**ECONOMICS – Chapter 4**

**Globalisation and the Indian Economy**

**1. What is globalization? How do we feel the direct impact of globalization in our daily life?**

* Globalisation means integrating the economy of a country with the economies of other countries under condition of free flow of trade and capital and movement of persons across borders.
* There is a greater choice before the consumers particularly the well-off sections in the urban areas. Consumers now enjoy improved quality and lower prices for several products. Therefore people today enjoy higher standards of living than possible earlier.
* It has also resulted in increased volume of output, income and employment.

**2. What was the reason for putting barriers to foreign trade and foreign investments by Indian government? Why did it remove these barriers ?**

**Ans**. Indian govt. after independence had put barriers to foreign trade and foreign investment. This was considered necessary to protect the producers within the country from foreign competition. Industries were just coming up in 1950’s and 1960’s and competition from imports at that stage would not have allowed these industries to come up.

Around 1991 some changes in the policy were made in India. The Indian government felt that competition would improve the performance of producers within the country since they would have to improve their quality. So the government decided to remove trade barriers and introduced liberalization of the economy.

**3. How would flexibility in labour laws help companies ?**

* Government has allowed flexibility in labour laws to attract foreign investments.
* Government has allowed the companies to ignore many of the rules that aim to protect the workers rights.
* Instead of hiring workers on a regular basis, companies hire workers flexibly for a short period. This is done to reduce the cost of labour for the companies.

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

1. MNCs set up production jointly with some of the local companies of other countries. It benefits the local companies in two ways :-

* MNCs provide money for additional investments like buying new machines for faster production.
* MNCs might bring with them the latest technology for production.

1. The most common way of MNCs to control production is to buy local companies and to expand production. Example-Cargill Foods, an American MNC bought the Indian company named Parakh Foods.
2. Some large MNCs of developed countries place orders for production with small producers. Garments, footwears, sports items etc are examples of industries were production is carried out by a large number of small producers around the world.

**5. Why do developed countries want developing countries to liberalise their trade & investment? What should developing countries demand in return?**

**Ans.**  Developed countries feel that all barriers to foreign trade and investments are harmful for international trade. They want that trade between countries should be free. They want their surplus products to sell in other countries and utilize their technology to their optimal use.

Developing countires should demand for fair globalization which ensures opportunites and benefit for all. Interest of the workers should also be taken care of.

**6. “The impact of globalization has not been uniform”. Explain this statement.**

**Ans.** Globalisation has affected the Indian economy both positively and negatively.

**Positive impact.**

1. There is greater choice for the rich urban consumers who now enjoy improved quality and lower prices for several products.
2. New jobs have been created in industries where MNCs have invested such as electronics, cellphones, automobiles, soft drinks etc…
3. Globalisation has enabled some large Indian companies to emerge as multinationals themselves. Example—Tata Motors, Infosys ( IT ), Ranbaxy medicines etc.

**Negative Impact.**

1. Small producers are suffered from globalization because the y are unable to compete with MNCs
2. Flexibility in labour laws has resulted in worsening the condition of workers. They are appointed on non-regular basis to avoid payment of provident fund and other facilities in order to reduce cost of labour. So the workers jobs are no longer secure.

**7. How has liberalization of trade and investment policies help the globalization process?**

**Ans.**  Liberalisation means removing barriers or restrictions on trade set up by govt. Liberalization of trade and investment policies helped the globalization process in the following ways:

* It facilitated import and export of goods easily and allowed foreign companies to set up factories and offices in India.
* Competition caused due to this also helped in improving the quality of the Indian products.
* Liberalisation led to greater integration of production and markets across countries. As a result more and more countries are coming into closer contacts with each other due to MNCs.

**8. How does foreign trade lead to integration of markets across countries? Explain.**

* Foreign trade provides opportunities for both producers and consumers to reach beyond the markets of their own countries. Goods travel from one country to another.
* There is huge competition among the producers of one country and another country.
* There is a great choice for consumers. Thus foreign trade leads to integration of markets across countries.

Example---During Diwali, buyers in India have the option of choosing between Indian and Chinese decorative lights and bulbs. Many shops have replaced Indian decorative lights with Chinese.

**9. How is the MNC able to cope with large demands all over the world and control prices?**

1. Large MNCs in developed countries place order for production with small producers.
2. The products are supplied to the MNCs which then sell these under their own brand names to the customers.
3. As they control the market with the huge demand they are able to control prices.

**10. Describe any 3 factors which have enabled globalization in India ?**

1. The govts decision to liberalise trade or removing the barriers on foreign trade and foreign investment from 1991 onwards.
2. The central and state govts are taking special steps to attract foreign companies to invest in India. Industrial zones called Special Economic zones ( SEZ ) are being setup.
3. Govt. has also allowed flexibility in the labour laws to attract foreign investment.

**11. Explain any 3 features of MNCs.**

1. A MNC is a company that owns or controls production in more than in one nation.
2. MNC is not selling finished products globally but also the goods and services are produced globally .
3. MNCs set up production where it is close to the markets, where there is skilled and unskilled labourers available at low costs, where the availability of other factors of production is assured and also looked for govt. policies that looked after their interests.

**12. Distinguish between foreign trade and foreign investment.**

**Foreign Direct Investment ( FDI ) ( Foreign Capital )**

It refers to investments directly made in industry or other spheres of economic activity of a country by Foreign industrial houses or MNCs with the objective of earning profits. FDI is an important source of financing industrial development in less developed countries.

**Foreign Trade**

It refers to exchange of goods across geographical boundaries of the countries.

**13. List the factors that have enabled globalization**.

1. Rapid improvement in technology like improvements in transportation technology, information and communication technology,
2. Liberalisation of foreign trade and foreign investment policies.
3. The support of World Trade Organisation (WTO ) in liberalizing International Trade. It establishes rules regarding international trade and sees that these rules are obeyed.

**14. How to make globalization more fair?**

While globalization has benefitted well off consumers and also producers with skill, education and wealth, many small producers and workers have suffered as a result of rising competition. Fair globalization would create opportunities for all and also ensure that the benefits of globalization are shared better, A fair globalization is achieved by the following ways:

1. The government can ensure that labour laws are properly implemented and the workers get their rights.
2. It can support small producers to improve their performance till they become strong enough to compete.
3. If necessary govt. can use trade and investment barriers.
4. It can also align with other developing countries with similar interest to fight against the domination of developed countries in WTO.

**15. What do you understand by liberalization of foreign trade? Mention its advantages**.

Liberalisation of foreign trade refers to removal of barriers or restrictions set by the government for attracting foreign investment.

* Businesses are allowed to make decisions freely about what they wish to import or export.
* The goods could be imported and exported easily and also foreign companies could set up factories and offices.
* The competition would improve the performance of producers within the country.

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