance from one country to another and private and public investments from foreign countries all together contribute to globalisation.

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

Answer: The main reason for putting barriers to foreign trade and foreign investment by the Indian government was to protect the interest earned by producers and small industrialists of our country from foreign competition.

But later it was accepted by the government that foreign competition would encourage Indian industrialists to improve the quality of their products and removing these barriers would increase trade and quality of products produced in the country.

3. How would flexibility in labour laws help companies?

Answer: Flexibility in labour law helps companies because it helps to attract foreign investments. Instead of hiring workers on a regular basis, companies hire workers flexibly for short periods when there is intense pressure of work. This is done to reduce the cost of labour for the company. However, still not satisfied, foreign companies are demanding more flexibility in labour laws. The competition in the market is increasing each day, and if the Government does not allow flexibility with these laws, the foreign companies will not be able to reach their desired profit levels.

4. What are the various ways in which MNCs set up, or control, production in other countries?

Answer: MNCs set up and control production by investing a huge amount of money in a country's economy. It sets up production units close to the market so that they get cheaper labour. To increase production, MNCs collaborate with some local companies as the production rate would rapidly increase. In most of the cases, the MNCs buy local companies and expand their production. The other way in which they control production is by placing the orders for production with small and local producers. They help production using technology and heavy machinery, which makes the work more efficient and productive.

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 MNCs can set up industries in small and developing nations, which are less expensive and can earn them more profit. The labour cost decreases the manufacturing cost, and these decreases in cost results in an increase in profit. Also setting up factories and industries in developed countries increases competition. The developing countries should, in turn, ask for a fair removal of trade barriers in order to protect their own industries.

6. "The impact of globalisation has not been uniform." Explain this statement.

Answer: The impact of globalisation has not been uniform because only the developed countries have gained profits due to globalisation. The developing countries are only a source of setting industries and getting cheaper labour, and the entire profits are earned by the developed countries. The small industries and companies in developing countries have constantly been facing challenges in terms of earning profits and brings their goods in the market.

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

Answer: The liberalisation of trade and investment policies helped the globalisation process because it has helped in the removal of trade barriers. It has made foreign trade and investment easier. The choices of the buyers have also expanded, as now they get to choose products manufactured by not only domestic companies but also by the foreign companies. Competition among traders has resulted in the cheaper price of products. Liberalisation has spread globalisation as the decision making power of export and import now lies with the businessmen themselves.

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

Answer: Foreign trade has led to the integration of markets across the countries. Because of foreign trade, the producers are now able to compete and export their goods to the markets of other countries. Opportunities are provided not just for the seller but also for the buyer to get goods outside their own country. Their choices have expanded as now they get to choose products manufactured by not only domestic companies but also by the foreign companies.

The price of these goods has decreased because of the competition in the market. Producers from different countries are now able to compete not just with the competitors in their own country, but with across the world. The Indian market today is not flooded with goods made in India but goods from all across the world at an affordable price.

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 as well. Twenty years from now, the production of goods will be more efficient, competition in the market will increase, advancement in every field will be evident and the quality and quantity of goods produced will also increase. Small industries and entrepreneurs will increase as more opportunities will be provided to them.

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 arguments?

Answer: Globalisation has its pros and cons, and there are various advantages and disadvantages of the increasing globalisation in the country. The advantages of increased globalisation include improved trade opportunities and the increase in the number of employed because of small scale industries. The profit market has increased, and the increase in imports and exports has increased the economy of the nation. People can buy goods that are made across the world at cheaper prices.

The disadvantages of globalisation include that globalisation has increased the income of the rich and has decreased the income of the poor because the small scale local industrialists are unable to earn much profit. Thereby increasing income inequality.

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 the 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.

12. Match the following.

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

Answer:

(i) MNCs buy at cheap rates from small producers	(b) Garments, footwear, sports items

(ii) Quotas and taxes on imports are used to regulate trade	(e) Trade barriers
(iii) Indian companies who have invested abroad	(d) Tata Motors, Infosys, Ranbaxy
(iv) IT has helped in spreading of production of services	(c) Call centres
(v) Several MNCs have invested in setting up factories in India for production	(a) Automobiles producers

13. Choose the most appropriate option.

1. 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.

Answer: c. goods, services and investments between countries

2. 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.

Answer: c. buy existing local companies

3. Globalisation has led to 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: d. none of the above