

# Globalisation and the Indian Economy

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## Practice Questions

**Q.1. Differentiate between investment and foreign investment.**

**Answer**

INVESTMENT	FOREIGN INVESTMENT
<ul style="list-style-type: none"><li>• It refers to the money invested in assets like land and buildings, plant and machinery and others for earning profits.</li></ul>	<ul style="list-style-type: none"><li>• It refers to the flow of capital between countries in the form of investment in assets like land and buildings, plant and machinery and others.</li></ul>
<ul style="list-style-type: none"><li>• It is made within the borders of specific countries.</li></ul>	<ul style="list-style-type: none"><li>• It occurs as fund flows between countries.</li></ul>
<ul style="list-style-type: none"><li>• It is made with the motive of earning profits.</li></ul>	<ul style="list-style-type: none"><li>• It enables investors to gain control and say in the economy of other countries.</li></ul>
<ul style="list-style-type: none"><li>• E.g. If a person is investing the properties and companies established in the country, it is a domestic investment.</li></ul>	<ul style="list-style-type: none"><li>• E.g. If a person is investing the properties and companies established in a foreign country, it is foreign investment.</li></ul>

**Q.2. What is the basic function of foreign trade?**

**Answer:** Foreign trade or international trade is the exchange of goods and services between countries. It is an important component of the economy. The basic function of international trade is the integration of markets in different countries. It will give a lot of opportunities and openings for the domestic producers and consumers to reach out beyond the domestic market. Producers can sell their commodities to buyers from around the world. Consumers also have the choice to select commodities produced beyond the domestic markets. The prices tend to be equal in both the markets gradually. Thus, foreign trade widens the markets for both producers and consumers and helps in connecting the markets worldwide.

**Q.3. What prompts people to move from one country to another?**

**Answer:** The movement of people and human settlements from one area to the other more developed areas is known as migration. Employment opportunities, higher standard of living, higher income, better facilities and infrastructure force people to migrate from less developed countries to a more developed country.

**Q.4. Which factors are responsible for the faster delivery of goods across the world in recent times?**

**Answer:** The development of the transportation network is responsible for the faster delivery of goods across the world in recent times. The transport system is the service by which persons and goods move from one place to the other using humans, animals or vehicles. Transport system establishes the links between producing centres and consuming centres. Transport provides the link through which trade takes place. Transport system also acts as an artery for communication within the nation and among the nations. The principal modes of transportation are land ways, waterways, airways and through pipelines. To be established as a major trading centre, the country must have a well-connected transit network. The integrated operation of all the means of transportation is essential for its effective functioning. Thus the development of transport is very important for a country's progress.

**Q.5. After independence, which items were allowed to be imported by the government of India?**

**Answer:** After independence, the Indian government had placed restrictions on foreign trade and foreign investment. This was to protect the domestic producers from foreign competition as the competition from imports would not have allowed these industries to develop. Thus, only imports of only essential items such as machinery, fertilisers and petroleum were made.

**Q.6. Give some examples of industries in which MNCs have been interested.**

**Answer:** Multi-National Corporations are large companies established in a particular country and has offices, markets and produces and sells its products in many countries. MNCs increase and decrease their investment based on the demand for their commodities in the global market. In recent times, the demand for automobiles (especially cars), communication devices like mobiles and fast food chains have the greatest demand thus encouraging the firms to invest more in these sectors.

**Q.7. What has brought about the availability of a greater choice of goods in the market for the consumer?**

**Answer:** Globalisation and development of trade have resulted in the availability of a greater choice of goods in the market for the consumer. Globalisation is the interconnection between countries through the expansion of foreign trade and foreign investment. It helps in the integration of the markets in different countries. It will give a lot of opportunities and openings for domestic consumers to reach out beyond the domestic market. Consumers also have the choice to select commodities produced beyond the domestic markets. The prices tend to be equal in both the markets gradually. Thus, foreign trade widens the markets for consumers and helps in connecting the markets worldwide.

**Q.8. Recent studies point out that small producers in India need three to compete better in the market (a) better roads, power, water, raw material, marketing and**

**information network (b) improvement and modernization to technology (c) timely availability to credit at reasonable interest rates.**

**(a)** Can you explain how these three things would help Indian producers?

**(b)** Do you think MNCs will be interested in investing in these? Why?

**(c)** Do you think the government has a role in making in these facilities available? Why?

**(d)** Can you think of any other step the government could take? Discuss.

**Answer:** (a) Better roads, power, water, raw material, marketing and information network, improvement and modernization to technology and timely availability to credit at reasonable interest rates will give a lot of opportunities and openings for the domestic producers to reach out beyond the domestic market. Producers can sell their commodities to buyers from around the world.

(b) The MNCs would not be interested in investing in these fields. They will be interested to invest their money in assets like land and buildings, plant and machinery and others for earning profits. Also, the development of these facilities would help Indian producers. Thus the MNCs will not be interested to invest and improve these facilities.

(c) Yes, the government has a role in making these facilities available. Government is the only body that would be able to provide these services at a cheap rate to everyone. All these facilities will give a lot of opportunities and openings for the domestic producers to reach out beyond the domestic market. Producers can sell their commodities to buyers from around the world. This will enable them to increase the national income.

(d) The government has a role in making facilities like better roads, power, water, raw material, marketing and information network, improvement and modernization to technology and timely availability to credit at reasonable interest rates available. Government is the only body that would be able to provide these services at a cheap rate to everyone. Other than these facilities, the government should also make administration changes to reduce corruption and lobbying, promote domestic products and provide subsidies and assistance to domestic industries.

**Q.9. Explain how the markets of today are different from the ones which existed two decades ago.**

**Answer:** Globalisation and expansion of foreign trade have resulted in the emergence of highly integrated and united markets. Some decades ago restrictions were placed on foreign trade and foreign investment. This was to protect the domestic producers from foreign competition as the competition from imports would not have allowed these industries to develop.

Globalisation and development of trade have resulted in the availability of a greater choice of goods in the market for the consumer. Globalisation is the interconnection between countries through the expansion of foreign trade and foreign investment. It helps in the integration of the markets in different countries. It will give a lot of

opportunities and openings for domestic consumers to reach out beyond the domestic market. Consumers also have the choice to select commodities produced beyond the domestic markets. The prices tend to be equal in both the markets gradually. Thus, foreign trade widens the markets for consumers and helps in connecting the markets worldwide.

Globalisation has resulted in greater competition among the producers. Producers in the home countries compete with the foreign producers and products thus improving the quality of the goods and services produced. This greater competition has resulted in the improved standards of the products produced at a lower price. This increased quality of products at lower prices has raised their standard of living significantly.

#### **Q.10. How has competition benefited people in India?**

**Answer:** Globalisation and development of trade have resulted in increased competition. It has resulted in the availability of a greater choice of goods in the market for the consumer. Globalisation is the interconnection between countries through the expansion of foreign trade and foreign investment. It helps in the integration of the markets in different countries.

Globalisation has resulted in greater competition among the producers. The growth of MNCs has increased the competition very rapidly. Producers in the home countries compete with the foreign producers and products thus improving the quality of the goods and services produced. This greater competition has resulted in the improved standards of the products produced at a lower price. This increased quality of products at lower prices has raised their standard of living significantly. Consumers also have the choice to select commodities produced beyond the domestic markets. The prices tend to be equal in both the markets gradually. Thus, foreign trade widens the markets for consumers and helps in connecting the markets worldwide.

#### **Q.11. How India can contribute to the spreading of production by an MNC?**

**Answer:** Multi-National Corporations are large companies established in a particular country and has offices, markets and produces and sells its products in many countries. They try to integrate and control the production across countries where close markets, low labour and high profits are earned. Thus they can develop an easy market in developing countries like India which exhibit all these characteristics. They control the market to maintain their economic and social power and their marketing network. MNCs generally link the production across countries by three methods. It can be explained as-

- Produce jointly with local companies- MNCs may set up their production jointly with some local companies of the home country. This benefits the local companies in two ways. MNCs provide them with the monetary help they need by additional investment. They also provide them with the latest upgraded technology and equipment for production.

- Purchase local companies- This is the most common method through which MNCs expand their production. Because of the huge amount of wealth and assets they own, they can purchase the finest local companies. MNCs can purchase well-performing local companies and expand their production taking advantage of the local company's reputation and name.

E.g. - An American MNC Cargill Foods had purchased an Indian company Parakh Foods that had a large marketing network and high reputation. Thus, Cargill Foods can expand its production.

- Place orders for products locally- MNCs may use this method to control the local production. MNCs may place orders for their commodities with the local producers of developing countries. This will reduce the cost of production and also reduce the risk of local competition. MNCs sell these products under their own brand name. MNCs have the authority to determine the price, quality, labour conditions and delivery of these products. It is commonly found in the garments, footwear and sports industries.

**Q.12.** Nearly all major multinational are American, Japanese or European, such as Nike, Coca-Cola, Pepsi, Honda, and Nokia. Can you guess, why?

Answer: Multi-National Corporations are large companies established in a particular country and has offices, markets and produces and sells its products in many countries. They try to integrate and control the production across countries where close markets, low labour and high profits are earned. Nearly all major multinational are American, Japanese or European. The main reason for the dominance of developed countries as MNCs are:

- Large size: MNCs are huge organisations that own and control huge resources in terms of capital, technology, people and information. They have large physical and financial assets and bulk sales. They are very mammoth organisations whose monthly budget may even surpass the annual budget of countries. Such a massive quantity of resources can be amassed by developed countries.

- Multi-country operations: MNCs operate in many different countries. They have a very vast marketing network. Their assets may be diversified in many countries. Thus they carry out their production, marketing and sales in many countries, even in all the continents. Only developed countries like America, Japan or Europe has the potential in terms of resources and management to ensure these large scale operations.

- Sophisticated technology and professional management: MNCs will always have highly sophisticated and advanced techniques and technology for production. They will always develop newer cost-reducing methods of production through consistent spending in research and development. Also, they employ the most efficient and professional staffs to handle the organisation. This helps them to reap huge profits. Only developed countries like America, Japan or Europe has the potential in terms of resources and management to ensure rapid technological developments.

- **Mighty organisations:** Mostly MNCs are very powerful organisations who try to retain their economic and political powers through consistent mergers and acquisitions. They may have some degree of monopoly due to economic and technical advantage. Only the developed countries have an influence because of their political and economic power to influence the decision of other economies.

**Q.13. In recent years China has been importing steel from India. Explain how the import of steel by China will affect.**

- (a) Steel companies in China
- (b) Steel companies in India.
- (c) Industries buying steel for production of other industrial goods in China.

**Answer:**

(a) The steel companies in China will face serious competition from the import of steel from India. The competition will increase very rapidly. Chinese producers will have to compete with Indian producers thus improving the quality of their domestically produced steel. This greater competition will result in the improved standards of the products produced at a lower price.

(b) The steel companies in India will be benefitted by the import of steel from the country. This will increase their revenue. Also, they will be compelled to increase the quality of the steel produced in the country to maintain and increase the quantity exported. The production of steel will increase as companies will increase their production. But this excess production will finally result in a reduction in the price of steel.

(c) The Chinese industries buying steel for further production will be the ultimate beneficiaries of this increased imports of steel. With the import of steel Chinese producers because of the increased competition will have to improve the quality of their domestically produced steel. This will result in the improved standards of the products produced at a lower price. The production of steel will increase as the Indian companies will increase their production due to the higher export demand. This will finally enable the companies to procure better quality steel at a lower price.

**Q.14. Do you think globalisation would have been possible without the expansion of Information Technology (IT)? Comment.**

**Answer:** Globalisation is the interconnection between countries through the expansion of foreign trade and foreign investment. It is the process of integrating the home country with foreign countries through the movement of goods, services, investment, technology and people. Information and Communication Technology (IT) is an important driving force for the success of globalisation.

Telecommunication facilities, especially the internet has significantly contributed to the success of globalisation. The development of services like e-banking has increased the

pace in which transactions are carried out around the world. Today, the world is just a click away. IT has facilitated and improved communication, lowered the cost of transportation thus helping to transport goods to other countries cheaply and has ensured more co-operation among firms through increased networking. It has contributed to the development of advanced technology of production and their transmission throughout the world. The development of financial and logistic services is the main carrier of an improved globalised world. The establishment of call centres and other allied services in other countries has also contributed to growth in the service sector. Sophisticated technologies help in instant communication throughout the world thus making globalisation a success story.

**Q.15. “Due to globalisation, competition and uncertain employment prevails”.  
Comment.**

**Answer:** Globalisation is the interconnection between countries through the expansion of foreign trade and foreign investment. It is the process of integrating the home country with foreign countries through the movement of goods, services, investment, technology and people. Due to globalisation, competition and uncertain employment prevail.

Globalisation is a major challenge to the small traders. Because of the growing competition from the MNCs, small companies who are unable to withstand the increased competition are shutting down their companies. The unchecked imports of the goods without any restrictions and the aggressive advertising strategies taken by the MNCs has resulted in the closure of many small, domestic industries leading to large unemployment.

Uncertain jobs have increased after globalisation. Globalisation has resulted in jobless growth. The government has allowed the flexibility of labour to attract foreign investment. With the increasing competition in the market, MNCs placing orders for their products in the domestic countries are forcing the domestic producers to employ workers for a temporary basis to reduce their cost of production. Thus, they need not pay them for the whole year and can employ additional workers only during the peak seasons of demand. This results in uncertainty in jobs.

**Q.16. “Whether companies should have flexible policies for employment or not?”  
Discuss.**

**Answer:** Globalisation is the interconnection between countries through the expansion of foreign trade and foreign investment. It is the process of integrating the home country with foreign countries through the movement of goods, services, investment, technology and people. Flexibility in labour laws is an important impact of globalisation.

Government is providing many incentives for the MNCs to attract foreign companies. In the organised sector, the rights of the workers are protected. But MNCs are allowed to overlook many of these rules. One such incentive provided to the MNCs is flexibility in labour laws.

According to this, the companies are allowed to hire workers for short periods of time when the pressure of work is more, rather than hiring them on a regular basis. This is a way to reduce the cost of production for the companies. With the increasing competition in the market, MNCs placing orders for their products in the domestic countries are forcing the domestic producers to employ workers on a temporary basis to reduce their cost of production. Thus, they need not pay them for the whole year and can employ additional workers only during the peak seasons of demand. Also, workers are made to work overtime, but they are paid less. This results in uncertainty in jobs.

This uncertainty in jobs can have serious implication in the living standards of the people. Thus the companies should not adopt flexibility employment policies.

**Q.17. Analyse the role of Chinese toys in India.**

**Answer:** Globalisation has resulted in the trade of foreign commodities in domestic countries. Globalisation is the interconnection between countries through the expansion of foreign trade and foreign investment. It is the process of integrating the home country with foreign countries through the movement of goods, services, investment, technology and people.

With the growing globalisation, Chinese manufacturers are exporting Chinese toys to the Indian economy. In India, toys are sold at a high price. Because of this high price for toys, the Chinese manufacturers have started to export plastic toys to India. It will give a lot of opportunities and openings for domestic consumers to reach out beyond the domestic market. The consumers can choose between Indian and Chinese toys. Chinese toys have become more popular in the Indian markets due to its low price and attractive designs. Thus a large proportion of Indian toys have been substituted with much cheaper Chinese toys. This has also reduced the price of toys in the Indian market.

But the producers are at a loss because of the import of Chinese toys. Producers in India has to compete with the Chinese producers. Even though this greater competition has resulted in the improved standards of the products produced at a lower price, Indian producers are having a tough time competing in the market. The Chinese toys are far better in terms of cost of production and designs.

Thus the excessive import of toys has enabled the Indian buyers to have a wider choice at lower prices. The Chinese toy makers also acquire an opportunity to expand their production and profits. But the Indian producers face losses and many are shutting down their production.

**Q.18. “Globalisation is fun.” Elaborate.**

**Answer:** Globalisation is the interconnection between countries through the expansion of foreign trade and foreign investment. It is the process of integrating the home country with foreign countries through the movement of goods, services, investment, technology and people.



Globalisation act as means of social change in society. New ideas, technologies, attitudes and planning spread from different countries because of this. It results in the mingling of people from varied cultures and beliefs. It results in the development of combined culture. It enables the people to break their constricted stereotypes and attitudes and widen their mental, emotional and psychological attitudes.

Globalisation also results in the inflow of additional investment to the home country. Huge firms with many resources may bring in their additional share of investment. This is particularly beneficial to the developing countries that have scarcity in resources.

New and advanced technology is also an advantage of globalisation. MNCs, bring in with them the latest technology as an investment to the home country. MNCs always have new and advanced technology for operations which can be used by the home countries to increase their production.

Globalisation will result in increased employment opportunities. MNCs always bring in with them the bulk of employment opportunities. They will require qualified and professional employees for the management of their regional offices in the home country. It will also increase employment in allied sectors like transportation, IT and other industries. They will also generate a lot of other jobs in sectors like footwear and garments when they place orders for the products with the local industries. This increases employment opportunities in the home country.

Thus globalisation is fun if its positive aspects are considered. But it has also widened the gap in income distribution, jobless growth, insecure jobs and the shutting down of many domestic industries. In short, globalisation has resulted in the domination of the large MNCs in the world economy.

#### **Q.19. How has improvement in technology stimulated the globalisation process?**

**Answer:** Globalisation is the interconnection between counties through the expansion of foreign trade and foreign investment. It is the process of integrating the home country with foreign countries through the movement of goods, services, investment, technology and people. Improvements in Information and Communication Technology (IT) is an important driving force for the success of globalisation.

Telecommunication facilities, especially the internet has significantly contributed to the success of globalisation. The development of services like e-banking has increased the pace in which transactions are carried out around the world. Today, the world is just a click away. IT has facilitated and improved communication, lowered the cost of transportation thus helping to transport goods to other countries cheaply and has ensured more co-operation among firms through increased networking. It has contributed to the development of advanced technology of production and their transmission throughout the world.

The development of financial and logistic services is the main carrier of an improved globalised world. The establishment of call centres and other allied services in other

countries has also contributed to growth in the service sector. Sophisticated technologies help in instant communication throughout the world thus making globalisation a success story.

**Q.20. “Globalisation has widened the gap between the consumers.” Elaborate. Which value is affected here?**

**Answer:** Globalisation is the interconnection between countries through the expansion of foreign trade and foreign investment. It is the process of integrating the home country with foreign countries through the movement of goods, services, investment, technology and people.

Globalisation has resulted in the integration of the markets in different countries. It will give a lot of opportunities and openings for the domestic producers and consumers to reach out beyond the domestic market. Producers can sell their commodities to buyers from around the world. Consumers also have the choice to select commodities produced beyond the domestic markets. The prices tend to be equal in both the markets gradually. Thus, it widens the markets for both producers and consumers and helps in connecting the markets worldwide.

Globalisation has resulted in greater competition among the producers. Producers in the home countries compete with the foreign producers and products thus improving the quality of the goods and services produced. This greater competition has resulted in the improved standards of the products produced at a lower price. This increased quality of products at lower prices has raised their standard of living significantly. The increased competition between the producers has serious implications only to the richer sections of people in the urban areas. This increased quality of products at lower prices has raised their standard of living significantly.

Thus, in reality, globalisation has widened the gap between consumers. Globalisation has resulted in rising inequalities in income and wealth distribution. This has resulted in a rural-urban divide where many of the poor are excluded from the advantages and benefits of globalisation. Because of the strong demand for various essential goods due to increased competition, many poorer sections are adversely affected. This increases the income inequality between the rich and the poor. The value of providing a fair opportunity is being affected here. Adequate steps must be taken to ensure that every section is benefitted by the influence of globalisation.