

4 GLOBALISATION AND THE INDIAN ECONOMY

CONCEPT

- Globalisation means integrating the economy of a country with the economies of other countries under conditions of free flow of trade and capital and movement of persons across borders.
- Integration of markets in different countries is known as foreign trade.
- Planning Commission in India has laid emphasis on the development of foreign trade in the five year plans due to the following reasons.
 - ❖ A country can make efficient use of its natural resources :
 - ❖ It can export its surplus production.
 - ❖ Further, through effective regularisation of foreign trade, employment, output, prices and industrialisation, economic development of a country can properly accelerate.
- Investment made by Multinational Corporations (MNCs) is called foreign investment.
- MNCs are playing a major role in the process of rapid integration or interconnection between countries. Now more regions of the world are in closer contact with each other than a few decades back.
- MNCs play an important role in the Indian economy by setting up production jointly with some of the local companies. Example : MNCs can provide money for additional investments like buying new machines for faster production.

Take another example - Cargil foods, a very large American MNC, has bought smaller Indian companies such as Parakh Foods.
- Rapid improvement in information and communication technology has been one major factor that has stimulated the globalisation process. To access information instantly and to communicate from remote areas, devices such as telephones, mobiles and computers are very useful. Further, it has played a major role in spreading out production of services across countries.
- Impact of globalisation on the country is manifold. This can be understood by these examples.
 - ❖ MNCs have increased their investment over the past 15 years, which is beneficial for them as well as for Indians also. This is because these MNCs provide employment opportunities to the masses and local companies supplying raw material to these industries have prospered. But globalisation has failed to solve the problem of poverty and it has widened the gap between the rich and the poor. Only skilled and educated class has benefited from globalisation.
 - ❖ There is a greater choice for consumers, with a variety of goods and at cheap prices. Now they enjoy a much higher standard of living.

- Liberalisation of economy means to free it from direct or physical controls imposed by the government. In other words, it implies liberating the trade and industry from unwanted government control and restrictions.
- Let us see the effect of foreign trade through the example of Chinese toys in the Indian market. Chinese toys have become more popular in the Indian market because of their cheaper prices and new designs. Now Indian buyers have a greater choice of toys and at lower prices. Simultaneously, Chinese toy makers get the opportunity to expand business. On the other side, Indian toy makers face losses.
- World Trade Organisation (WTO) was started at the initiative of developed countries. The main objective of the World Trade Organisation is to liberalise international trade. At present 149 countries are members of the WTO.
- At present, central and state governments in India are taking special steps to attract foreign companies to invest in India. For this, Special Economic Zones (SEZs) are being set up. Special economic zones have world class facilities – electricity, telecommunication, broadband internet, roads, transport, storage and recreational facilities – to attract investment from MNCs and other companies.
- Globalisation and liberalisation have posed major challenges for small producers and workers. Small manufacturers have been hit hard due to competition. Several of the units have shut down rendering many workers jobless. Around 20 millions of workers are employed in small industries.
- Because of growing competition, most employers these days prefer to employ workers flexibly. This means that workers have no secure jobs. This can be explained with the help of an example : 35 year old Sushila got a job after searching for six months. She is a temporary worker. She did not get any benefit such as provident fund, medical allowance, bonus etc. A day off from work means no wage.
- Competition among the garment exporters has allowed the MNCs to make large profits, but workers are denied their fair share of benefits brought about by globalisation.

I. SUMMATIVE ASSESSMENT

A. NCERT TEXTBOOK QUESTIONS

Questions Within The Lesson

Q.1. Fill in the blanks :

WTO was started at the initiative of (1) countries. The aim of the WTO is to (2) . WTO establishes rules regarding (3) for all countries, and sees that these (4) . In practice, trade between countries is not (5) . Developing countries like India have (6) , whereas developed countries, in many cases, have continued to provide protection to their producers.

Ans. (1) developed, (2) liberalise international trade, (3) international trade, (4) rules are obeyed, (5) fair, (6) removed trade barriers.

Questions in the Exercise

Q.1. Choose the most appropriate option.

- (i) The past two decade of globalisation has seen rapid movements of
- (a) goods, services and people between countries.
 - (b) goods, services and investments between countries.
 - (c) goods, investment 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 partnership with local companies.
- (iii) 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.

Ans. (i) (a) (ii) (b) (iii) (c)

Q.2. 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 (1) . Markets in India are selling goods produced in many other countries. This means there is increasing (2) with other countries. Moreover, the rising number of brands that we see in the market might be produced by MNCs in India. MNCs are investing in India because (3) . While consumers have more choices in the market, the effect of rising (4) and (5) has meant greater (6) among the producers.

Ans. (1) Globalisation (2) Trade (3) They can get cheap labour (4) Prices (5) Standard (6) Competition

Q.3. Match the following.

- | | |
|---|-------------------------------------|
| (i) MNCs buy at cheap rates from small producers | (a) Automobiles |
| (ii) Quota and taxes on imports are used to regulate trade | (b) Garment, footwear, sports items |
| (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 of | (e) Trade barriers. |

Ans. (i) (b) (ii) (e) (iii) (d) (iv) (c) (v) (a)

Q.4. What do you understand by globalisation? Explain in your own words.

Ans. Globalisation means integrating the economy of a country with the economies of other

countries under conditions of free flow of trade, capital and movement of persons across borders. It includes

- (i) Increase in foreign trade
- (ii) Export and import of techniques of production.
- (iii) Flow of capital and finance from one country to another
- (iv) Migration of people from one country to another.

Q.5. 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?

Ans. The Indian government had put barriers to foreign trade and foreign investment because at that time it was necessary to protect the Indian producers from the foreign competition.

In New Economic Policy in 1991, it was thought by the government to remove these barriers so that Indian producers can compete with producers around the globe. Thus competition improves the quality of their products.

Q.6. How would flexibility in labour laws help companies?

Ans. Flexibility in labour laws helps companies to cut down the cost of production. Now, instead of hiring workers on a regular basis, companies hire workers flexibly for short periods and this reduces the cost of labour for the company.

Q.7. What are the various ways in which MNCs set up or control production in other countries?

Ans. Besides the movement of goods, services, investment and technology, the movement of people from one country to another in search of better income, better job opportunities are the various ways in which countries can be linked.

Q.8. In what ways has competition affected workers, Indian exporters and foreign MNC in the garment industry?

Ans. Globalisation and rising competition have changed the lives of workers. Now employers generally employ workers on a temporary basis with long working hours and at very low wages.

To get large orders from MNCs, Indian exporters try hard to cut the cost of production. As the cost of raw material cannot be reduced, exporters try to cut the labour cost.

These MNCs with worldwide networks get quality goods at cheapest rates and get maximum profit.

Q.9. Why do developed countries want developing countries to liberalise their trade and investment? What do you think should the developing countries demand in return?

Ans. Developed countries feel that all barriers to foreign trade and investment are harmful for international trade. They want that trade between countries should be free. Developed countries like the USA and UK have high production capacity and latest technology.

Developing countries should demand fair globalisation which ensures opportunities and benefits for all. Interest of the workers should also be taken care of.

Q.10. “The impact of globalisation has not been uniform.” Explain this statement.

Ans. While globalisation has benefited the well-off consumers and also producers with skill, education and wealth, many small producers and workers have suffered as a result of the rising competition.

Q.11. How has liberalisation of trade and investment policies helped the globalisation process?

Ans. Liberalisation of trade and investment has facilitated globalisation by removing barriers to trade and investment.

At international level, WTO has put pressure on developing countries to liberalise trade and investment.

Q.12. How does foreign trade lead to integration of markets across countries? Explain with an example.

Ans. Foreign trade provides opportunities for both producers and buyers to reach beyond the markets of their own countries. Goods travel from one country to another.

Competition among producers of various countries as well as buyers prevails. Thus foreign trade leads to integration of markets across countries. For example, during Diwali season, buyers in India have the option of choosing between Indian and Chinese decorative lights and bulbs. So this provides an opportunity to expand business.

Q.13. Globalisation will continue in the future. Can you imagine what the world would be like twenty years from now? Give reason for your answer.

Ans. After twenty years, world would undergo a positive change which will possess the following features—healthy competition, improved productive efficiency, increased volume of output, income and employment, better living standards, greater availability of information and modern technology.

Reason for the views given above : These are the favourable factors for globalisation :

- (a) Availability of human resources both quantitywise and qualitywise.
- (b) Broad resource and industrial base of major countries.
- (c) Growing entrepreneurship
- (d) Growing domestic market.

Q.14. Supposing you find two people. 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?

Ans. Benefits of globalisation of India :

- (a) Increase in the volume of trade in goods and services
- (b) Inflow of private foreign capital and export orientation of the economy.
- (c) Increases volume of output, income and employment.

Negative Impact / Fears of Globalisation.

- (a) It may not help in achieving sustainable growth.
- (b) It may lead to widening of income inequalities among various countries.
- (c) It may lead to aggravation of income inequalities within countries.

Whatever may be the fears of globalisation, I feel that it has now become a process which is catching the fancy of more and more nations. Hence we must become ready to accept globalisation with grace and also maximise economic gains from the world market.

OTHER IMPORTANT QUESTIONS (AS PER CCE PATTERN)

B. MULTIPLE CHOICE QUESTIONS (1 MARK)

Q.1. Which sector has not benefited by the policy of globalisation?

- (a) Agricultural sector
- (b) Manufacturing sector
- (c) Service sector
- (d) All the above

Ans. (a)

Q.2. Cheaper imports, inadequate investment in infrastructure lead to

- (a) slowdown in agricultural sector
- (b) replace the demand for domestic production
- (c) slowdown in industrial sector
- (d) all the above

Ans. (d)

Q.3. Fair globalisation refers to ensuring benefits to :

- (a) labourers
- (b) producers
- (c) consumers
- (d) all the above

Ans. (d)

Q.4. Globalisation results in

- (a) lesser competition among producers
- (b) greater competition among producers
- (c) no change in competition among producers
- (d) none of the above

Ans. (b)

Q.5. When was the WTO established?

- (a) 1985
- (b) 1995
- (c) 2000
- (d) 2005

Ans. (b)

Q.6. Globalisation leads to rapid movements of the following between countries :

- (a) goods and services
- (b) investments
- (c) people
- (d) all the above

Ans. (d)

Q.7. Which has played a big role in spreading globalisation?

- (a) Information technology (IT)
- (b) Transport technology
- (c) Both (a) and (b)
- (d) None of the above

Ans. (c)

Q.8. Globalisation has led to improvement in

- (a) choice to consumers
- (b) quality of goods and services
- (c) foreign investment
- (d) all the above

Ans. (d)

Q.9. Which of the following factors has not facilitated globalisation?

- (a) Technology
- (b) Liberalisation of trade
- (c) WTO
- (d) Nationalisation of banks

Ans. (d)

Q.10. One of the major results of globalisation in India has been in the growth of

- (a) outsourcing by MNCs
- (b) transportation services
- (c) telecommunication services
- (d) none of the above

Ans. (a)

Q.11. Globalisation so far has been more in favour of

- (a) developed countries
- (b) developing countries
- (c) poor countries
- (d) none of the above

Ans. (a)

Q.12. Multinational corporations have succeeded in entering global markets through

- (a) WTO (b) UNO
(c) UNESCO (d) none of the above

Ans. (a)

Q.13. Upto 2006 the number of member countries of WTO was :

- (a) 139 (b) 149
(c) 159 (d) 160

Ans. (b)

Q.14. FDI (Foreign Direct Investment) attracted by globalisation in India belongs to the

- (a) World Bank
(b) multinationals
(c) foreign governments
(d) none of the above

Ans. (b)

Q.15. When economic activities in a country are influenced by economic activities in other countries, it is called

- (a) foreign trade (b) competition
(c) globalisation (d) all the above

Ans. (c)

Q.16. A company that operates in more than one country is called a

- (a) partnership (b) corporation
(c) foreign company (d) multinational

Ans. (d)

Q.17. Investment means spending on

- (a) factory building (b) machines
(c) equipments (d) all the above

Ans. (d)

Q.18. Which of the following contributes to globalisation?

- (a) internal trade (b) external trade
(c) large scale trade (d) small scale trade

Ans. (b)

Q.19. Integration of markets means

- (a) operating beyond the domestic markets
(b) wider choice of goods

- (c) competitive price
(d) all the above

Ans. (d)

Q.20. Liberalisation refers to

- (a) freeing the economy from direct control
(b) putting an end to various restrictions
(c) opening up the economy
(d) all the above

Ans. (d)

Q.21. Name the organisation whose aim is to liberalise international trade.

- (a) ILO (International Labour Organisation)
(b) WHO (World Health Organisation)
(c) WTO (World Trade Organisation)
(d) NSSO (National Sample Survey Organisation)

Ans. (c)

Q.22. What attracts an MNC?

- (a) Cheap labour
(b) Ready demand for the product
(c) Both (a) and (b)
(d) None of the above

Ans. (c)

Q.23. What is the impact of LPG policy of the government?

- (a) Stiff competition among producers
(b) Increase in inequalities
(c) Greater choice to consumers
(d) All the above

Ans. (d)

Q.24. Globalisation results in

- (a) inflow of labour from abroad
(b) inflow of capital from abroad
(c) inflow of tourists from abroad
(d) all the above

Ans. (b)

Q.25. Globalisation leads to

- (a) more competition
(b) less competition

- (c) monopoly
- (d) none of the above

Ans. (a)

Q.26. Special Economic Zones (SEZ) developed by the Government of India aim

- (a) to attract foreign companies to invest in India
- (b) to encourage small investors
- (c) to encourage regional development
- (d) none of the above

Ans. (a)

Q.27. Benefits enjoyed by companies who set up production units in the SEZs are :

- (a) they do not have to pay taxes for some years
- (b) reduction in excise duty
- (c) reduced tariffs and barriers
- (d) none of the above

Ans. (a)

Q.28. Globalisation is called fair globalisation when it benefits

- (a) labour
- (b) investors
- (c) consumers
- (d) all the above

Ans. (d)

PREVIOUS YEARS' QUESTIONS

Q.1. Which one among the following is a far reaching change in the policy made in India in 1991 ? [2011 (T-2)]

- (a) Removing barriers or restrictions set by the government which is known as liberalisation.
- (b) Put barriers to foreign trade and foreign investments.
- (c) Restrictions set by the government to protect the producers within the country from foreign competition.
- (d) By giving protection to domestic producers through a variety of means.

Ans. (a)

Q.2. Which one of the following is not true regarding impact of globalisation of India? [2011 (T-2)]

- (a) It has created jobs in the service sector.
- (b) People with education, skill and wealth have not been benefited.
- (c) Benefits of globalisation are not shared equally.
- (d) Labour laws are not implemented properly and workers are denied their rights.

Ans. (d)

Q.3. Which one of the following is not true regarding the World Trade Organisation? [2011 (T-2)]

- (a) It allows free trade to all countries without any trade barriers.
- (b) Its aim is to liberalise international trade.
- (c) It establishes rules regarding international trade.
- (d) WTO rules have forced the developing countries to remove trade barriers.

Ans. (a)

Q.4. Which one of the following is a major benefit of joint production between a local company and a Multi-National Company ? [2011 (T-2)]

- (a) MNC can bring latest technology in the production
- (b) MNC can control the increase in the price
- (c) MNC can buy the local company
- (d) MNC can sell the products under their brand name

Ans. (a)

Q.5. Globalisation shall result in : [2011 (T-2)]

- (a) lesser competition among producers

- (b) greater competition among producers
- (c) no change in competition among producers
- (d) destruction of large scale producers

Ans. (b)

Q.6. By 2006, how many countries were the members of the World Trade Organisation ? [2011 (T-2)]

- (a) 139
- (b) 149
- (c) 159
- (d) 169

Ans. (b)

Q.7. Rapid integration or inter connection between countries is known as : [2011 (T-2)]

- (a) Privatisation
- (b) Globalisation
- (c) Liberalisation
- (d) Socialisation

Ans. (b)

Q.8. The most common route for investments by MNCs in countries around the world is to : [2011 (T-2)]

- (a) set up new factories
- (b) buy existing local companies
- (c) form partnerships with local companies
- (d) None of these

Ans. (a)

Q.9. Taxes on imports is an example of : [2011 (T-2)]

- (a) terms of trade
- (b) collateral
- (c) trade barriers
- (d) foreign trade

Ans. (c)

Q.10. What is foreign investment ? [2011 (T-2)]

- (a) Investment made by foreign governments.
- (b) Investment made by foreign companies.
- (c) Investment made by the foreign MNCs.
- (d) Investment made by the IMF and the World Bank.

Ans. (c)

Q.11. Entry of MNCs in a domestic market may prove harmful for : [2011 (T-2)]

- (a) all large scale producers.
- (b) all domestic producers.
- (c) all substandard domestic producers.
- (d) all small scale producers.

Ans. (d)

Q.12. Which of the following organisations lays stress on liberalisation of foreign trade and foreign investment ? [2011 (T-2)]

- (a) International Labour Organisation
- (b) World Health Organisation
- (c) International Monetary Fund
- (d) World Trade Organisation

Ans. (d)

Q.13. Which one of the following is an example of a trade barrier? [2011 (T-2)]

- (a) Tax on export
- (b) Tax on imports
- (c) Tax on local trade
- (d) High income tax

Ans. (b)

Q.14. Globalisation has posed major challenges for: [2011 (T-2)]

- (a) Big producers
- (b) Small producers
- (c) Rural poor
- (d) Urban poor

Ans. (b)

Q.15. Investment by MNCs is called : [2011 (T-2)]

- (a) Mutual Investment
- (b) Inter-government Investment
- (c) Portfolio Investment
- (d) Foreign Investment

Ans. (d)

Q.16. Removing barriers or restrictions set by the government is known as : [2011 (T-2)]

- (a) privatisation
- (b) globalisation
- (c) liberalisation
- (d) socialisation

Ans. (c)

Q.17. What is the most common route for investments by MNCs in countries around the world ? [2011 (T-2)]

- (a) Set up new factories
- (b) Buy existing local companies
- (c) Form partnerships with local companies
- (d) None of the above

Ans. (b)

Q.18. Which one of the following categories refers to investment ? [2011 (T-2)]

- (a) The money that is spent to buy assets such as land, building, machines, etc.
- (b) The money that is spent on religious ceremonies.
- (c) The money that is spent on social customs.
- (d) The money that is spent on household goods.

Ans. (a)

Q.19. Which one of the following is not a Multinationals Company? [2011 (T-2)]

- (a) Tata Motors
- (b) Infosys IT

- (c) Ranbaxy
- (d) Tata Iron and Steel Company

Ans. (d)

Q.20. Which one of the following has benefited least because of globalisation in India? [2011 (T-2)]

- (a) Agriculture Sector
- (b) Industrial Sector
- (c) Service Sector
- (d) Secondary Sector

Ans. (a)

Q.21. Why do MNCs set up offices and factories in more than one nation ? [2011 (T-2)]

- (a) The cost of production is high and the MNCs can earn profit.
- (b) The cost of production is low and the MNCs undergoes a loss.
- (c) The cost of production is low and the MNCs can earn greater profit.
- (d) The MNCs want to make their presence felt globally.

Ans. (c)

C. SHORT ANSWER TYPE QUESTIONS (3 MARKS)

Q.1. Should more Indian companies emerge as MNCs? [HOTS]

Ans. There is much scope for Indian companies to emerge as MNCs. These are the companies mainly related to Information Technology (IT sector), accounting and administrative sector.

It will benefit the people in the country by providing them gainful employment and further enhance their quality of life.

MNCs have enormous wealth with them. They have a strong influence on production in different countries.

PREVIOUS YEARS' QUESTIONS

Q.1. Explain any three ways in which MNCs set up or control production in other countries. [2011 (T-2)]

Ans. Multinational Corporations (MNCs) set up their factories or production units close to markets where they can get desired type of skilled or unskilled labour at low costs along with other factors of production. After ensuring these conditions MNCs set up production units in the following ways :

- (a) Jointly with some local companies of the existing country.

- (b) Buy the local companies and then expand its production with the help of modern technology.
- (c) They place orders for small producers and sell these products under their own brand name to the customers worldwide.

Q.2. How does foreign trade lead to integration of markets across the countries? Give any three examples. [2011 (T-2)]

Ans. Foreign trade is the main channel which connects the markets of various countries. Foreign trade lead to integration of markets across the countries as follows :

- (a) Creates opportunities for the producers to reach beyond the domestic markets or the markets of their own countries.
- (b) Import of goods from various countries provides choice of goods for consumer beyond the goods that are produced domestically.
- (c) Producers of different countries compete with each other although they are thousands of miles away.

Q.3. Enumerate any three features of Multinational Corporations. [2011 (T-2)]

Ans. Multinational Companies (MNCs) are the companies that owns or controls the production of their goods in more than one country. The main features of MNCs are :

- (a) They set up their factories and offices in more than one country.
- (b) The set up their units where the cost of production is low and higher profits can be earned.
- (c) They produce and sell their finished products globally.

Q.4. Why did India put barriers on foreign trade and investment after independence? Why was the policy changed in 1991? Mention any two reasons. [2011 (T-2)]

Ans. Soon after independence India put barriers on foreign trade and independent to create a large industrial base which helped in increasing the industrial production. Policies were changed in 1991 because :

- (a) Global competition of Indian producers will improve the quality of Indian goods.
- (b) Reduce the problems like unemployment, poverty, inflation etc. and support industrialisation.

Q.5. What is globalization? How can the government ensure fair globalization to its people? Give two points. [2011 (T-2)]

Ans. Globalisation means unification or intergration of the domestic economy with the world economy through trade, capital and technology flows.

Government can ensure fair globalization to its people in the following ways :

- (a) Government needs to care about the labour laws so that workers get their rights and support small producers to improve their performance.
- (b) Government can negotiate with world trade organisation for fairer rules and can align with developing countries to stand against the domination of developed countries.

Q.6. Should more Indian companies emerge as MNCs? How would it benefit the people in the country ? [2011 (T-2)]

Ans. Yes, more Indian companies should emerge as MNCs. It would benefit the people in the country in the follwoing ways :

- (a) New job opportunities have been created by the emergence of Indian companies as MNCs.
- (b) Local companies that provide raw material and other services to these companies have prospered.
- (c) Rise in production standards, improved the standard of living of the people.

Q.7. Analyse any three impacts of globalization in India. [2011 (T-2)]

Ans. Impacts of globalization in India are as follows :

- (a) It improves the productivity and efficiency in the use of resources through the process of competition.
- (b) Growth rate of economy has gone up with the increase in foreign investment and foreign technology in India.
- (c) It allows the consumers to enjoy a wider range of goods and services at a lower cost.

Q.8. Suggest any three measures to make globalisation just and fair ? [2011 (T-2)]

Ans. Globalisation means unification or intergration of the domestic economy with the world economy through trade, capital and technology flows.

Government can ensure fair globalization to its people in the following ways :

- (a) Government needs to care about the labour laws so that workers get their trade union rights and support small producers to improve their performance.
- (b) Government can negotiate with world trade organisation for fairer rules and can align with developing countries to stand against the domination of developed countries.

Q.9. How has liberalisation of trade and investment policies helped the globalisation process? Explain. [2011 (T-2)]

Ans. Economic liberalisation means reducing government interference in economic activities and removing trade and business barriers.

Liberalisation of trade and investment policies helped the globalisation process in the following ways :

- (a) Businesses are free to make decisions for foreign import and export.
- (b) Foreign companies could easily set up factories and industries in a country after liberalisation.

Q.10. Describe any three factors which have enabled globalisation in India. [2011 (T-2)]

Ans. Globalisation means unification or integration of the domestic economy with the world economy through trade, capital and technological flows. Factors that supported globalisation in India are as follows :

- (a) Reduction of trade barriers with a view to allowing free flow of goods to and from other countries.
- (b) Involvement of various local producers with MNCs in various ways.
- (c) Some of the large Indian companies like Tata Motors, Infosys (IT), Ranbaxy, Asian Paints etc. emerged as MNCs and start working globally.

Q.11. Describe any three ways in which Multinational Corporations (MNCs) have spread their production and interaction with local producers in other countries. [2011 (T-2)]

Ans. Multinational Corporations (MNCs) set up their factories or production units close to markets where they can get desired type of skilled or unskilled labour at low costs along with other

factors of production. After ensuring these conditions, MNCs set up production units in the following ways :

- (a) Set up jointly with some local companies of the country.
- (b) Buy the local companies and then expand its production with the help of modern technology.
- (c) They place orders for small producers and sell their products under their own brand name to the customers worldwide.

Q.12. “The impact of globalization has not been uniform”. Explain this statement. [2011 (T-2)]

Ans. It is true that the impact of globalisation has not been uniform. This can be explained through following points :

- (a) It has some negative impacts on employment and real wages. Ushering in of new technology, output is increasing but the employment opportunities are not much especially in rural areas where 75% of the population lives.
- (b) It is mainly beneficial to large capitalists, industries and large companies. Consequently it increases the concentration of economic power and lead to inequality.
- (c) In India, during 1990-91 more than $\frac{1}{3}$ rd of national product originated in agricultural sector, this share has come down to 23% in 2004-05.

Q.13. What is the meaning of liberalization of foreign trade? What does it mean in the Indian context? [2011 (T-2)]

Ans. Liberalisation of foreign trade means removing barriers or restrictions put by the government on the import and export of goods.

Indian government had put barriers to foreign trade and investment after independence so that Indian small-scale and cottage industries could come up. After 1991, process of liberalisation started in India. This was done for the following reasons :

- (a) To improve the quality of Indian products our products are put in competition with international products.
- (b) To enhance industrialisation and foreign exchange.

Q.14 Define liberalisation. Mention two features of liberalisation. [2011 (T-2)]

Ans. Liberalisation means removing barriers or restrictions put by the government on the businesses. Features of liberalisation are as follows :

- (a) Reduction of trade barriers with a view to allowing free flow of goods among the countries.
- (b) Allow private sector to do many of those activities which were earlier restricted to public sector.

Q.15. What is meant by trade barrier ? Why do governments use it ? Explain. [2011 (T-2)]

Ans. Barriers or restrictions that are imposed by government on free import and export activities are called trade barrier. Tax on imports is a vital trade barrier. Government can use the trade barriers in the following ways :

- (a) Increase or decrease of foreign trade of the country.
- (b) With the help of trade barriers government can decide what kinds of goods and how much of each, should be traded in the country.

Q.16. Describe the impact of globalization on the lives of consumers. [2011 (T-2)]

Ans. (a) Globalization has improved the productivity of products which controlled the rate of inflation.

(b) Wide variety of products are available in the markets due to globalisation which has improved the standard of living of the consumers.

Q.17. Mention any three steps which have been taken by the government of India to attract foreign investment in recent years? [2011 (T-2)]

Ans. Investment made by MNCs is known as foreign investment. In order to attract foreign investment following steps are taken by the Indian government :

(i) Restrictions on trade and investment, have been removed to a large extent.

(ii) India has allowed the Indian producers to compete with the producers of the world.

(iii) Allowing privatisation of many public sector industries by the government.

Q.18. “In spite of numerous advantages, there are many problems that globalisation still faces”. Support the statement with three problems. [2011 (T-2)]

Ans. The problems with globalisation are as follows :

(a) It has sometimes negative impacts on employment and real wages. With the introduction of new technology, output is increasing but the employment opportunities are not.

(b) Because of foreign technology, the problems of energy crisis, water shortage and pollution are increasing very fast.

(c) It is more beneficial to large-scale producers and consequently increasing concentration of economic power.

Q.19. What is WTO? What are its main aims? Mention any one of its limitation.[2011 (T-2)]

Ans. World Trade Organisation (WTO) : It is an international organisation which was established on 1st January, 1995 by the members of the UN to promote trade among countries.

The main aims of WTO are :

(a) To act as a forum for multilateral trade negotiations.

(b) Resolve trade disputes.

(c) Liberalise international trade and follow free trade for all.

One limitation of WTO is :

Developed countries unfairly impose trade barriers whereas WTO forces the developing countries to follow completely free trade.

Q.20. Why is ‘tax’ on imports known as a trade barrier? Why did the Indian Government impose barriers to foreign trade and foreign investments after independence? Give three reasons. [2008]

Ans. Tax on imports imposed by the government to regulate foreign trade and investment is known as a trade barrier.

Government imposed barriers on foreign trade and investment for the following reasons :

(i) The competition from importers would have crippled the new-born industries of India.

(ii) To protect the producers within the country from foreign competition.

(iii) Imports of only such commodities were allowed which were quite necessary, for example, machinery and petroleum.

Q.21. How have transportation technology and information and communication technology stimulated the globalisation process? Explain with suitable examples. [2008]

Ans. Transportation technology : Rapid improvement in transportation technology has been one major factors that has stimulated the globalisation process. There are fast trains connecting every nook and corner of a country and faster planes that cover the distance within a few hours between one country to another. Similarly, the cost of air transport has fallen.

Information and Communication Technology : In recent times communication and information technology got a boost from the invention of computers and internet etc.

Information Technology (IT) has played a major role in spreading out production of services. For example, a news magazine published for London readers is to be designed and printed in Delhi.

Q.22. Explain visible imports of globalisation on the Indian Economy, with two examples. [2006]

Ans. (i) Greater Competition among producers : Greater competition among producers both local and foreign, has been of advantage to consumers, particularly the well-off section of the society. Consumers of now have greater choice. For example : Shoes produced by Indian companies and shoes produced by MNCs like Bata, TSF, Woodland etc. Consumers have more choice. They can compare in terms of quality, price etc.

(ii) Phenomenal growth of service sector : The present share of service sector in country's GDP is more than 50%, which was about 40% in 1990 at the time of start of globalisation. Information and communication technology also grew on an average 20%.

D. LONG ANSWER TYPE QUESTIONS (4 MARKS)

Q.1. How has WTO affected Indian economy? What were its favourable and unfavourable impact?

Ans. Effect of Functioning of WTO on Indian Economy : The developing countries like India feel cheated as they are forced to open up their markets for the developed countries but are not allowed access to the markets of developed countries.

Favourable Impacts of WTO working : WTO creates environment such as international trade among member countries in an open, uniform and non-discriminatory manner.

Unfavourable Impacts of WTO : WTO is dominated by the developed countries, especially by America, European Union and Japan etc. Developing and poor countries are seldom consulted until the rich nations complete their negotiations.

Q.2. How could you distinguish between 'foreign trade' and 'foreign investment'? Explain the role of MNCs in foreign trade and foreign investments.

Ans. Foreign trade is integration of markets in different countries. For example, export and import of goods and services from one country to another. But foreign investments are investments made by MNCs. For example, investment in land, machines, building etc. to earn profit.

Role of MNCs in foreign trade and foreign investments : MNCs can provide money for additional investments like buying new machines for faster production to small companies.

- ❖ MNCs can provide efficient managerial and advanced technology for faster production and efficient use of resources. So MNCs play an important role in foreign investment.
- ❖ MNCs facilitate movement of goods and services between various countries. Movement of people across the globe also creates better job opportunities and better income. So MNCs promote foreign trade also.

Q.3. What complaint do farmers of developing countries have against developed country governments? [HOTS]

Ans. In developing countries, governments have reduced trade barriers as per WTO rules. But developed countries have ignored the rules of WTO and have continued to pay their farmers vast sums of money for production and for export to other countries.

Therefore, farmers of developed countries are able to sell farm products at abnormally low prices in foreign markets which is adversely affecting the farmers of developing countries. This is really a case of unfair trade.

PREVIOUS YEARS' QUESTIONS

Q.1. Explain any four ways in which multinational corporations have spread their production and interaction with local producers in various countries across the globe. [2008]

Ans. The multinational corporations have spread their production and interaction with local producers in the following ways :

- (i) Setting up production jointly with local companies. They provide money for additional investments like buying new machines for faster production. For example : Cargil Foods, a very large MNC (USA), has bought smaller Indian companies such as Parekh Foods.
- (ii) The MNCs provide efficient managerial and advanced technology for faster production and efficient use of resources.
- (iii) They have increased their investments over the past 15 years. They provide employment opportunities to the masses. The local companies supplying raw material to these industries have prospered.
- (iv) Many food processing multinational companies such as Pepsi, Coca-Cola have taken over Indian markets in cold drinks and food products. This helps in greater choice for consumers with a variety of goods at cheap prices.

Q.2. 'Globalisation and competition among producers have been of advantage to the consumers.' Give arguments in support of this statement. [2009]

Ans.

- (i) More choice for consumers : Globalisation and competition among producers has enabled the consumer to have a wide range of choice available in market. For example, Chinese toys and Indian toys both are available. Consumer can compare quality, price, suitability and safety for both type of toys. So consumer is ultimately benefitted.
- (ii) Better job opportunities : Globalisation and competition among producers have given rise to better job opportunities for skilled persons. People can get better salary and facilities for the specialised skills in other countries.
- (iii) Expansion of information and communication technology : Globalisation has facilitated improvement in information and communication technology like computers, internet, telephone including mobile phones etc.

II. FORMATIVE ASSESSMENT

A. PROJECT WORK

Q.1. Organise a visit to an MNC in your area and collect information on the following points from the concerned person.

- (a) Type of product they are manufacturing, like electronic goods or FMCG (fast moving consumer goods) or home appliances etc.

- (b) How many offices do they have in India and abroad?
- (c) Production volume per day.
- (d) Is their product being exported or not?
- (e) How many numbers of workers and staff are there in that unit?
- (f) How much local staff are there in that unit?
- (g) Which type of support they are getting from local government?
- (h) How information technology has improved normal functioning and production process of that unit?
- (i) Which type of facilities employees are getting from the management side?
- (j) Are they importing raw materials or raw materials are used from domestic market?

Objective : To understand the role of MNCs in promoting globalisation and improvement in economy.

Method : From the information collected on the above points, draw conclusions about :

- Role of Information and Communication Technology in connecting countries and people together.
- How MNCs have changed employment scene in India.
- What is government's role in promoting foreign direct investment.
- Various trade barriers imposed by the government to avoid malpractices in trading.

B. DEBATE

Organise a debate in your school on the topic “India has benefited from adoption of the policy of Liberalisation and Globalisation.”

- Guidelines :
- (a) Divide the class in two groups. Ask Team ‘A’ to discuss various points in support of Liberalisation and Globalisation policy like improvement in technology, employment scene in India and its effect on Indian economy.
 - (b) Ask Team ‘B’ to discuss various points against the policy of Liberalisation and Globalisation like tough competition, discouragement to agricultural sector, increased role of privatisation etc. Draw conclusion based on the points whether Liberalisation and Globalisation have really benefited our economy or not.

C. ACTIVITY

Choose any product from Fast Moving Consumer Goods (FMCG), say toothpaste. Collect information and photographs from papers, magazines, books, television, internet on the following points related to that product.

- (i) Various producers/companies engaged in manufacturing of product (‘toothpaste’)
- (ii) How many Indian companies are manufacturing this product.
- (iii) How many MNCs are manufacturing this product.
- (iv) Price comparison of this product of various brands.
- (v) What concessional offer or promotional offer are given by various manufacturers on this product.
- (vi) Compare the wrapper (covering) of the product supplied by MNCs and Indian companies. Based on this information, draw conclusion on how MNCs have created tough competition for Indian companies.