Chapter 4 - Globalization and Indian Economy

GLOBALISATION

The term “globalisation” refers to the process of integrating a country's economy with the global economy. It's a multifaceted problem. It is the culmination of a number of initiatives aimed at converting the world into one of greater interconnectedness and integration.

It entails the establishment of networks and endeavours aimed at breaking down social, economic, and geographic barriers. Globalisation aims to create connections such that events in India can be influenced by events taking place thousands of miles away. To put it another way, globalisation is the process of people, corporations, and governments all over the world interacting and uniting.

Globalisation has been enabled by the following factors:

1. Technology:

- One of the primary factors that has accelerated the globalisation process is rapid technological advancement. This has allowed for considerably speedier and more cost-effective distribution of commodities over great distances.
- Information is now readily accessible because of advancements in information and communication technologies.
- These advancements enabled India's IT revolution by allowing workers to be located in different regions while yet being integrated into a virtual workspace.

- Automation and precise control of production, as well as homogeneity, have been made possible thanks to advanced computing facilities.

2. Trade Liberalisation:

- Government-imposed trade restrictions are known as trade barriers. The government can employ trade barriers to control or enhance international trade, as well as decide what sorts of goods and how much of each should be imported. Import taxes are an example of a trade barrier.
- Liberalisation is the process of removing government-imposed trade obstacles or limitations. The government is said to be more liberal when it imposes fewer restrictions than before.
- In a developing economy, trade restrictions can help to boost growth and productivity. It can, however, be harmful after a certain level of development.

- India liberalised its trade in 1991, allowing companies to freely import and export materials and goods. This was backed up by organisations like the World Bank.

3. Foreign Investment Policy:
- A company's considerable investments in a foreign enterprise are known as foreign direct investments (FDI).
- The investment could be used to acquire a material source, expand a company's territory, or establish an international presence.

Important Question and Answer

1. How has globalisation transformed the markets?

Ans: Globalisation is the process of establishing tight interconnections between countries' output and markets. The following modifications have occurred as a result of it:

1. Due to globalisation-induced competition, the variety and quality of goods and services on the market has substantially increased/improved.
2. Consumers can now purchase items and services that were previously only available in far-flung international markets.
3. Producers may now sell their goods and services on a broader global market and obtain greater rates.
4. Due to the impacts of trade, the price of the same items on different markets tends to equalise.

2. "The advantage of spreading out production across the borders to the multinationals can be truly immense." Explain.

Ans: The following points can be used to explain the above statement:

1. Multinational corporations can drastically reduce production costs by placing production in areas with low resource and labour prices.
2. They can more easily reach markets by placing production in different locations of the world.
3. They can afford to hire the best-skilled individuals for higher-level employment.

3. How do MNCs spread their production facilities in new countries?

Ans: In order to locate their production in new regions, MNCs employ three basic strategies:

1. Joint Production: MNCs form a joint production or partnership with a local enterprise. Local producers will be able to receive new and enhanced assets as well as cutting-edge technologies as a result of the investment.

2. Acquisition of Local Companies: MNCs purchase huge, well-established local businesses with extensive networks in order to expand their production.

3. Controlled Production: MNCs acquire supplies and place orders with local companies that produce items, resulting in regulated production. The products are marketed under the MNC's brand name.

4. What are the changes that led to the dense interlinkages across markets present in the world today?

Ans: a. Technology: Rapid technical improvement is one of the key elements that has expedited the globalisation process. This has resulted in far faster and more cost-effective distribution of goods over long distances. Because of developments in information and communication technologies, information is now easily available.

b. Trade Liberalisation: It has resulted in the reduction of trade barriers such as tariffs and quotas on imports and exports, has enabled countries to produce in one location but sell in multiple locations. Local producers have also been able to import semi-finished goods and grow their operations as a result. Consumers connect markets by purchasing goods made outside of the country.

c. Foreign Investment Policy: Foreign direct investments are a company's significant investments in a foreign enterprise (FDI). The money might be used to buy a material source, expand a company's territory, or start a business in another country.

5. Explain how MNCs have contributed to the increased competition in local markets. How has this been beneficial and for whom?

Ans:

- MNCs have a low cost of production due to the advantages of locating production in areas with cheap resource and labour costs. As a result, their products are less expensive than those produced locally.
- MNCs have superior production technology, allowing them to manufacture higher-quality items than local producers.
- MNCs can produce more than local competitors due to their large capital availability.
- These factors combine to generate a competitive atmosphere in both production and sales. To compete with the price and rating of MNCs' goods and services, local producers should lower their production costs and increase the quality of their goods and services.
- Large enterprises have benefited from the rivalry, allowing them to emerge as formidable local and worldwide actors.
- Customers have reaped the benefits of higher quality at lower costs.
- Small and medium producers, on the other hand, have been left behind due to a lack of resources to expand production or obtain better technology.

6. What are Special Economic Zones?

Ans: SEZs (Special Economic Zones) are industrial zones where governments provide special incentives for businesses to set up shop. These are some of them:

- Infrastructure that meets international standards is provided.
- For the first five years, you'll be on a tax rampage.
- Within the zones, labour regulations are applied more flexibly, allowing for cheaper wage costs.

7. What is WTO? Why are their policies criticized?

Ans: The World Trade Organization (WTO) was founded in 1947 as a result of the General Agreement on Tariffs and Trade (GATT) (GATT). The goal of the World Trade Organization is to ensure that trade flows as smoothly and predictably as possible.

- The World Trade Organization (WTO) is a global organisation that controls international trade rules and has 164 member countries.
- WTO liberalisation measures disproportionately hurt developing countries.
- Developing countries are frequently put under increased pressure to liberalise, and their early economies may not be able to withstand the fierce international competition.
- Developed countries, on the other hand, have unfairly preserved barriers while benefiting from their less fortunate peers' free trade policies.