Chapter 4
Globalisation and the Indian Economy

- **Multinational Corporations (MNCs)**
  MNCs are companies that have their branches or manufacturing units in more than one nation. MNCs establish their factories and offices in regions where cheap labour, raw material and other resources are readily available. This minimizes the cost of production and increases the profit.
- **Foreign Direct Investment (FDI)**
  Investment made by an MNC in a country for setting up factories and offices. Thus, the money spent for buying land, building, machines and other equipments for starting production by an MNC is called foreign direct investment.
- **Modes of Foreign Investment**
  - Establishment of factories and offices solely by the MNC in some other country using its own capital.
  - Establishment of production units by an MNC in joint-venture with some local company.
  - Buying local companies and then expanding production.
  - Placing orders with small local producers.
- **Functions of Foreign Trade**
  - Opens-up the world market for the producers.
  - Reduces the producers' dependency on the domestic markets.
  - Increases the choice of goods for buyers.
  - Integrates various nations and paves the way for cultural and other contacts.
- **Globalisation**
  It refers to the process of integration of markets and interconnection between countries. The increasing contacts with other nations have made the world a smaller place.
  - **Reasons for Globalisation**
    - Improved means of communication technology
      E.g. Internet, television, telephone, fax etc.
    - Increasing trade and commerce among nations
    - Improved means of transportation
      E.g. Aircraft and ships
    - Greater mobility of people in search of jobs and better education
- **Trade Barrier**
  Any tax or any other form of restriction that is imposed on the import of goods into a country is called a trade barrier. Trade barriers are imposed for regulating the inflow of foreign goods in the domestic market for safeguarding the local producers from foreign competition.

- India, after independence, had imposed trade barriers and allowed import of only essential commodities to give protection to the upcoming industries.

- **Liberalisation**

  It stands for the removal of trade barriers imposed by the government of a nation. Liberalisation opens-up the economy of a nation to foreign trade.
  - India liberalized its economy in 1991

- **World Trade Organisation (WTO)**
  - An organization under the United Nations
  - Established in 1995 under the Brettonwood system
  - About 150 countries are its members
  - Aims at liberalizing international trade
  - It is biased in favour of the developed countries

- **Impact of Globalisation in India**
  - Consumers now have better choices of products at cheaper prices.
  - Foreign Direct Investment (FDI) by MNCs has increased in India, which has resulted in
    - Creation of new job opportunities for Indians
    - Addition in the foreign exchange reserves of the country
    - Prosperity of local industries supplying raw materials to MNCs
  - Indian markets have expanded manifold.
  - Introduction of new technology in the industrial sector in India.
  - Some Indian companies have gained the status of multinationals themselves. E.g. Infosys, Tata, Ranbaxy etc.
  - Service industry has witnessed a fillip. E.g. Call centres, engineering services, accounting etc.
  - It has negatively affected the small enterprises that faced stiff competition from large MNCs.