

Social Studies

(Economics)

Chapter 4: Globalisation and the Indian Economy



Important Questions

Multiple Choice questions-

Question 1. Foreign trade results in connecting the markets or integration of markets:

- (a) In same countries
- (b) In different countries
- (c) In friendly countries
- (d) None of the above

Question 2. Foreign investments by MNCs in many countries have:

- (a) been rising
- (b) been decreasing
- (c) remained the same
- (d) none of the above

Question 3. A large part of the foreign trade is also controlled by:

- (a) The government
- (b) By MNCs
- (c) The people
- (d) None of the above

Question 4. Activities of most MNCs involve:

- (a) goods and raw materials
- (b) substantial goods and trade
- (c) substantial trade in goods and services
- (d) none of the above

Question 5. MNCs are playing a major role in:

- (a) Production of goods
- (b) Increasing investment
- (c) Providing employment
- (d) The globalisation process

Question 6. More regions of the world are in closer contact with each other:

- (a) Than a few years back
- (b) Than a few days back
- (c) Than a few centuries back
- (d) Than a few decades back

Question 7. Tele communication facilities have been facilitated by:

- (a) Remote connection devices
- (b) Remote communication devices
- (c) Satellite communication devices



Swotters

(d) None of the above

Question 8. Information and communication technology has played a major role in spreading out:

- (a) Production of goods across countries
- (b) Production of raw materials across countries
- (c) Production of services across countries
- (d) None of the above

Question 9. Tax on imports is an example of:

- (a) Tax barrier
- (b) Export barrier
- (c) Import barrier
- (d) Trade barrier

Question 10. The Indian government, after independence, had put barriers to:

- (a) MNCs
- (b) Import and export
- (c) Foreign trade and foreign investment
- (d) None of the above

Question 11. Removing barriers or restrictions set by the government is known as:

- (a) Globalisation
- (b) Liberalisation
- (c) Free trade
- (d) All the above

Question 12. The number of countries that are currently members of the WTO are:

- (a) 119
- (b) 129
- (c) 139
- (d) 149

Question 13. WTO rules have forced the developing countries to remove:

- (a) Export
- (b) Import
- (c) Trade
- (d) Trade barriers

Question 14. Among producers and workers the impact of globalisation has:

- (a) Been uniform
- (b) Been mixed
- (c) Not been uniform
- (d) None of the above

Question 15. Fair globalisation would create opportunities for all, and also ensure that the benefits of globalisation are:

- (a) Shared between the rich
- (b) Shared between the poor
- (c) Shared between the rich and poor
- (d) Shared better

Very Short-

Question 1. What are Multi-National Corporations (MNCs)?

Question 2. Explain 'what is investment? Give a few examples of investment.

Question 3. In which year did the government decide to remove barriers on foreign trade and investment in India? (2011 D)

Question 4. Why is 'tax' on imports known as a trade barrier? (2011 OD)

Question 5. Which organization lays stress on liberalization of foreign trade and foreign investment? (2014 D, 2012 OD)

Question 6. Give one characteristic feature of a 'Special Economic Zone'?

Question 7. Name an important barrier on foreign trade. (2013 D)

Question 8. What is meant by "fair globalization"? (2013 OD)

Question 9. What do you understand by the term 'Foreign Direct Investment'? (2014 OD)

Question 10. Why had the Indian Government put barriers to foreign trade and foreign investment after independence? State any one reason. (2015 D)

Short Questions-

Question 1. Explain the role of government to make globalization fair. (2011 D)

Question 2. Explain any three advantages of globalization. (2011 OD)

Question 3. What is a trade barrier? Why did the Indian Government put up trade barriers after Independence? Explain. (2011 OD)

Question 4. What would happen if Government of India puts heavy tax on import of Chinese toys? Explain any three points. (2012 D)

Question 5. How do Multinational Companies manage to keep the cost of production of their goods low? Explain with examples. (2013 D)

Or

Explain the conditions that determine MNCs setting up production in other countries? (2011 D)

Question 6. How do we participate in the market as producers and consumers? Explain with three examples. (2013 D)

Question 7. How are local companies benefitted by collaborating with multinational companies? Explain with examples. (2013 OD)

Question 8. How has foreign trade been integrating markets of different countries

in the world? Explain with examples. (2012 OD)

Or

“Foreign trade integrates the markets in different countries.” Support the statement with arguments. (2015 OD)

Question 9. Define the term liberalization. Explain the reasons why the Indian Government started the policy of liberalization in 1991. (2014 D)

Or

‘Barriers on foreign trade and foreign investment were removed to a large extent in India since 1991’. Justify the statement. (2016 D)

Question 10. How has information and communication technology stimulated globalisation process? Explain with examples. (2014 D)

Long Questions-

Question 1. Give the meaning of WTO? What is the major aim of WTO? Mention any two shortcomings of WTO? (2011 D, 2012 OD)

Question 2. What is globalization? Explain with three examples how top Indian companies have benefitted from globalization. (2011 OD)

Question 3. What is an MNC? Give two examples of Indian companies that have emerged as MNCs. What are the harmful effects of MNCs to a host country? Give three examples. (2012 OD)

Question 4. How has globalization been advantageous to both the producers as well as the consumers in India? Explain. (2012 OD)

Question 5. How has globalization benefitted India? Explain with five examples. (2013 OD)

Question 6. How is the Government of India trying to attract more foreign investment? Explain with examples. (2013 OD)

Question 7. What is the meaning of SEZ? Mention any three features of SEZ. (2011 D)

Question 8. “Advancement of international trade of a country is an index of its economic prosperity.” Justify the statement with five arguments. (2013 OD)

Assertion Reason Questions:

1. **Directions:** - In the following questions, the Assertions (A) and Reason(s) (R) have been put forward. Read both statements carefully and choose the correct answer from the below:

- Both A and R are true, R is the correct explanation of A.
- Both A and R are true, But R is not the correct explanation of A.
- A is true, R is false.
- A is false, R is true

Assertion (A): - Ford Motors is an MNC.

Reason (R): - It is one of the world's largest automobile manufacturers with production spread over 26 countries.

2. **Directions:** - In the following questions, the Assertions (A) and Reason(s) (R) have been put forward. Read both statements carefully and choose the correct answer from the below:
- Both A and R are true, R is the correct explanation of A.
 - Both A and R are true, But R is not the correct explanation of A.
 - A is true, R is false.
 - A is false, R is true

Assertion (A): - MNCs can exert a strong influence on product at distant locations

Reason (R): - MNCs set up partnership with local companies, use local companies for supplies, compete with local companies or buy them.

Case Study Questions:

1. Read the source given below and answer the following questions:

In recent years, the central and state governments in India are taking special steps to attract foreign companies to invest in India. Industrial zones, are called Special Economic Zones (SEZs), are being set up. SEZs are to have world class facilities: electricity, water, roads, transport, storage, recreational and educational facilities. Companies who set up production units in the SEZs do not have to pay taxes for an initial period of five years. Government has also allowed flexibility in the labour laws to attract foreign investment. Companies in the organised sector have to obey certain rules that aim to protect the workers' rights. In the recent years, the government has allowed companies to ignore many of these. 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.

Answer the following MCQs by choosing the most appropriate option:

- What do you understand by the term 'Special Economic Zones'?
 - Industrial zones.
 - Banking zone.
 - Farming zone.
 - Forest Conservation zone.
- Which of the following steps have been taken by the government to attract foreign companies?
 - Providing food, shelter and cloth.

- b. Judicial facilities.
 - c. Companies do not have to pay taxes for an initial period of five years. Government has also allowed flexibility in the labour laws to attract foreign investment.
 - d. All of these.
- iii. Which facilities are provided in Special Economic Zones?
- a. Free raw materials for industries.
 - b. Voting facility.
 - c. SEZs are to have world class facilities: electricity, water, roads, transport, storage, recreational and educational facilities.
 - d. Zero taxes in 10 years.
- iv. Which of the following are/ is the demands of foreign companies?
- a. Free electricity
 - b. Free transport.
 - c. Less flexibility in labour laws.
 - d. Foreign companies are demanding more flexibility in labour laws.

2. Read the source given below and answer the following questions:

Ever since humans appeared on the earth, they have used different means of communication. But, the pace of change, has been rapid in modern times. Long-distance communication is far easier without the physical movement of the communicator or receiver. Personal communication and mass communication including television, radio, press, films, etc. are the major means of communication in the country.

Mass communication provides entertainment and creates awareness among people about various national programmes and policies. It includes radio, television, newspapers, magazines, books and films. All India Radio (Akashwani) broadcasts a variety of programmes in national, regional and local languages for various categories of people, spread over different parts of the country.

Doordarshan, the national television channel of India, is one of the largest terrestrial networks in the world. It broadcasts a variety of programmes from entertainment, educational to sports, etc. for people of different age groups.

India publishes a large number of newspapers and periodicals annually. They are of different types depending upon their periodicity. Newspapers are published in about 100 languages and dialects. India is the largest producer of feature films in the world. It produces short films, video feature films and video short films. The Central Board of Film Certification is the authority to certify both Indian and foreign films.

Answer the following MCQs by choosing the most appropriate option:

- i. What does AIR stand for?
 - a. All India Radio.
 - b. American Indian Radio.
 - c. Asian Indo Radio.
 - d. None of these.
- ii. Which is the authority to certify both Indian and foreign films?
 - a. Censorship Board.
 - b. Central Board of Film Certification.
 - c. Central Bureau of Certification.
 - d. Central Board.
- iii. Following are the features of mass communication, except:
 - a. Mass communication includes television, radio, press, films, etc.
 - b. It is one of the major means of communication in the country.
 - c. It provides entertainment as well as creates awareness among the masses.
 - d. It is a communication between person to person.
- iv. Which is the largest terrestrial networks in the world?
 - a. BBC.
 - b. CNN.
 - c. Doordarshan.
 - d. Reuters.

MCQ Answers-

1. Answer: (b) In different countries
2. Answer: (a) been rising
3. Answer: (b) By MNCs
4. Answer: (c) substantial trade in goods and services
5. Answer: (d) The globalisation process
6. Answer: (d) Than a few decades back
7. Answer: (c) Satellite communication devices
8. Answer: (c) Production of services across countries
9. Answer: (d) Trade barrier
10. Answer: (d) None of the above
11. Answer: (b) Liberalisation

12. Answer: (d) 149

13. Answer: (d) Trade barriers

14. Answer: (c) Not been uniform

15. Answer: (d) Shared better

Very Short Answers-

Answer 1: A Multi-National Corporation (MNC) is a company that owns or controls production in more than one nation. The goods and services are produced globally. The production process is divided into small parts and spread out across the globe.

Answer 2: Investment is buying of an asset in the form of a factory, a machine, land and building, etc. (Physical assets) or shares (monetary assets) for the purpose of making or sharing profits of the enterprises concerned.

Common investments are: buying land, factories, machines for faster production, buying small local companies to expand production, cheap labour, skilled engineers, IT personnel, etc.

Answer 3: 1991

Answer 4: Tax on imports is known as a trade barrier because it increases the price of imported commodities. It is called a barrier because some restriction has been set up.

Answer 5: World Trade Organization (W.T.O).

Answer 6: Special Economic Zones or SEZs are industrial zones set up by the government having world class facilities such as electricity, water, roads, transport, storage, recreational and educational facilities. Companies who set up production units in SEZs are exempted from taxes for an initial period of five years.

Answer 7: Tax on imports is an important barrier on foreign trade.

Answer 8: Fair globalization means globalization that would create opportunities for all and ensure that its benefits are shared better.

Answer 9: FDI is the investment of foreign capital in the economic and productive activities of a country by foreign companies or MNCs with the aim of expanding capacity and production to earn profits.

Answer 10: The Indian government after independence had put barriers to foreign trade and investment.

- This was done to protect the producers within the country from foreign competition.
- To protect the Indian economy from foreign infiltration in industries affecting the economic growth of the country as planned.

Short Answers-

Answer 1: The government can play a major role in making fair globalization

possible:

Fair globalization would create opportunities for all, and also ensure that the benefits of globalization are shared better. Government policies must protect the interests not only of the rich and the powerful, but also of all the people in the country.

1. Government should ensure that labour laws are implemented and workers' rights are protected.
2. Government should support small producers to improve their performance till the time they become strong enough to compete with foreign competition.
3. If necessary, government should use trade and investment barriers.
4. It can negotiate with 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.

Answer 2: Globalization means integrating the economy of the country with the world economy.

1. Under this process, goods and services along with capital, resources and technology can move freely from one nation to another.
2. It has increased the movement of people between countries. People usually move from one country to another in search of better income, better jobs or better education. Earlier the movement of people between countries was less due to various restrictions.
3. Rapid improvement in technology has been one major factor that has stimulated the globalization process. For instance, advancement in transportation technology has made much faster delivery of goods across long distances possible at lower costs. Container services have led to huge reduction in port handling costs. The cost of air transport has fallen which has enabled much greater volumes of goods being transported by airlines.
4. Developments in information and communication technology (IT in short) has brought a revolution in telecommunications. It has made e-banking, e-commerce, e-learning, e-mail and e-governance a reality.
5. Globalization has resulted in greater competition among producers and has been of advantage to consumers, particularly the well-off section. Rich people now enjoy improved quality and lower prices for several products.

Answer 3: The restrictions set by the Government to regulate foreign trade are called trade barriers. Tax on imports is an example of a trade barrier.

The Indian Government had put barriers to foreign trade and foreign investment after independence to protect the domestic producers from foreign competition. Imports at that stage would not have allowed local industries to come up. India allowed imports of only essential items such as machinery, fertilizers, petroleum,

etc.

Answer 4: If Government of India puts heavy tax on import of Chinese toys:

1. The cost of Chinese toys will increase.
2. Less Chinese toys would come in the Indian market.
3. Indian buyers would have lesser choice in the market and toys will become more expensive.
4. For Indian toy makers this would provide an opportunity to expand business as there will be less competition in the market.

Answer 5:

1. MNCs set up offices and factories for production in regions where they can get cheap labour and other resources. Example, Countries like China, Bangladesh and India. They also provide with the advantage of cheap manufacturing locations.
2. MNCs also need close-by markets for their manufacturing goods. Mexico and Eastern Europe are useful for their closeness to the markets in the US and Europe.
3. Besides these, MNCs also require skilled engineers and IT personnel and a large number of English speaking people who are able to provide customer care services (India possibly tops in this area).
4. All these factors help MNCs in saving costs of production by 50-60%.

Answer 6: We participate in the market both as producers and consumers.

1. As producers of goods and services we could be working in any of the sectors like agriculture, industry or services.

For example, a farmer who sells wheat to a flour mill. The man at the mill grinds the wheat and sells the flour to a biscuit company. The biscuit company uses flour, sugar and oil to make packets of biscuits. It sells the biscuits in the market to the consumer. Biscuits are the final goods, i.e., the goods that reach the consumer and people as consumers buy.

2. We as producers in the market could be made to sell the produce to the moneylender at a low rate in return for a timely loan.

For example, in case of small farmers; the failure of crops often makes loan repayment impossible. They have to sell a part of their land to repay the loans.

3. As consumers we participate in the market when we purchase goods and services that we need. As individual consumers we often find ourselves in a weak position. Whenever there is a complaint regarding a good or service that had been bought, the seller tries to shift all the responsibility on to the buyer.

For example, a long battle had to be fought with court cases to make

cigarette manufacturing companies accept that their product could cause cancer.

Answer 7: When local companies enter into a joint venture with MNCs:

1. First, the MNCs provide money for additional investments for faster production.
2. Second, MNCs bring with them the latest technology for enhancing and improving the production.
3. Some Indian companies have gained from successful collaborations with foreign companies.

Globalization has enabled some companies to emerge as multinationals.

4. Parakh Foods was a small company which has been bought over by a large American Company — Cargill Foods. Parakh foods had built a large marketing network in various parts of India as a well- reputed brand. Parakh Foods had four oil refineries whose control has now shifted to Cargill. Cargill is now the largest manufacturer of edible oil in India making five million pouches daily.

Answer 8:

(i) Foreign trade creates opportunities for producers to reach beyond domestic markets. Producers can compete in markets located in other countries of the world. Similarly, for the buyers, import of goods from another country leads to expanding choice of goods beyond what is domestically produced. Buyers can thus choose from a wide range of products to suit their individual tastes.

(ii) With the opening of trade, goods travel from one market to another. Choice of goods in the market rises. Prices of similar goods in two markets tend to become equal, and producers in the two countries now closely compete against each other even though they are separated by thousands of miles. Foreign trade, thus, results in connecting the markets or integration of markets in different countries.

For example., There are endless number of footwear brands available in the Indian market. A consumer who is aware of international trends can choose between a local brand like Bata, Lakhani and international brands like Adidas, Nike, Reebok etc.

Answer 9: Removing barriers or restrictions set by the government on foreign trade and foreign investment is what is known as liberalization. The Indian Government removed these barriers because:

1. Liberalization of trade and investment policies allows Indian producers to compete with producers around the globe leading to an improvement in performance and quality of products.
2. After the barriers on foreign trade and foreign investment were removed to a large extent, goods could be imported and exported easily and also foreign companies could set up factories and offices in India. This has led to an

increase in trade with different countries.

3. Businesses are allowed to make decisions freely about what they wish to import or export due to the liberal policies of the government.
4. Doors of investment opened up for MNCs. They have been investing large sums of money in India and have been seeking to earn large profits.

Answer 10: Information and communication technology has helped globalisation in the following ways:

1. Rapid improvement in technology has contributed greatly towards globalisation. Advanced technology in transport systems has helped in the delivery of goods faster across long distances at lower costs.
2. Development in information and communication technology has also helped a great deal. Telecommunication facilities — telegraph, telephone, mobile phones, fax are used to contact one another quickly around the world, access information instantly and communicate from remote areas. This is possible due to satellite communication devices. Teleconferences help in saving frequent long trips across the globe.
3. Information technology has also played an important role in spreading out production of services across countries. Orders are placed through internet, designing is done on computers, even payment of money from one bank to another can be done through e-banking through internet. Internet also allows us to send instant electronic mail (e-mail) and talk (voice-mail) across the world at negligible cost.

Long Answers-

Answer 1: WTO (World Trade Organization). WTO believes that there should not be any barriers between trade of different countries. Trade between countries should be free.

Aims of WTO:

- To liberalize international trade.
- To establish rules regarding international trade.

Two shortcomings of WTO:

1. Though WTO is supposed to allow free trade for all, in practice, it is seen that the developed countries have unfairly retained trade barriers and continued to provide protection to their producers. For example, farmers in the US receive huge sums of money from the government and as a result can sell the farm products at abnormally low prices in other countries, adversely affecting farmers in those countries.
2. On the other hand WTO rules have forced the developing countries to remove trade barriers.

Answer 2: Globalization is the process of rapid integration or interconnection

among countries. It is the integration between countries through foreign trade and foreign investments by multinational corporations. It means the coming together of various economies of the world to form a global economy.

The top Indian companies have benefitted from the increased competition and globalization.

1. They have invested in new technology and production methods and raised their production standards.
2. Some have gained from successful collaborations with foreign companies.
3. Moreover, globalization has enabled some large Indian companies to emerge as multinationals themselves. For example, Tata Motors, Infosys, Ranbaxy, Asian Paints, Sundaram Fasteners etc.

Answer 3: A Multi-National Corporation (MNC) is a company that owns or controls production in more than one nation. The goods and services are produced globally. The production process is divided into small parts and spread out across the globe.

Tata Motors (automobiles), Infosys (IT), Ranbaxy (medicines), Asian Paints (paints), Sundaram Fasteners (nuts and bolts), etc. are some of the Indian companies which are spreading their operations worldwide as MNCs.

Harmful effects of MNCs to a host country:

1. Small producers compete or perish. MNCs have posed major challenges for a large number of small producers and workers. The small manufacturers have been hit hard due to competition. Several of the units have shut down rendering many workers jobless. Batteries, taps, tyres, dairy-products, vegetable oil are some of the industries that are badly affected due to stiff competition from MNCs.
2. Uncertain employment. In order to maximize the profit MNCs look for a location with minimum labour costs. Faced with competition, most employers these days prefer to employ workers on temporary basis so that they do not have to pay workers for the whole year. This has changed the lives of workers and their jobs are no longer secure.
3. The Condition of employment. Workers also have to put in very long working hours and work night shifts on a regular basis during the peak season. Wages are low and workers are forced to work overtime to make both ends meet. The workers are denied their fair share of benefits and no longer get the protection that they enjoyed earlier, for example, the Indian garment export industry often deny their workers their fair share of benefits.

Answer 4: To Producers. Several of the top Indian Companies have been able to benefit from the increased competition.

- They have invested in newer technology and production methods and thereby raised their production standards.
- They have gained from successful collaborations with foreign companies.

- Globalization helped in the development of IT sector.
- Good quality products are being produced at lower prices.

To Consumers. There is greater choice before consumers who can enjoy improved quality and lower prices for several products.

- People today, enjoy much higher standards of living than was possible earlier.

Answer 5: Globalization has benefitted India in the following ways:

- People with education, skill and wealth have benefitted by globalization.
- Greater competition among producers (both local and foreign) has been advantageous to consumers, particularly the well-off section. Rich people enjoy improved quality at lower prices for several products and enjoy a higher standard of living.
- MNCs have increased their investments in India over the past 20 years in industries such as cell phones, automobiles, electronics, soft drinks, fast food and services such as banking.
- New jobs have been created in all these industries and services.
- Top Indian companies have benefitted from the increased competition. They have invested in newer technology and production methods.
- Some Indian companies have gained from successful collaborations with foreign companies. Globalization has enabled some companies to emerge as multinationals.

Answer 6: In order to attract foreign investment, the Government has taken the following steps:

1. All the barriers and restrictions on foreign trade and investment have been removed to a large extent.
2. Liberalization of investment policies has allowed Indian producers to compete with the producers around the globe.
3. Allowing privatization of many public sector industries by the government.
4. Allowing businesses to make decisions freely about what they wish to import or export.
5. The government has allowed flexibility in labour laws to attract foreign investment for the benefit of companies.

Answer 7: SEZ or Special Economic Zones are industrial zones set up by the Central and State Governments with world class facilities in electricity, water, roads, transport, storage, recreational and educational facilities. Three features of SEZ:

1. The companies who set up production units in the SEZs do not have to pay taxes for an initial period of five years.

2. Government has also allowed flexibility in the labour laws to attract foreign investment. This is done to reduce the cost of labour for the company.
3. These are being set up to attract foreign companies to invest in India.

Answer 8: “Advancement of international trade of a country is an index to its economic prosperity”.

1. As no country is self-sufficient in all resources, it cannot survive without international trade.
2. If the balance of international trade is favourable, a country will be able to earn more foreign exchange.
3. International trade encourages a country to develop secondary and tertiary sectors for exporting goods which can fetch more foreign exchange.
4. A country’s economic prosperity can be gauged by the health of its international trade.
5. A country can earn large amounts of foreign exchange through international trade.

Assertion Reason Answer:

1. (a) Both A and R are true, R is the correct explanation of A.
2. (a) Both A and R are true, R is the correct explanation of A.

Case study Answer:

1.

(i)	(a)	Industrial zones.
(ii)	(c)	Companies do not have to pay taxes for an initial period of five years. Government has also allowed flexibility in the labour laws to attract foreign investment.
(iii)	(c)	SEZs are to have world class facilities: electricity, water, roads, transport, storage, recreational and educational facilities.
(iv)	(d)	Foreign companies are demanding more flexibility in labour laws.

2.

(i)	(a)	All India Radio.
(ii)	(b)	Central Board of Film Certification.
(iii)	(d)	It is a communication between person to person.
(iv)	(d)	Reuters.