

GLOBALIZATION AND DEMOCRATIC GOVERNANCE IN INDIA

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CERTIFICATE

This is to certify that the dissertation entitled, '**Globalization And Democratic Governance In India**' submitted by **Ms. Manjita Kaur** in partial fulfillment of the requirement for the award of the degree of **Master of Philosophy**, is her own work, and has not been previously submitted for the award of any other degree of this or any other university.

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Dedicated to My Mom, Dad And Brother Gobind

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INTRODUCTION

Globalization has become the all inclusive, all enveloping catchword of our times, with a plethora of literature covering every aspect of the phenomena. On one hand it is seen as the path leading to greater development of the people, while on the other it is perceived as a threatening, hegemonic and destructive force. It is in this later sense that it is often seen as an unstoppable process which affects all areas of economic, political and social life, and is often associated with, or even viewed as identical to "Americanization".

The end of the cold war eliminated an organized military, economic and ideological challenge to the unfettered expansion of globalization under the tutelage of United States. Historically while the process of globalization is not a new phenomenon, what is new in the post-cold war era is its pace and scale, range and sweep; also its technique of enforcing the rules of the game.

By the time, the post colonial sovereign state of India emerged at the cost of the partition of the sub-continent the overarching cold war process of globalization through military alliances was vying for space in South Asia. India with its assertive national sovereignty was faced with the twin goal of post-colonial nation building on the one hand and economic development on the other, with an emphasis on indigenous development based on self reliance; this was in defiance of the western agency's constant pressure both directly and indirectly to globalize.

The collapse of Soviet Union and formal end of cold war, India's economic crutch with foreign exchange crisis affecting balance of payments, and weak coalition government at the centre symbolizing political instability, were factors providing a backdrop to the formal entry of India into the process of globalization, which started with the request for an IMF bailout made by Indian government and the IMF's response outlining condition for its aid. These reforms were in total reversal of earlier economic policies and ensured conformity with western "advice".

The purpose of this study is to attempt a critical analysis of how globalization as a phenomena influences Third World in general and India in particular, with special focus on democratic governance and its economic and political impact on the Indian state.

The first chapter is an attempt to probe into the theoretical perspective on globalization by examining the views of various thinkers and tracing the historic origins of the phenomena and assessing whether or not it constitutes an ascendant paradigm in international relation study.

Chapter two, inspects the influence of globalization on 3rd world countries, in general especially in the backdrop of the end of communism and attempts to analyze the role of IMF and World Bank in the Third World, now called countries of the south, it also looks briefly into the Asian Economic crisis. Third World was originally defined on the basis of poverty (West), Technological backwardness (One World System Theorists) and political consciousness of development (NAM). Now, with

the collapse of the second world, more appropriate expression would be either developing states, or, countries of the south. We have retained the expression Third World, though, for reasons for familiarity of expression, its continued usage in contemporary literature and its embedded inequality in structural dimensions of globalization.

Chapter Three looks into the economic impact of globalization on India in the framework of the pre-reform, the crisis period and the post-reform period with a critical analysis of the reform.

Finally chapter four, inspects the political impact of globalization on India, it looks into the distinctiveness of Indian democracy and examines whether globalization is a threat to state sovereignty with special focus on the third world and India, it also analyzes the contemporary political scenario in India scrutinizing how India is meeting up the challenge.

GLOBALIZATION -THEORETICAL AND HISTORICAL PERSPECTIVES

Globalization is a dominant theme of our times, perceived as a process of increasing inter-dependence on the global scale, its main parameters are free flow of goods, capital, labour and technology, but its most prominent aspect remains in the field of financial globalization caused by rapid integration of the financial market. A highly debated view refers to it as a natural, inevitable and irreversible process that advances outside human agency. Subsequently its global impact in both theory and practice is evident in its overbearing omnipresence, overshadowing all other components of socio-cultural and politico-economic life. It is perceived as an anathema in some quarters and as irresistible in others.

At a simple, dictionary level, globalization is defined as “the act, process or policy of making something worldwide in scope or application.” Before dismissing this definition as too simplistic, points out Charles Wolf Jr., it is worth recalling an observation by Earnest Rutherford that unless one can state a technical point in simple, nontechnical language, they probably don't really understand it.

Some other attempts at defining globalization include: “globalization is the intensification of world wide social relations in such a way that local happening, are shaped by events occurring many miles away.” (Anthony Giddens).

“Globalization reflects a more comprehensive level of interaction than in the past, something different from the word ‘international’. It implies a diminishing importance of national border and the strengthening of identities beyond those rooted in a particular region or country.” (Ford Foundation Report, 97)

“Globalization is the growing economic interdependence of countries world wide through the increasing volume of cross border transactions in goods and services and of international capital flows and also through the more rapid and widespread diffusion of technology.” (IMF, 2000)

M. Waters,¹ who characterizes globalization as ‘a social process in which the constraints of geography on social and cultural arrangements recede and in which people become increasingly aware that they are receding,’ holds that a number of features can now, with confidence be held to mark out contemporary globalization, they are :

Increasing speed and volume- Speed of movement, by travel or communicational technology and the volume of goods, messages and symbols in circulation have massively increased, globalizing tendency has now greatly accelerated and works simultaneously on a number of levels like economic, political, cultural and individual.

*Shrinking space-*With the advent of new transport and communication technologies giving way to increased movement of people across the face of earth, space which is expressed in terms of traveling time and communication has shrunk.

¹ Waters, M (1995), **Globalization**, Routledge, London.

Permeable borders—With the increasing interconnectedness between all nation states and the wider world the political and geographical boundaries are increasingly rendered as permeable events (economic, political, cultural or ecological) occurring anywhere in the world impinge upon the nation states so much that national autonomy and isolation is almost difficult to maintain.

Reflexivity— People are, increasingly, orienting themselves to the world as a whole, regarding themselves as both ‘locals’ and ‘cosmopolitans’ the concept of ‘citizens of the world’ is gaining ground, people are increasingly thinking globally and are much more aware than in recent past.

Risks and trusts – Globalization increasingly covers everyone in the web of risk and trust, as people need to trust experts and their opinion and at the same time are placed under effect of events like acid rain or New York stock market crash, which are totally beyond their control

David Held² presents the view of four writers who identify some of the features they associate with a globalizing world at the end of twentieth century and the way they interpret it.

Will Hutton, stresses the extent to which globalization is characterized by the homogenization of the culture whether in trade, finance or the speed and scope of communication. The degree of interpretation of national markets and culture is unprecedented, reflected in commonly used Marlboro Cigarette, eating sushi, using

² Held, David (2000) (ed) *A globalizing world ? culture, economics, politics*. Routledge, New York.

windows, watching CNN and English emerging as international language of communication .

Geoff Mulgan looks at the significance of increased connectedness and says that the simplest dimension of this connectedness is communication.

John Wiseman highlights how globalization may be little more than the language of unregulated capitalism, and calls it the most slippery, dangerous and important buzz word of the late 20th century – slippery because of its several meaning and use, ‘dangerous, because used as a justification for endless unregulated capitalist relation into every part of life in every corner of the globe’, important because it can illuminate the world.

Anthony Giddens integrates globalization with emphasize on the global power of America- says some see it as nothing but little more than Americanization.

These four readings clearly express different perceptions of globalization. The first stresses the extent to which globalization is characterized by the homogenization of economy and culture, the second looks at the significance of increased connectedness, the third highlights the extent to which globalization may be little more than the language of unregulated capitalism. While the fourth provides an interpretation of globalization that emphasizes the global power of America. Hence they represent both pessimistic as well as positive view of globalization.

Historical Perspectives On Globalization

Observers points out that historically one of the most significant steps on the way towards contemporary globalization was the outward union of Europe, which stretches from the early voyages of the great navigators at the end of the fifteenth century through to the mass emigration of European people across the Atlantic in the late 19th century and early 20th century. A resultant wide acceptance of the European concept of nation state which according to Spybey³ was an important aspect of globalization.

The historic origins of globalization as we experience it today are varied and not easy to explicate. However, Gidens, Roberston and Held⁴ have presented great insight, in historically contextualizing globalization, which demands a brief look at each of them.

For Giddens⁵ globalization is directly allied to the development of modern societies, to industrialization and the accumulation of material resources, and is a continuation of modernity rather than a break with it. The contemporary period which he terms as 'high modernity', infers that modernity has now moved into a global stage: society has become a 'world society' and the individual is confronted by social institutions that have become global. People everywhere cannot avoid coming into contact with the global through twentieth-century brand marketing, imagery and fashions. He identifies three factors in the nineteenth century that, in his opinion, have resulted in contemporary globalization:

³ Spybey, T (1996), *Globalization and World Society*, Polity Press, Cambridge.

⁴ Beynon, J and G Dunkerly, D. (2000) (eds), *Globalization the Reader*, The Athlone Press, London.

⁵ Giddens, A (1990), *The Consequences of Modernity*, Polity Press, Cambridge.

- Nineteenth century European nations deployment of force to conquer tribal societies, colonize them and then establish ruling colonial communities.
- The comparative peace of the nineteenth century allowed the British in particular to invest resources in advancing colonial ambitions.
- European's bureaucratic skills allowed them to develop diplomatic networks and transnational political and business agencies.

Although European states have regularly gone to war with each other, they have more often collaborated and, as a consequence, the nation state remains at the heart of contemporary globalization and its networks of international relations. Capitalism (with its aggressive competition for raw materials, production and constant search for new markets) has fuelled the pre-existing globalizing tendency. Finally, Gidens hopes, somewhat idealistically, that in the future globalization will result in a 'post-scarcity' economy; multi-level political participation; global demilitarization; and the use of high technology in ways that benefit all sectors of the human race.

In contrast, Robertson⁶ presents contemporary globalization as pre-dating modernity and the rise of capitalism. He argues that globalization in our time is qualitatively different from earlier manifestations in that modernization has now permitted contemporary consciousness. Whereas most commentators see the world undergoing

⁶ Robertson, R (1992), *Globalization: Social Theory and Global Culture*, Sage, London.

social compression since the sixteenth century. Robertson places the origins of globalization earlier and identifies five phases of globalization in Europe:

- *Phase 1, 1400-1750*: The germinal phase of global exploration, along with the spread of the Roman Catholic Church; the widespread adoption of the Gregorian calendar ; the advent of mapping and of modern geography, and the growth of national communities and of the state system.
- *Phase 2, 1750-1875*: the emergence of internationalism in the form of international relations and exhibitions as non-European countries began to be admitted to the Europe-dominated international society.
- *Phase 3, 1875-1925*: the 'take off' phase of globalization, marked by globalizing tendencies such as communicational advances and increasing economic and political connections, along with cultural and sporting links (like the Olympic movement) and, from 1914-18, the first world conflict.
- *Phase 4, 1925-69* : the struggle for dominance phase, with world war II and the splitting of the atom, as well as the founding of the United Nations and other organizations with a global remit.
- *Phase 5, 1969, to date*: the end of the Cold War, the moon landing and planetary exploration; the emergence of global institutions and global mass media; and world-wide debates around race, ethnicity, sex, gender, sexuality and human rights.

Today, European institutions no longer control the world and many of the old certainties in place up to the 1960s no longer hold sway. Indeed, Robertson believes that we may already have entered a sixth phase, one of global uncertainty, given the advent of AIDS; the rise of new diseases and pandemics; the re-emergence of old scourges in new forms (for example, tuberculosis and smallpox) global environmental hazards; the immense influence of the global media; increasing multiculturalism and polyethnicity; and the growth of Islamic Fundamentalism. The long term outcomes of globalization are uncertain and as he puts it, 'up for grabs'. But what makes contemporary globalization unique is that the world has moved from being in itself towards being for itself in that, increasingly, nations now engage more in a wide range of economic, military, cultural and political contacts.

Held⁷ sees contemporary cultural globalization as the latest manifestation of a set of historical processes. Examples of these are the pre-historic and historic migration of people, the global spread of the major world religions, the impact of the great empires, the influence of powerful western nation states and modern nationalism, including the outward expansion of Europe from the sixteenth century; the transnational flows of capitalism and of big ideas (pertaining to science, liberalism, socialism, feminism, etc.); and, ofcourse, the hegemony of English as a truly 'global language'. There are technological antecedents, too, for example, the development of the trans-Atlantic

⁷ Held, D, McGrew, A, Goldblatt, D and Perraton, J (1999) eds, *Global Transformations: Politics, Economics and Culture*, Polity Press, Cambridge.

telegraph in the 1860s and cable communication across the British Empire by the 1880s.

Setting aside the pre-historical and pre- agrarian (about which obviously little is known) they look at four periods of globalization, each reflecting a particular arrangement of spatial, temporal organizational circumstances. These are the pre-modern the early modern the modern and the contemporary:

- *The pre-modern* (before 1500) :Globalization was interregional within Eurasia and the Americas, based on political and military empires and the movements of peoples into uncultivated areas.
- *The early modern* (1500-1850) : This was marked by the rise of the West and the movement of Europeans into the Americas and then Oceania. It was in the early modern period that world religions spread and exerted their most significant cultural influence, especially Christianity and Judaism, both of which attained a global distribution.
- *Modern globalization* (1850-1945): This period witnessed an acceleration of global networks and cultural flows, dominated by the European powers, especially the British; and the great migration of European peoples to the New World.
- *Contemporary globalization*: Everywhere the environment is degraded and new patterns of global migration have replaced the old. A worldwide system of nation states, overlaid by a

combination of regional and global forms of regulation and governance, has emerged.

But what really distinguishes contemporary globalization from anything that has gone before is the truly global impact of communications and transport which have increased the speed and volume of the circulation of images, symbols, goods and people. No state is disconnected from global telecommunication, and the authors conclude that 'even though most people remain rooted in a local or national culture and a local place, it is becoming increasingly impossible for them to live in that place disconnected culturally from the world in which it is situated.

Looking into the changing Politico-economy situation; at the outset of the twenty-first century it is manifestly clear that any sense of the West's previously assumed 'superiority' in the more interconnected 'globalized' world we now inhabit has disappeared.

The former tripartite distinction between the first world (or free world as it was frequently called), the second world (comprising the former socialist societies of Eastern Europe) and the third world lost its meaning after the events of 1989. the second world disappeared and, at roughly the same time, several former developing countries (particularly in Southeast Asia) entered a phase of rapid economic growth. The speed of the changes in Eastern Europe was nothing short of breathtaking, with Hungary leading the way in February 1989, and with Poland, Bulgaria, East Germany, Czechoslovakia and Romania following

by the end of that year. By early 1992 each of the former East European communist countries (including Albania) had moved towards democracy as a way of life.

These developments produced highly significant changes on the world stage to the extent that the political and economic character of many countries was changed in response to them. In this sense it is possible to distinguish forces of globalization operating in different contexts. Political globalization is evident as the former second world countries have overwhelmingly chosen democracy and markers of a western variety. Similarly, the economic developments of certain 'Pacific Rim' countries have led to political developments that again mimic arrangements familiar to the first world. Coupled with these dramatic political movements have been economic changes as the notion of a world economy has become more of a reality through global trading and capital markets and a clear move towards interdependency of separate economies. The political and the economic movements have been boosted and facilitated by technological changes, especially through information technology. In turn, it is possible to discern social and cultural changes resulting from the political, the economic and the technological. Taken together, these suggest very significant changes on a global scale, even a new world order, as claimed by former US President George Bush.

Returning to what is undoubtedly the most comprehensive study of globalization of date, that by Held, who is of the view that contemporary globalization is not reducible to a single, causal process,

but involves a complex configuration of causal logics (whether political, military, economic, migratory, ecological, or cultural). They raise two issues which are highly pertinent to our purposes here.

- First, while the processes of globalization may be uniting the globe physically; it is not necessarily inculcating a sense of global community and citizenship, a prerequisite for any future democratic global government. Indeed, some commentators see globalization intensifying conflict as nations seek to secure their own interests, so much so that growing nationalism and global inequalities reinforce cultural divisions and global fragmentation.
- Second, what kind of politics is required in the emerging global order? This is the question that Held et al. raise when they ask what is the proper constituency and the proper realm of jurisdiction for developing and implementing policy with respect to health issues such as AIDS, narcotics, the management of nuclear waste, military security, the harvesting of rainforests, indigenous peoples, the use of non-renewable resources, the instability of global financial markets and the management and control of genetic engineering and manipulation of animals and humans?

Theoretical Perspectives On Globalization

Koffman and Young⁸ say that globalization is no longer a new phenomenon in the academic world, and perceive it as part of the established conceptual vocabulary for addressing social relations or for

⁸ Kofman, E and Young, G (1996), *Globalization: Theory and Practice*, Printer, London.

addressing social relations on a global scale. Putting away the so called hype on one side they feel that it is time to start moving away from its generalizing tendencies to the specificities of what globalization actually means when used in particular context for declared and undeclared purposes. This they refer as the 'second wave'.

According to them globalization relates as much to a way of thinking about the world as it does to a description of the dynamics of political and economic relation within it; globalization they say has opened up new imperatives for investigating power linkages between thought and action, knowledge and being, structure and processes. Scholte points out that till 1980s notion of globality generally figures little in conceptions of social life. In discussing world affairs, speakers nearly always used 'international' rather than global as recently as the mid-1980s, concept of 'global governance' 'global environmental change' 'global gender relation' and 'global political economics' were virtually unknown.

Scholte⁹ feels that globalization as a buzzword is still ambiguous as it is popular and still merges with the idea of 'international relations' and 'world system' simply to denote the extension of social relation beyond national, state and country confines. At the same time he feels that these loose formed ideas of globalization say nothing particularly new and could be applied as much to the 17th as the 20th century.

Scholte says that globalization has given rise to supraterritoriality which has been comprehensive in some form and to some degree

⁹ Scholte, J.(1999) *Beyond the Buzzword: towards a critical theory of globalization*, in, Kofman, E and Young(eds), ***Globalization theory and practice***, Printer, London.

spanning all aspects of social relations. In institutional terms through TNC etc. ecologically, eg. Planetary climate change, ozone depletion, economically financial market, normatively through worldwide standards eg. universal human rights, psychologically through the growing consciousness of the world as a single place. He adds that the trend of globalization stretching back more than a century since the first telegraphic communication begun in 1840s.

Scholte brings forth a three fold distinction between *conservative*, *liberal* and *critical views*, which he calls some what crude.

Conservative orthodoxy underplays the extent and significance of globalization. In so far as these traditionalist conceptions take cognizance of a rise of supraterritoriality at all, the development is not thought to involve any noteworthy transformation of the world system. Conservative circles also contain reactionaries, such as certain nationalists and religious revivalists who would revenue any globalization that has thus far occurred. For traditionalist social relation are-and or should be organized in terms of territorial units with limited interdependence between them and certainly no global fusion. Conservatives tend to reject liberal enthusiasm for globalization as 'utopian' and to ignore critical perspectives altogether. Proponents of realist international theory see the world system to be reducible to inter-state competition for power. For realist, power politics are today as resilient as ever and the main contemporary debate about change concerns whether in the post cold war world, this timeless struggle unfolds in a unipolar or multipolar context. From this perspective

notions of globalization are a delusion, indeed one that might detract dangerously from prudent management of the anarchical international society.

The denial that anything like globalization has happened is, in the words of Ruggie¹⁰ “baffling and bizarre” perhaps realist arrogance belies an intuitive awareness that globalization call into question crucial underpinnings of traditional knowledge –methodological nationalism and territorialism and thereby the very discipline of international relations and the realist vocation itself.¹¹

Another stream of orthodox thinking, which is liberalism, does acknowledge a reality of globalization, but regards the process uncritically as progressive and benign. From a liberal perspective, the contemporary emergence of globality is the extension (and perhaps culmination) of a long term trend of deepening international interdependence. In liberal eyes contemporary globalization offers the prospect of at last fully realizing the promise of modernity. Released from the shackle of traditionalism, colonialism and communism- so this account goes that market forces, electoral multiparty democracy, techno-scientific rationality, national self-determination and international cooperation have the opportunity to work their complete magic, and to the benefit of all humanity.¹²

¹⁰ Ruggie, J.G (1993) Territoriality and beyond: Problematizing modernity in International Relations, *International Organizations*, 47(1), 139-74.

¹¹ Agnew (1994) The territorial trap: the geographical assumptions of international relations theory, *Review of International Political Economy*, 1(1), 53-80.

¹² Muller, J. (1989) *Retreat from Doomsday: The Obsolescence of Major War*, New York, Basic Book, London.

Two broad variants of liberal discourse can be distinguished. *Neoliberalism*, especially powerful during the 1980s, hold that globalization will yield this 'end of history' more or less automatically. In contrast, reformist liberalism, generally ascendant in the 1990s, prescribes modest initiatives on the part of global governance to correct the 'imperfection' of a 'free world'. In its reformist guises liberalism encompasses certain strains of (self defined) socialism, feminism and environmentalism.

Critical knowledge has its primary conscious purpose in identifying disempowerment and promoting politics of emancipation. Theorist of this bent approach the question of globalization with an awareness that the modern world system has produced widespread violence, arbitrary hierarchies and avoidable deprivation. Critical discourse recognize that given this historical record, the rise of supraterritoriality could well involve an extension and reinvigoration- perhaps in new forms of imperialism, Xenophobia, patriarchy, racism, militarism, authoritarianism fundamentalism, nihilism and other recurrent predicament of modernity. Globalized transformation of the space time dimension of social life should therefore be greeted not with conservative disavowals or liberal confidence but with vigilance.

Critical account of globalization have chiefly developed along and broad methodological line, on the one hand, historical materialist analyses have interpreted the rise of supraterritoriality as a particular turn in capitalist development. This work focuses on the implication and accumulation, forms of system and regulation and dynamics of class

relation and exploitation, on the onehand and on the other what are broadly termed post modernist or post-structuralist narratives have highlighted psychological and cultural oppression that attend globalization. In these writings establishment of the world as a single place has been linked, inter alia, to fragmentation of identity, crises of community and religious resurgence.

Critical knowledge is not fruitless, of course some writings in this vein exaggerate the extent of globalization with consequences. Historical materialists often underestimate the significance of the ideational forces in globalization, while post structuralists tend to underplay its economic and ecological aspects.

Held,¹³ apprehends that despite the different interpretations of globalization its most distinctive feature or concept can be summarized under four main headings.

Stretched social relations: it is argued that cultural, economic and political processes in society are increasingly stretched across nation state boundaries so that events and decisions taking place on one side of the world have a significant impact on the other. Whereas regionalization can be defined as the interconnectedness between 'geographically contiguous states' as in the case of Europe, one might reasonably expect globalization to involve transcontinental and inter regional relations that extended across the globe, example, global climate change and environmental degradation.

¹³ Held D (2000), *A globalizing world? Culture, Economics, Politics*, Routledge, London.

Intensification- increased density of interaction across the globe, which implies that the impacts of events are felt more strongly than before. The stretching of social relation seems to be associated with an intensification of flows and network of interaction and interconnectedness that transcend nation system. One aspect of this is to be found in the density of communication and interaction.

Increasing interpenetrations—the increasing extent and intensity of global interactions is changing the geography of the relationship between the local and global. As social relations stretch there is an increasing interpenetration of economic and social practices, bringing apparently distant cultures and societies face to face with each other at local level as well as on the global stage, Coca-cola, McDonalds or Hollywood movies are example of ways, in which one culture expression are exported to other countries. Mostafavi suggests: 'Globalization can in one sense, be viewed as reframing old colonial power relations,' albeit without the necessity for actual physical occupation of territory- except that global cities such as London or New York are themselves now being colonized by people whose countries have been physically or economically colonized by the west

Global infrastructure- the underlying formal and informal institutional arrangements that are required for globalized network to operate-interconnections that cross nation system boundaries operate outside the state of regulation and control of individual nations and are global not only in their operations but in their institutional infrastructure. Information and communication technologies provide the

infrastructure of interaction that supports the growth of global markets. According to this claim nation systems find themselves at the mercy of these markets, which have powerful structural effects, severely limiting their policy options. We are seeing the emergence of a fundamental challenge to the sovereignty of the nation state. Ohmae¹⁴ has suggested that we are moving into 'a borderless world' in which city regions or city states rather than nation states will become the main brains of political organization. A few world cities become modes of global power through which financial decision making flows, decisions taken in these citadels of power have dramatic effects for the rest of us.

Held presents a theoretical framework which will help to locate various perspectives and evidences within three overarching approaches, viz. *Globalist, Traditionalist and Transformationalist*.

Globalists take the view that globalization is a real and tangible phenomenon. They argue that there has been a significant shift in the geography of social relations and that social processes now operate predominantly at a global scale. The impacts of globalization can be felt everywhere in the world and increasing global interconnections are making national boundaries less important. National cultures, economies and politics are subsumed into networks of global flows. These lessen local and national differences, autonomy and sovereignty and produce a more homogenous global culture and economy. Globalists point to the emergence of a new global structure whose rules determine how countries, organizations and people operate. According to this view,

¹⁴ Ohmae, K (1990) *The Borderless World: Power and Strategy in the Interlinked Economy*, London, Fontana.

globalization is an inevitable trajectory of development, so any attempts to resist it are doomed to failure.

Optimists or positive globalists point to the benefits of globalization and see the result of globalizing influences as a change to be welcomed they focus on the potential stretched social relations to improve the quality of life, raise living standards and bring people together, which, in turn, promotes the sharing of cultures and understanding among nations around the world- in a sense making us all world citizens through global communication. While they recognize the dangers of global environmental pollution, positive globalizers argue that we could improve the position if we all took some responsibility for reducing unsustainable levels of consumption, and they point to the development of new technologies which are likely to reduce levels of pollution.

Pessimistic globalists, by contrast, see the world as becoming less diverse and more homogenous. They emphasize the dominance of major economic and political interests – particularly in the countries of the North like the US, western Europe and Japan- who are able effectively to resist all pressures for change and can impose their own agenda on the world. They see the diminution of national identities and sovereignty negatively and point to the uneven consequences of globalization.

Conversely *traditionalists* are skeptical about globalization. They dispute the notion that there is evidence of a fundamental or systemic shift in social relations. They believe that globalization is myth, or at any

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rate is much exaggerated as a distinctively new phenomenon, and emphasize continuities between the past and present. Traditionalists argue that in spite of increases in global flows of trade and money around the world, these are not substantially different to the economic and social interactions that have occurred between nations in previous historical times. The exchange of goods and cultures goes back to early times and in the nineteenth century, open trading and liberal economic relations were the norm world-wide. Globally powerful economic and political interests were not hard to find. What we are witnessing is, therefore, simply a continuation and progression of earlier world trading links, traditionalists see the majority of economic and social activity as still being essentially regional rather than truly global in spatial scale- the European Union would be cited as an example of the increased importance of regionalization , rather than globalization. They give nation-states an important position which globalists do not.

A third-*transformationalist*-approach seeks to move beyond the sometimes arid debate between the globalists and the traditionalists. Transformationalists reject the polarity of the globalist and traditionalist. They argue that nation states remain militarily, economically and politically powerful. However, while some skepticism is justified, they also believe that it is foolhardy to dismiss the notion of globalization or underestimate its material impacts and effects.

According to this view, the consequences of contemporary global interactions are complex, diverse and unpredictable, further, their effects

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are uneven and warrant serious study and concern. In other words, while the form of global social relations may not display a significant shift, the characteristics are distinctive. The autonomy of nation-states is constrained by forms of transnational power that are not accountable either because they reflect the priorities of major corporations pursuing their own commercially driven goals, or because of the overriding need to compete effectively in global markets. In consequence it is not that globalists are inherently wrong but that globalization should not be understood as an inevitable or a fixed end point. Rather, it should be conceived as a complex set of interconnecting relationships through which power, for the most part, is exercised indirectly.

Transformationalists argue that the precise forms taken by globalization are not inevitable and may be reversible. Solutions are likely to be based on new and progressive structures for democratic accountability and a global state of governance. In this state, global institutions would be democratized and empowered but nation-states retain key role as territorially specific, legitimate and accountable frameworks for policy. Transformationalists emphasize the importance of interaction between the structural context represented by globalizing tendencies and initiatives taken by national, local and other agencies in defining what is possible.

Globalization – An Ascendant Paradigm

After examining the issues related to historical and theoretical perspectives on globalization an important question in need of

ponderance is whether globalization constitutes an ascendant paradigm. James H. Mittelman¹⁵ throws light in this direction.

It is seen that international studies is on a cusp of a debate between para-keepers; observes who are steadfast about maintaining the prevailing paradigms and deny that globalization offers a fresh way of thinking about the world and paramakers who bring into question what they regard as outmode categories and claim to have shifted to an innovatory paradigm.

A paradigm in Kuhn's¹⁶ sense is understood to mean a common framework, a shared world view that helps to define problems, a set of tools and methods, and modes of resolving the research question deemed askable. Perhaps constituting an up-and coming subfield within international studies, globalization research bring together different types of theorists, with varied commitments and stakes.

Globalization may be best understood as a syndrome of political and material processes, including historical transformations in time and space and the social relations attendant to them. It is also about ways of thinking about the world . Globalization thus constitutes a set of ideas centered on heightened market integration which is in its dominant, form, neo liberalism is embodied in a policy framework of deregulation, liberalization and privatization .

According to Mittleman the keepers are nay sayers who doubt or deny that globalization constitutes an ascendant paradigm. They include

¹⁵ Mittelman, H.J, Globalization: An ascendant paradigm in *International Studies Perspective*, Vol, 3, Issue, Feb. 2002.

¹⁶ Kuhn, T. S. (1970) *the structure of Scientific Revolution*, 2nd ed. Chicago : University of Chicago Press

realists, interdependence, theorists, social democrats and some world system theorists. Regarding globalization as the fad of the 1990s and as a model lacking evidence, Waltz declares that contrary to the claims of theorists whom he calls 'globalizers'- "politics as usual prevails over economies."

Waltz¹⁷ who decades old neorealist position (1979) that 'national interest continues to drive the 'interstate system' is also shared by the 'globalizer' but this foundational theoretical literature has not been examined by Waltz.

Keohane and Nye,¹⁸ on the otherhand maintained that contemporary globalization is not entirely new: "our characterization of interdependence more than 20 years ago now applies to globalization at the turn of the millennium. Thus like complex interdependence. The concept of globalization can be fruitfully extended to take into account network that operate at 'multicontinental distances' the greater density of these networks and the increased number of actors participation in them. However like Waltz, Keohane and Nye point that the system of state sovereignty is resilient and remains the dominant structure in the world. Implicit in their formulation is that the state centered paradigm is the best suited approach to globalization, by inference, it can be adjusted so long as it is utilized in an positive manner- i.e. incorporate more dimensions into the analysis

¹⁷ Waltz, K.N. (1979) *Theory of International Politics*. Reading, MA: Addison-Wesley.

¹⁸ Keohane, R.O, and J.S. Nye Jr. (2000) Globalization : What's new? What's not? (And so what) *Foreign Policy*: 118 (Spring): 104-120.

Social democrats have similarly argued that there is nothing really new about globalization.

Hirst and Thompson¹⁹ claim that the world economy is not really global, but centered on the triad of Europe, Japan and North America, as empirically demonstrated by flows of trade, FDI and finance. They argue that the current level of internationalized activities is not unprecedented, the world economy is not as open and integrated as it was in the period from 1870-1914; and today, the major powers continue to harmonize policy as they did before.

Hirst and Thompson adhere to a weberian mode of analysis consisting of a dichotomy between two ideal types, an international economy based on exchanging between separate national economies versus full fledged global economy. Taking issue with advocates of free market who, believes H. Mittelman exaggerate globalizing tendencies and want to diminish regulation. Hirst and Thompson favour more intensive political control of market and greater regulation.

World state theorists like Wallerstein²⁰ also contend that there is nothing new above globalization, a phenomenon that can be traced back many centuries to the origin of capitalism or even longer. The point of much globalization research is to expand binaries such as the international, versus the global and capitalism versus socialism so as to allow for multiple globalizing processes, including at the macroregional, subregional as well as in localities. If anything globalization blurs many

¹⁹ Hirst, P and G. Thompson (1999) *globalization in Question: The International Economy and the possibilities of governance*, 2nd ed., Cambridge: Polity Press.

²⁰ Wallerstein, I. (2000) globalization or the age of transition? A long term view of the trajectory of the world system. *International sociology*, 15(June), 249-265.

dualities – state and non-system, legal and illegal, public and private and so on that are customary in international relations field.

The transatlantic group of authors all of them support the propositions that globalization constitutes a distinctive theoretical innovation, and these authors pose a paradigmatic challenge to international studies , emblematic of this position are the writings of four scholars with different commitments but whose position on new knowledge converges.

Cerny²¹ asserts that theorists are seeking an alternative to realism and that “the chief contender for that honour has been the concept of globalization.’ Similarly Clark’s²² Work ‘globalization and international Relations theory’ makes the unequivocal argument that globalization offers a framework within which political change can be understood. And that ‘if globalization does anything it makes possible a theory of change.’ Scholte²³ holds that ‘contemporary globalization gives ample cause for a paradigm shift’ or in another formulation, ‘the case that globalism warrants a paradigm shift would seem to be incontrovertible’

There is a guarded intervention in the debate over globalization status as a paradigm. Noting parametric transformations in world order Rosenau²⁴ clearly sides with those who affirm that globalization forms a new point of paradigmatic departure. However, he holds that

²¹ Cerny, P.G. (1996) Globalization and other stories: the search for a new paradigm for International relations. *International Journal* , 51 (Autumn): 617-637.

²² Clark. I. (1999) *Globalization and International relation theory*. Oxford and New York: Oxford University Press.

²³Scholte, J.A. (2000) *Globalization: A critical introduction*, London, Macmillan.

²⁴ Rosenau. J.N. (1997) *Along the domestic-foreign frontier: Exploring governance in a turbulent world*, Cambridge University Press.

his concept of globalization is 'narrower in scope and more specific in content'.

According to Rosenau globalization is not only an objective trend, but also constitutes, or is constituted by, subjective processes. It is a mental or inter-subjective, framework that is implicated both in the exercise of power and in scholarizing that informs, or is critical or, public policy.

The question about the rise of a new paradigm calls for theoretical and empirical precision and hence Kuhn's notion of what sparks paradigmatic transformation can be the best employed route.

In his study of the history of the natural sciences, Kuhn famously argued that new paradigms appear through ruptures rather than through a linear accumulation of facts or hypothesis. Normal science, he claimed is a means of confirming the type of knowledge already established and legitimized by the paradigm in which it arises.

Kuhn's insight is that only rarely do intellectuals refuse to accept the evasion of anomalies. A new paradigm emerges when the burden of anomalous phenomena grows too great and when there is incommensurability between competing paradigms to the extent that proponents of alternative framework cannot accept a common ground of assumptions.

Kuhn's thesis derived from natural sciences has been disputed by observers on the ground that it cannot be imported in social sciences.

Mittelman further adds, especially into a heterogeneous field like international studies.

Mittelman believes that even without a paradigm crisis, an ascendant paradigm could emerge unlike the proposition that international studies is approaching a Kuhnian crisis, i.e., the overthrow of a reigning paradigm is for the establishment of a new one. Mittelman points out that a new paradigm 'is all or nothing'. In explaining transformation in this manner Kuhn falls short as he under estimates the tenacity of forrunner paradigms and their ability to modify themselves.

In this vien, Mittelman recalls weber's 'objectivity' in social sciences and social policy. Like Kuhn, Weber indicated that the prevailing intellectual apparatus is in constant tension with new knowledge. According to Weber, this conflict is a propellant for creativity and discovery-concepts are and should be subject to change. Hence Weber calls for a mid-course between unyielding old concepts and increasing shifts in paradigms.

Following Kuhn and Weber in the chase for paradigmatic advance what can be the anomalies in international studies field? And can globalization be a viable contender for fixing these imperfections?

Mittleman cites five modalities in international studies.

- (1) The term international studies suggests a focus on relation between nation, but this is not so, the discipline is primarily

concerned relations between state, the nation being only one of many principles of social organizations

- (2) The conventional distinction between separate national and international spheres of activity is a misnomer, and nowadays maintaining a demarcation between domestic and foreign or between comparative politics and international politics is difficult. Globalization means the distinction between them is hard to enforce. With increasingly forms of interpenetration between the global and the national.
- (3) The third discontent is opposition to the persistence of its state centrism. In large measures as a response to globalization some scholars have shifted attention to global governance. The state is treated as one among several actors, state sovereignty is losing meaning, but the multilevel environment in which it operates and hence the meaning of the concept is changing.
- (4) The field of international studies is based methodologically on the premise of territoriality. With the development of new technology especially in communications and transportation and the advent of a 'network society'. There is a marked shift toward a more deterritorialized world. Scholte calls for a full scale methodological re-orientation and concludes that globalization warranted paradigm shift would seem to be incontrovertible.
- (5) Finally, there is the post modernist complaint, where Edward said contends in regard to orientalism that it is hard to erase certain representation of reality which take an aura of

authoritative expression and are implicated in the exercise of power. In international studies, probing Said's point about reflexivity involves shifting explanatory levels above and below the state- a characteristic of globalization research.

The problematic that globalization theorists seek to explain, while dynamic and open ended, not invariant, may be gleaned from an emerging series of core, linked proposition. Mittelman highlights six of them.

- (1) Many contemporary problems cannot be explained as interactions among nation states, i.e. as International studies but must be construed as global problems. Although this claim is not unique to globalization studies, at issue is a series of problems common to all alike. Organized crime, global warming, disease and ecological concerns.
- (2) Globalization constitutes a structural transformation in world order, as such it is not only about present, it also warrants a long perspective of time and revives the study of space hence researchers find it advantageous for viewing the spatial reorganization of the global economy.
- (3) As a transformation, globalization involves a series of continuities and discontinuities with the past. In other words, the globalization tendency is by no means a total break, but the contemporary period is punctuated by large scale acceleration in globalizing process such as the integration of financial market, technological development and intercultural contact.

- (4) New ontological priorities are warranted because of the emergence of dialectic of supstate and substate forces, pressure from above and below. The ontology of globalization is fluid and not fixed it includes TNCs, states, interest state organization, regionalist process, world cities and civil society.
- (5) Given shifting parameters, the state, in turn, seeks to adjust to evolving global structures. States however, are in varied position viz-a-viz globalization structure and reinvent themselves differently through integration and opposition and turn extreme responses.
- (6) Underpinning such difficulty is a set of new, or deeper, tension in world order especially the disjuncture between the principle of territoriality; and trend towards deterritorialization, especially in regard to transborder economic flows. The horizontal connections forged in the world economy and the vertical dimension of state politics are two dissimilar vector of social organization, with the later seeking to accommodate the changing global matrix.

The paradigmatic pretension does have existence of certain discomforts; barring caricature of the concept and phenomena of globalization example, it is totalizing inevitable and homogenizing, rather than as many scholars maintain, partial, open-ended and hybrid-globalization can be seen as a promiscuous concept, variously referring to a historical scenario, interconnection, movements of capital, new technologies and information and ideology of competitiveness and a political response to the spread and deepening of the market, there is need for more analytical precision.

Moreover globalization is something deemed over determined too abstract too structural and insufficiently attentive to agency. After all, what does it leave out, what is not globalization? In response it may be argued that globalization has a direct or indirect impact on various levels of social organization and becomes inserted into the local, thus complicating the distinction between the global and the local.

Globalization blurs dichotomous distinction to which international studies has grown accustomed. For example, civil society now penetrates the state, environmentalist taking important portfolio in Philippines, NGOs being funded by state- other binary choices which globalization research itself presents is 'globalization from above' and 'globalization from down' top down and bottom up globalization and so on.

Susan Strange held that international studies is like an open ranch, home to many different types of research it is in this context that globalization studies has emerged as a means to explain the intricacy and variability of the ways in which the world is restructuring and by extension, to assess reflectively the categories used by social scientist to analyze these phenomena. The parakeepers, to varying degrees, are reluctant to embrace globalization as a moral set because some of its core proposition challenge predominant ontological, methodological and epistemological commitments- what Kuhn referred to as 'normal science'. Again not to dichotomize positions, but to look to the other end of the spectrum, para-makers advance a strong thesis about the extent to which a new paradigm is gaining ascendancy. But in

the near term there is no looming Kuhnian crisis in the sense of an impending overthrow that would quickly sweep away requiring paradigm. Given that systematic research on globalization is only slightly more than a decade in the making it is more likely that international studies has entered an interregnum between the old and new.

The effort to theorize globalization have produced patch work, an intellectual more rather than a movement, and more of a potential than worked out alternatives to accepted ways of thinking in international studies. In sum, this fledgling may be regarded as a proto-paradigm.

Globalization as a phenomena is leaving nothing untouched. In the contemporary unipolar world its force is greatly felt, especially so, by the Third World countries. They are caught between the twin agenda of nation development on one hand and guarding their sovereignty on the other. These group of countries find themselves increasingly maneuvered by the forces of globalization; hence an attempt to analyze, how Third World is meeting this challenge is being made in the next chapter.

GLOBALIZATION & THIRD WORLD: WITH REFERENCE TO ASIA

The original meaning of term 'third World' referred to a group of *non-aligned* countries outside the great power blocs. There has been a lot of discussion as to who used the term first, but it is generally accepted that it was the French demographer and economic historian, Alfred Sauvy, who coined the term in the early 1950s. another early idea associated with the Third World conveys *solidarity*- among developing countries based on their primary producing economic status, their relative poverty, their dependence on agriculture and their distinctive forms of economic regime neither modeled on the Eastern bloc of planned economies nor the western free market system. The third world was seen to fall outside the first world of the advanced capitalist democracies and the second world of industrially advanced communist countries. As B.C. Smith¹ points out that third world can be defined as a group of countries which have colonial histories and which are in the process of developing economically and socially from a status characterized by low incomes, dependence on agriculture, weakness in trading relations, social deprivation for large segments of society and restricted political and civil liberties. By this definition the third world comprises approximately 100 states in Africa, Asia, the middle east, Latin America and the Caribbean. Their combined population of over four billion accounts for 77 percent of the world's total and their territories cover nearly 58 percent of the world's land area..²

¹ Smith B.C. (2003) *Understanding Third World Politics- theories of Political Change and Development*, 2nd Ed., Palgrave Macmillan, New York.

² World Bank, 2001, pg. 14

The position of these developing countries in the world political economy has experienced radical transformations since the mid 1980s. This transformation is both in measurable changes in their own objective circumstances as well as the wider context within which they operate. Gautam Sen³ traces it to three interconnected historical events of dramatic significance that underline change in the developing world or inform them in some way. The first is the collapse of communism, creating powerful new constraints as well as allowing fresh intellectual reappraisal of existing certainties. The second related to the first, but predating it as well as possessing a dynamic of its own, is the evident triumph of capitalism. The spread of market process and privatization and attendant ideologies are of great importance because of the collapse of serious alternatives. The third dimension to this interpretation is the emergence of the dialectical anti-thesis to the triumph of capitalism. The defect of the socialist challenge, at least for the foreseeable future, has not led to the disappearance of conflicts between social classes, regions and countries. It has created new modes of disputation although their intellectual underpinnings are less coherent for the present.

The economic changes coincide with major political changes in developing countries in the aftermath of cold war. Specifically the issues of optical democracy in developing countries and of foreign policy options of major powers are both dependent on economic liberalization.

³ Sen, Gautam (1999) Developing states and end of the Cold war-liberalization, globalization and their consequences, in *The Third World Beyond the Cold War-Continuity and Change*, (eds) Fawcett and Sayigh, Oxford University Press.

As far as political democracy is concerned, the end of cold war removed the rationale for western support of authoritarian anti-communist regimes merely because they were allies against the Soviet Union and able to resist political forces perceived to be pro-soviet. At the same time, points out Sen, the undemocratic regimes deprived of Soviet support found themselves vulnerable to challenge from domestic opposition groups that had hitherto been forcibly denied access to the political process. The only coinage of renegotiation between how political forces in such countries, in the absence of support for particular regimes from cold war protagonists, had to be pluralism. And pluralism implied democracy, which was the functional expression of its formal identity, even where it did not enjoy wholehearted domestic and foreign political support.

Liberalization and globalization , are the specific factors which are considered to affect contemporary developing countries as a group as well as the formerly planned economies. In a sense globalization is the economic outcome of liberalization for which there are socio-economic and human consequences.

Liberalization refers to measures extending and enhancing the operation of market forces. They include both microeconomic and macroeconomic aspects of the economy. The former includes the political and legislative measures enacted in a range of countries including post- Allende Chile, Thatchers Britain and Reagnite America to, for example, Free labour markets and denationalized industry ⁴ on

⁴ The weakening of a host of social, safety, and environmental legislation may also be regarded as microeconomic measures considered to allow freer play of market forces.

the macroeconomic level the most significant retreat has been from the policy of demand management to reduce unemployment. The adoption of floating exchange rates and the abandonment of capital controls are also an aspect of macroeconomic liberalization.⁵

Globalization reflects the enhanced movement of goods and services across national borders and its organization on a transnational basis, thus it refers to closer integration of the world economy as measured by trade/GNP ratios and international flows of foreign direct investment (FDI) and financial capital. But in contrast to national exports and imports of goods and services, the organization, flow and purview of FDI and global capital, undertaken by transnational corporations, assume a global market place. It is also obvious that liberalization and globalization reinforce each other by combining pro-market policies that underpin the empirical reality of global economic integration.

Globalization And Third World

According to Sen, though the end of communism is an important background variable, apparently indicating and propelling market process worldwide, but there are also more specific local factors and underlying changes in the international political economy which are responsible for the advance of market reforms in the developing world. In virtually all cases the immediate reason for the adoption of liberalization programmes has been a balance of payment crisis and a

⁵ The revision of banking supervision in favour of the so-called looser touch may also be deemed as aspect of liberalization, but actually prompted by competitive deregulation to prevent the flight of financial activity to other less regulated centers. In this sense the debt crisis can be regarded as originality from the interplay of market forces.

collapse of exchange rate, usually accompanied by inflation and an unsustainable fiscal deficit. This situation is likely to have been preceded by stagnation or declining rates of growth, with all the social problems implied by high unemployment, especially with a rapidly growing work force, common to much of the developing world. In a majority of cases the problem has been created by international indebtedness, intensified by it. Such a situation has led to structural adjustment programmes sponsored by international agencies and the pressure to liberalize as a condition for international assistance.⁶

The underlying changes in the international political economy exercise a more complex influence with general and specific implications for the individual developing country. There are three interdependent processes of change that can be identified. The first is the mobility of finance capital which has made it difficult for the state in both the developed and developing world to influence the terms on which it borrows. The second is the apparent significance of FDI as a vehicle for exports and economic growth. The third is the dramatic perceptual impact of the phenomenon of high rates of growth in some parts of Asia on the hopes and anxieties of elites in the rest of the developing world. In order to assess the situation of developing countries it is possible to look at groups of geographical clusters which with some exceptions, display common features.

By and large it is the decade of the 1980s, which remains crucial as the period of change for developing countries. But for many developing countries this was the decade of economic stagnation and the

⁶ The importance of international agencies (i.e. IMF and the WB) services not merely from economic assistance which they provide, but their role in mediating a complete economic package involving private international lenders.

debt crisis, beginning with the Mexican default in 1982- the so called 'lost decade'. During this period, as Jorge Hein⁷ points out, that Latin America as a group, and their most prominent members, Brazil, Argentina and Mexico, suffered serious and historic reverses with zero or negative growth. Their poor economic performance is blamed on international indebtedness and inappropriate statist economic policies. Gautam Sen adds that other factors like the world-wide economic slow down and rising US interest rates during early 1980s also had an important impact Hein further adds that it is difficult to escape the conclusion that Latin America is doing much better than it was expected, given its previous position in 1989. the average annual growth rate of 3.3 percent for the 1991-3 period rose to 5.3 percent in 1994, and the tequila effect of the December 1994 Mexican peso crisis, though bringing down regional growth to an almost non-existent 0.3 percent, caused largely due to the Mexican and Argentinean down turns, of 6.6 and 4.6 percent, respectively, was short lived, with growth returning to a healthy 3.4 percent in 1996. Sen here adopts a less optimistic view than Hein saying that what remains more significant is the weak recovery in Mexico since the 1990s, despite the adoption of dramatic market-led policies, and the vulnerability of Latin American economies more generally to volatile international capital flows.

Substantial reverses also occurred in much of Sub-Saharan Africa. Their economic situation was worse in terms of dept/GDP and debt/service ratios. The combination of indebtedness and collapsing terms of trade and civil wars precipitated some of the worse conditions

⁷ Hein, Jorge (1999) Latin America; collective responses to new realities, in Fawcett and Sayigh, *The Third World beyond the Cold War: continuity and change*.

in post war African history. The Asians as a group defied the general economic situation and continue to advance. The current economic recovery of major OECD countries during 1993, with the exception of the USA, but including Japan, has not undermined the buoyancy of the region. The non-inflationary economic recovery of the major OECD countries during 1994-5 and the widening of the opportunities for international trade with the successful conclusion of the Uruguay round of GATT suggested that the remarkable performance of the region would persist and improve. The dramatic turnaround of the Philippine economy, against expectations, indicates that remaining members of ASEAN may also join the virtuous circle of advancing countries. It also seems likely that Vietnam will continue to show improved economic performance and substantially enhanced international economic participation.

The process of liberalization and the resulting globalization, also needs to be viewed at the regional and domestic levels, in addition to the overarching systemic or international level. This international level is a framework constituting a parameter for action of the individual actor or individual state acting in concert on a regional basis. As far as this systemic or international level is concerned, enhanced integration within the world economy introduces a new matrix within which decisions at the domestic and regional level become embedded.

P.R. Kumaraswamy⁸ perceives the pressures of economic liberalization and globalization as a systematic challenge with major regional implications in the aftermath of the fall of the eastern Europe

⁸ Kumaraswamy, P.R (1999) *South Asia after the Cold War: Adjusting to new realities*, in, Fawcett and Sayigh eds; ***The Third World beyond the cold war continuity and change.***

bloc. He observes Regionalism as the major outcome of these pressures in the third world developing countries, he lays stress and points towards regional cooperation in South Asia. The inauguration of SAARC (South Asian Association for Regional Cooperation) in December 1985 was a major step towards regional agreement and cooperation. SAARC took a concrete step in April 1993 when the Dacca Summit saw after much protracted negotiations and delays the agreement by the countries of the region to forge an economic bloc, SAPTA (South Asian Preferential Trading Arrangement) which came into effect in December 1995, it is committed to underrating economic integration and bringing down trade barriers, leaders are hopeful that SAPTA will be transformed into SAFTA (South Asian Free Trade Area).

Latin American group of countries have begun to operate formally and informally at regional level too. Most impressive has been the debut and advance of MERCOSUR since 1991, encompassing Brazil, Argentina, Uruguay and Paraguay with Chile and Bolivia having associate status. They are important in size as markets and their potential is even greater. The gains of forming a common market with a common external tariff have been evident from the rapid growth of mutual trade despite adjustment costs and poor trade infrastructure. It is considered by many as the single biggest success story in the history of Latin American regional integration, having contributed to increasing trade among its members from US\$ 5.1 billion in 1991 to US\$ 15 billion in 1995, an increase from 11 to 20 percent of total trade.

The impact of domestic circumstances of developing countries, as a group, on economic liberalization is difficult to be meaningfully

generalized. The differences between regions (Uganda Vs Singapore) and within regions (Haiti Vs Argentina) are far too great. However, some issues do seem to recur. Firstly, the end of ideological divide which in previous decades would have provoked more resistance to liberalization. Though countries like Singapore and Hong Kong were already pro-market, but virtually all other countries, including Asian NICs, have adopted a less statist stance, across the board, on economic policy. The common heritage of statist economic policy is being dissolved by the end of cold war and surge of market forces worldwide

The second domestic aspect affected by the international is the social consequence of market forces. The growing interdependence of market globally has undoubtedly resulted in a loss of state control over outcomes in virtually all countries. Developing countries are 'vulnerable', across a majority of issue areas, because domestic policy responses do not deflect the impact of international change. Friedman observes that the stability of the present system rests precariously on a fragile balance of power, most obvious is the balance between states and markets. Hence, India can test nuclear weapons, but in doing so will disrupt its trade relations, and lead Moody's to downgrade its bonds and discourage other countries from following suit, he further adds that states can adopt whatever policies they choose, but they remains captive to the discipline of the market. ⁹

A final comment about the relationship between the domestic, regional, and the international is that these are not linear ascending

⁹ Fredman. L. Thomas (1999) *The Lexus and the Olive Tree*. New York, Strauss and Giroux, New York.

levels differentiated by relative size: Thus the domestic level cannot be seen as a microcosm of the international or merely a smaller scale of economic activity.

The Role Of IMF- World Bank In Developing Countries

The understanding of liberalization and globalization impact on the developing world calls for an analytic focus on its conduit: the IMF and World Bank.

The World Bank along with the International Monetary Fund (IMF), was established at Bretton woods as part of post-world war II international financial architecture. After fifty years of struggling to fulfill the hopes and vision of their architects to contribute financial resources towards building a world free of hunger and poverty, these institution of global governance seem to have failed to live up to their promise. Mendes and Mehmet¹⁰ present a very strongly worded argument stating that the WB and IMF are in serious crisis. According to them, these Bretton Woods institutions, initially designed to be integrated into other multilateral agencies, are bogged down with inefficiency and irrelevance. The Bank cannot provide the quality and quantity of development finance required to defeat poverty and underdevelopment in the Third World. The fund is unable to prevent successive rounds of financial crisis and instability in currency markets. Both suffer from moral hazard problems deep-rooted in their structure and management style. The Argentinean crisis of 2001-2 show yet again

¹⁰ Mendes, Errol and Ozay mehmet (2003) *Global Governance, Economy and Law: Waiting for justice*. Routledge, London.

that the IMF is unable to prevent such financial crises, which destroy the living standards and the social and economic rights of millions of people in the developing world.

Mendes and Mahomet provide with a brief historical overview in order to pinpoint at what went wrong with the Bretton Woods Institution. They say, that for the first twenty years, the fund operated reasonably well, providing global stability on the basis of a gold exchange standard and a fixed rate of exchange, known as the par system. The Vietnam war provided the first shock to the system. The United States flooded the world economy with US dollars, but when Europe, particularly the French, objected to the “dollar glut”, President Richard Nixon in 1970 suddenly ended the gold convertibility, causing a global inflation. Then the OPEC embargo hit the world economy and resulted in the quadrupling of oil prices. In turn, this created an excess supply of petro-dollars and reckless lending in the world financial market.

The IMF system never recovered from these shocks. This was in large measure because its original mandate and its heavily US dominated quota and voting system were never updated or adjusted to keep pace with fundamental structural changes in the global economic landscape. Instead, it plodded along, muddling its way through successive policy shifts imposed on helpless and high on corruption third world regimes. Gradually, the IMF and WB appeared to converge, becoming partners in goal of development, but subject to a worsening ‘moral hazard’ problem. The moral hazard problem was imbedded in the

nature of WB-IMF lending and it resulted in several biases and market distortions, , it was a two-headed cancer, with an internal and external dimension. Internally, WB-IMF lending created economic mismanagement, sheltering political corruption at home, such as “crony capitalism”, and worsening income distribution between privileged rent-seekers at the top and vulnerable groups. Eventually, this lending distorted the global banking system, as bailouts merely seemed to benefit western banks and speculators involved in bank runs. The fund stopped acting as the lender of last resort to manage short-term balance of payment deficits; it became a crisis lender with increasing frequency as an alternative to private finance. Yet this lending function seemed to be done in a discriminatory manner, favoring US allies and, some would argue, punishing its enemies.

After 1980, the IMF shifted to a highly deflationary stabilization program, complementing the Banks structural adjustment lending that had now replaced its conventional project lending. In return for WB-IMF bailouts, Third World governments, were obliged to accept strict conditionalities and submit to close supervision. This set of structural adjustment lending conditionalities in which loans were proffered in exchange for government commitment to economic reform came to be known as “Washington Consensus” a brief overview is in order here:

The term “Washington Consensus”¹¹ was first coined by John Williamson, then of the Institute for International Economics, and now a senior economist at the World Bank. Writing in 1989, Williamson

¹¹ www.Brettonwoodsproject.org. new leaf or fig leaf.

identified a package of ten policy instruments which he refers as “the lowest common denominator of policy advice” viewed by the US government and the international financial institutions based in the US capital as necessary element of first stage policy.

The ten elements of the Washington consensus:

- *Fiscal discipline*: Strict criteria for limiting budget deficits;
- *Public expenditure priorities*: Away from subsidies and administration towards neglected fields with high economic returns and the potential to improve income distribution, such as primary health and education and infrastructure.
- *Tax reform* : broadening the tax base and cutting marginal tax rates
- *financial liberalization* : Interest rate should ideally be market determined.
- *Exchange rates*: Should be managed to induce rapid growth in non-traditional exports.
- *Trade liberalization* : Tariffs not quotas and declining tariffs to around 10 percent within 10 years.
- *Foreign direct investment* : no barriers and equality with domestic firms.
- *Privatization* : State enterprises should be privatized
- *Deregulation* : abolition of regulations that impede the entry of new firms or restrict competition and establishing such criteria as safety, environmental protection, or prudential supervision of financial institutions as the means to justify those which remain.

- *Property rights* : Secure rights without excessive costs and available to the informal sector.

'Washington Consensus' was no sooner coined that challenged, on the grounds that consensus suggested more agreement than actually existed about those measures. It has been referred as heartless world bank policies, and at other quarters as racist, because a small group of white technocrats claim to know best how to plan the future of any community and demand to enforce its dictates. World Bank Ex. Chief Economist Joseph Stiglitz declared Washington consensus a failure on ground of its inability to meet the twin goals of macro-economic stability and integration into international economy; and recommended that the Bretton woods institution emphasize more on sustainability, democracy and equity alongside economic growth.

Trailing the record of WB-IMF further; it is observed that in the end stabilization programs failed to promote domestic stability, fiscal responsibility and external equilibrium because there was little or no effort to design and supervise efficient monetary policy. In other words, the WB-IMF bailouts failed on just about all grounds, they did not succeed in overcoming poverty and underdevelopment in the developing countries where they were implemented and, more than likely they ended up further distorting markets already ruling under severe problems of corruption and domestic management. In the end, the programmers imposed by the WB-IMF failed to stem, and indeed in some cases exacerbated the currency crisis as in Mexico(1994-5), Asia (1997-8), Russia (1998), Brazil (1999), Turkey and Argentina

(2001-2), often spilling into social conflict. There is no suggestion here that these financial crisis were always and entirely due to faulty advice or intervention by the WB-IMF. Moral hazard, corruption, and inefficiency has both domestic and external determinants, with a large element of What George Soros, has called 'reflectivity'.

Leading experts such as Steven Radlet and Jeffrey Sachs have suggested the following main suspects, especially in the context of the 1997 Asian financial crisis, as the source of financial crisis that can sweep countries, regions, and potentially the entire global financial system:

- 1) Weakness within economies, especially poor financial, industrial and exchange rate policies;
- 2) Over-investment in dubious activities resulting from the moral hazard of implicit guarantees, corruption and anticipated bailouts
- 3) Financial panic; more precisely, what began as moderate capital withdrawals gathered momentum with great speed and evolved into a full-fledged panic, because of weakness in the structure of capital markets and early mismanagement of the crisis.
- 4) Exchange rate devaluations (e.g. Thailand in mid-1997 and, later in the same year, Korea) that plunged the economy into crisis;
- 5) The inaptitude of the IMF response, especially in Indonesia, which may have actually exacerbated the financial crisis in that country.

They further argue that, while most of these factors contribute to financial crisis, the main culprits behind the Asian financial crisis were

creditor panic and pegged exchange rates preceding devaluations. But the greatest culprit nonetheless, seems to be creditor panic in situations where there is a high level of short-term foreign liabilities relative to short term foreign assets, the so-called impact of “hot money”.

Radelet and Sachs recommend some key reforms to the international financial structure, like they call for evolving an international mechanism to impose a generalized standstill on the failing economies debt servicing obligations, accurate information on private firms if they are debtors, effective ways to stop international financial panics in emerging markets, and finally, that National governments should consider restrictions of short term capital inflows without reducing the total capital inflows.

The events of the last decade have laid bare some of the ways in which the region is embedded within new spatial structures of economic interaction at both regional and global scales. At the same time, the impacts and desirability of this global interdependency have become even more hotly contested, the volatilities and vulnerabilities now associated with economic globalization are leading to questions over its desirability as a development strategy. But still the discursive power of globalization both legitimizes and is upheld by, the financial muscle of the IMF-WB nexus and many states.

A shift of focus is attempted to be made towards the ‘Indian State’ which is by far the largest of South Asian economies. In dealing with International Financial institutions, Multinational corporation and

others, India has bargaining resources due to its size that are denied to smaller liberalizing economies of Pakistan and Bangladesh.

The assessment of Indian states negotiation with globalization can be viewed within the wider international political context of the post cold war era, the fall of eastern bloc ended the reliance on the super powers to provide foreign aid and meeting the technical and other requirements. Another important factor was the reduction in India's share of concessionary assistance from World Bank, because of claims from poorer African countries, demands from newly created CIS states and also because of China's membership of World Bank.

Hence, "Trade rather than aid" seemed to be the mantra and overruling policy goal of the Indian state since the early 1990s. Historically speaking the Indian state considered foreign trade as quite marginal in its overall economic management till the mid 1970s, subsequently exports were considered as a means of financing the balance of payments deficits. In fact, by the end of the 1980s, the Indian state had moved from a model of domestic market oriented import-substitution industrialization to a new paradigm of 'selective world market integration'.

The embankment of India towards the process of economic liberalization since 1991 has let in the deluge of globalization, as a multifaceted phenomena, it has shown its mark not only on India's political economy, but socio-cultural arena too. The Indian state has had to make several adjustments only to avert the 'capital flight', and there is increasing emphasis on the Indian government to vacate its

presence from productive sector of the economy and concentrate on the social sector alone.

In the background of this scenario an attempt in subsequent chapters is being made to examine how the discourse of globalization is influencing India, resulting in shaping and re-shaping of the policy decision, portraying a central government squeezed between exigencies of a complex political system and the forces of globalization.

ECONOMIC IMPACT OF GLOBALIZATION ON INDIA

Since Indian Independence, a great deal of economic progress has taken place; India has made considerable progress in terms of diversification of its economy, industrialization, technological development and growth of real Gross Domestic Product (GDP) and per capita income. This has been accompanied by noticeable improvement in social indicators like decline in infant mortality rates, higher nutritional standards, expansion of health facilities literacy and proliferation of educational attainments, even a dent, albeit not so significant, has been made in the massive problems of poverty and unemployment. Whatever achieved may not be glorious but nonetheless is very significant, particularly because all these gains have been secured within the framework of democracy, in a country of striking contrasts and enormous ethnic, linguistic and cultural diversity, what also cannot be overlooked are the adverse interruptions caused by frequent external tensions and shocks, such as outbreak of conflicts with neighbours, oil shocks and financial turmoil. Internally too, the growth process has never been consistently smooth and steady; indeed, the economy has experienced intermittent ups and downs in agriculture and industry, as well as frequent forex crises and bouts of inflation. By any measure the Indian people are considerably better off than they were a half-century ago. Yet there is a certain impatience and uneasiness: for all of the many achievements, there is a strong sense that more rapid

improvements in these and other indicators of well-being are quite possible. Moreover, if they are possible through realignment of existing policies, per capita incomes for many Indians are still so low that more rapid growth is manifestly desirable.

The relationship between democracy and development has long been debated. Gunnar Myrdal¹ and others in the 1960s referred to 'soft' states like India and "hard" ones like communist China. The former were regarded as incapable of mobilizing their populations to achieve rapid economic development. Capitalist 'hard' states like the republic of Korea and Taiwan, which were supported by the structure of the cold war, were also widely considered strong economic performers in relation to democracies like India. In the aftermath of the cold war, liberal democratic norms and adherence to basic human rights have become important determinants of the international acceptability of states.

Some commentators even suggest that radical economic liberalization can be inimical to a smooth functioning democracy. According to Rajni Kothari² liberal democracy and economic liberalization can tear polities in opposite directions and be highly destabilizing, especially in today's highly integrated international economy. Atul Kohli³ also suggests that democracy's fragility may reflect a persistent tension between the state's representative and developmental functions.

¹ Mirdal, Gunnar, (1963) *Asian Drama: An Inquiry Into The Poverty Of Nations*, London: Penguin Press

² Kothari, Rajni, (1995) Globalization And Revival of Tradition: Dual Attack On Model Of Democratic Nation Building. *Economic And Political Weekly*, Xxx, 12 (25 March, 1995), P.627.

³ Kohli, Atul (1991) *Democracy And Discontent : India's Growing Crisis Of Governability*. Cambridge University Press, P.399

India is a peculiar state of the third world because of its developed nature of infrastructure industrialized economy, technological development and a successfully working liberal democratic system. Hence unlike the states of Pakistan, Africa and Middle East India is not a peripheral state and not even a periphery, in sense of the term as used by Aijaz Ahmad..⁴

David Held⁵ cites a working definition of economic globalization given by the European commission:

Globalization can be defined as the process by which markets and production in different countries are becoming increasingly interdependent due to the dynamics of trade in goods and services and flows of capital and technology. It is not a new phenomenon but the continuation of developments that have been in train for some considerable time.

This definition stresses that economic globalization is first, associated with markets and production becoming increasingly interdependent because of the growth of trade and flows of capital and technology, and second, that it is a process which has been going on for some time and so it is not necessarily new.

The combination of economic globalization and democratic politics is very evident in South Asia. Among the South Asian countries the first serious policy package aimed at globalization was introduced in 1977 in Sri Lanka. But several halting attempts at liberalization of the trade and investment regime were also made in Pakistan and Bangladesh. Their governments find themselves

⁴ Ahimad, Aijaz (1996) *Lineages Of The Present'*, Tulika Publication, New Delhi.

⁵ Held, David (Ed.) (2000) *A Globalizing World? Culture, Economics, Politics*, Routledge, London.

increasingly caught in the pincers of rising popular expectations on the one hand and the demands of international financial system on the other popular politics has affected the capacities of governments to implement globalizing and liberalizing strategies; this creates weariness on the part of international investors. South Asian countries face stringent competition for markets and capital from other developing countries such as Vietnam and Indonesia. As late comers to economic liberalization, they are seeking to enter world markets at a time when there are a number of more mature, but still labour-intensive, economies, such as China, occupying the field.

These negative factors do not impact as keenly on India as they do on smaller South Asian countries. India's economy is by far the largest of the South Asian economies, being five times the size of Pakistan's. In dealing with International Financial Institutions (IFIs), Multinational companies (MNCs) etc. India has bargaining resources due to its size that are denied to smaller liberalizing democracies such as Pakistan and Bangladesh.

The economic policy that India was mooted after independence in 1947, was essentially one that was vary of the ranges perpetrated by an avaricious capitalistic world system on an economically fragile economy. India had learnt it the hard way through centuries of colonial dominations, that the global integration of the country had resulted in a shattered economy both structurally as well as functionally. Hence India's development strategy after independence exuded insular posture, or at best selective interdependence or disengagement with the world

economy. This is manifested in the envisaging of the attainment of the goal of economic self reliance in every sphere of economic activity.

The Indian Economy has come a long way since its early phase of planning, evolving into its unique model of 'mixed economy' to the time when the new economic reform ushered in July 1991 brought about a virtual paradigm shift.

In order to analyze as to what extent of India has been able to achieve global integration and what has been the nature of India's global orientation, three distinct phases can be marked out:

- Pre-reform period
- Economic crisis of 1990-91 and reforms
- Post-reform period

Pre-Reform Period

The natural starting point is that Indian per capita incomes were very low in the late 1940s and early 1990s. There had been little improvement in living standards over the previous century. Real income per capita is estimated to have grown at an average annual rate of only 0.7 percent between 1870 and 1913 and of only 0.2 percent over 1913 to 1950.⁶

Achieving higher living standards for the Indian people was seen to be a major goal after independence. A great deal of thought and discussion in planning for independence focused on the need for rapid economic growth and raising living standards.

⁶ Morawetz, David (1997), *Twenty Five Years Of Economic Development : 1950 To 1975*, Washington D.C. :World Bank.

The early planning documents regarded the chief barrier to accelerated growth as the then low Indian saving rate, and set out a twenty five year perspective. The planning commission documents stated that a major challenge was to raise the Indian savings rate to 20 percent and concluded that if that could be attained, Indian economic growth could achieve a satisfactory rate of 5 percent annually.⁷

The second five year plan (1957-62) articulated a philosophy of state responsibility for development, and laid down much of the strategy that was to be followed in Indian economic policy until the 1990s. The second plan recognized the importance of education, infrastructure and so on, but it focused on a strategy for rapid industrialization through development of heavy industry, especially for production of capital goods.

By that time, it had been decided that certain industries (the "commanding heights" of the economy) were to be reserved to the state, and some activities were to be reserved to private industry.⁸ Within the plan, targets were established for production levels. These were given to state enterprises. For private sector production targets were to be implemented through investment licensing, under which the authorities would not grant licenses for more additional capacity than was sanctioned under the plan.

The underlying philosophy of the second and subsequent plans was that Indian development would have industrialization as the major

⁷ Chakravarty (1987) Cites That Sir Arthur Lewis Had First Articulated The View That Increasing The Rate Of Savings And Thus Presumably Of Capital Formation Was The Central Challenge for Raising The Rate Of Growth From Earlier Very Low Levels In All Developing Countries.

⁸ Bhagwati, Jagdish And Padma Desai (1970) *India: Planning For Industrialization*, London. Oxford University Press For The Organization For Economic Cooperation And Development

“engine of growth” and that import- substitution policies would be used to stimulate growth, especially in the manufacturing industries. Influenced heavily by P.C. Mahalanobis, whose economic model ignored foreign trade and assumed that domestic investment was limited by the domestic ability to produce capital goods, the general philosophy was to push heavily to “make machines to make machines”, while simultaneously encouraging cottage industry (as advocated by Gandhi) to provide employment.

Indian export growth was sluggish during the period when the world economy was expanding rapidly in the 1950s and 1960s, and India’s share of world markets fell, exports grew at an average annual rate of less than 1 percent in the 1950s, and at 4.60 percent in the 1960 (when the average annual rate of growth of world exports was well above 10 percent). Even in the 1970s and 1980s, Indian export growth rates were below world rates, and India’s share fell continuously until the end of the 1980s: India’s average share of world trade for that decade averaged only one half of one percent.

This sluggish growth of exports was accompanied by a falling share of exports in GDP during the 1950s and 1960s. for the decade of the 1960s as a whole, India’s exports averaged only 4.25 percent of GDP. Reflecting the “foreign exchange shortage,” even imports averaged only 5.83 percent of GDP, as their growth rate also plummeted in response to the strict import licensing regime at that time.

Overall economic growth was sharply reduced during the balance of payment crisis of 1966-67. The crisis was manifest in the foreign

exchange position of the government, which was greatly intensified by poor harvests. The devaluation of Indian currency in 1966 was also not very successful.

Increasing number of economic activities took place in the public sector. State owned enterprises had been built in industries such as steel, fertilizer, heavy chemicals, machine tools and so on. Even hotels were owned by the public sector. In some of these cases, state owned enterprises operated alongside private sector firms⁹ whereas in others, the state enterprise was a monopoly public corporations, which were established and given monopoly positions in activities as diverse as insurance, importation of bulk consumer goods (canalization) under which only the government entity could import items such as petroleum and export goods such as sugar. Naturally, telecommunications (telecoms), rail roads, and other infrastructure activities were also in public hands. In the late 1960s, the banks were all nationalized. Hence in addition to the governments control over the private sector, publicly owned entities themselves undertook a great deal of economic activity.

By the 1980s, other structural problems were becoming more and more evident and acute. Two in particular deserve mention. First, India's infrastructure which was widely recognized to be of inadequate quality and quantity during the 1960s and 1970s- became increasingly stretched, as economic activity (despite the low rate of growth) led to increased demands on infrastructure at a rate greater than that at

⁹ In The Case Of Steel, Private Steel Companies Were Even Taxed To Help Finance Public Sector Steel Production.

which supply was increasing. Second, it became increasingly apparent that public sector enterprises, which had been established in order to accelerate economic growth, were not achieving this goal. Rates of return were low or even negative, and, instead of fostering economic growth, these enterprises became a drain on public resources.

By the end of the decade India's fiscal deficit (financed primarily from domestic borrowing) was averaging well above 8 percent of GDP—an unsustainable number. In addition, the current account deficit had risen significantly and was above 2 percent of GDP in each year in the second half of the 1980s.

The average annual rate of growth of real GDP was 5.4 percent in the first half of the 1980s, and 6.3 percent in the second half. In the short term, that apparently improved economic performance considerably reduced any political pressure or impetus to tackle underlying structural problems, and per capita incomes rose at a rate well above that experienced in India over any previous period.

At first, the current account deficit absorbed some of the excess demand created by the fiscal expansion, but inflation nonetheless accelerated, reaching an average annual rate of over 7 percent in the second half of the 1980s and 13.5 percent by 1991. The underlying problem was that growth spurred by excess aggregate demand from fiscal deficits was unsustainable.

Data for the 1980s suggest that the imbalances between private sector and public sector productivity increased further: the estimated overall real rate of return on investment in state owned manufacturing

enterprises is estimated to be no more than 2 percent.¹⁰ India averaged among the highest average rates of promotion against imports in the world, even without taking into account the effect of quantitative restrictions and import prohibition. But, the business infrastructure provisions was poor. Telephone services, ports, roads, domestic air travel, insurance companies were all high cost and unsatisfactorily performing.

Government expenditures themselves were not allocated in ways conducive to rapid growth . much of the rapid increase in expenditure, in the late 1980s had been the result of changes in the provision of subsidies- for fertilizer, electricity, water, food consumption by the poor, and exports. By 1990, subsidies as a proportion of central government expenditures had reached 11.6 percent of the entire central government expenditure and 2.3 percent of GDP. Total plan “assistance to the states” was 12.1 percent of total central government expenditures and 1.4 percent of GDP.

As of 1990-91, India had not corrected the underlying structural problems of the relationship between the public and the private sector, and was allocating government resources to activities, that in many instances were detrimental to growth. The government of India had maintained growth during the late 1980s only by increasing fiscal deficits. ¹¹ By 1990, debt ratios were high, and foreign exchange reserves were falling. In January 1991, the Indian government reached agreement with the International Monetary Fund (IMF) for a large loan.

¹⁰ Srinivasan, T.N. (2000) *Eight Lectures On India's Economic Reforms*, New Delhi : Oxford University Press

¹¹ Krueger, O Anne And Sajjid Chinoy, (2002) *The Indian Economy In Global Context*, In, Kruger (Ed.) *Economic Policy Reforms And The Indian Economy*. The University Of Chicago Press, London.

Economic Crisis Of 1990-91 And Reforms

A new government with P.V. Narasimha Rao as prime minister and Manmohan Singh as Finance Minister, came to power in mid-1991. It was apparent that crisis was at hand: the current account deficit was running at an annual rate of about US\$ 10 billion, while reserves were down to about two weeks of imports. This situation arose in spite of an IMF loan of \$1.8 billion in January 1991 and sharp cuts in imports starting earlier in the year (imports had been \$23.4 billion in 1990 and were \$ 21.1 billion in 1991). Exports discouraged in part by the appreciation of the real exchange rate, were falling in dollar terms. Inflation as already mentioned, had reached 13 percent in 1991, and workers remittances from abroad, which had been flowing into the country had dried up.

Finance Minister Singh addressed the stabilization measures rapidly. But he went beyond the traditional stabilization package, announcing a program of economic reforms that constituted a significant reversal of some of the most egregious aspects of earlier policies of regulation and government intervention in the economy.

Thus began a new transition a paradigm shift in India, quite apart from the immediate task of macro-economic stabilization, sweeping changes have been made since July 1991 in industrial, trade, tariff, investment, financial and tax policies. The three buzz words continue to be liberalization, competition and globalization. They symbolize a metamorphosis in the economic environment. The clear objectives are: to deregulate the economy, to reduce the role of the public sector, to unleash private initiative and enterprise to accelerate economic growth,

to meet the challenge of global competitiveness and of course, to ensure social equity and justice.

Industrial Liberalization

- *Abolition of industrial licensing except in nine industries.*
- *Exclusive public sector reservation limited to four industries against seventeen previously.*
- *Drastic dilution of legislations such as the Monopolies and Restrictive Trade Practices (MRTP) Act and the Foreign Exchange Regulation Act (FERA)*
- *Automatic approval for foreign direct investment (FDI) up to 51 percent of equity in fifty-one, and upto 74 percent in nine specified industries.*
- *Foreign Investment Promotion Board specially constituted to promote FDI in areas of strategic importance and requiring large investments.*

A reform process has indeed already been in operation for ten successive years with commendable progress, especially in the area of industrial policy. As a result, in a crude manner of estimation. (a) over four fifths of industrial activity is free from any licensing restrictions;(b) over two-thirds of the industrial sector is open to foreign investments through the automatic approval route; and (c) the exclusive role of the public sector is limited to perhaps less than one-sixth of the industry as against half previously. Not only the virtual abolition of an industrial licensing regime, but also the massive dilution of monopolistic legislation has been a striking feature of the new policy. Thus, monopolistic companies do not require the prior approval of the central government to expand by establishing new undertakings, mergers, amalgamations and takeovers. In short, the objective of industrial reforms is to eliminate entry barriers and alter the incentive structure so that markets and prices guide private and public investments and

corporate policies. The long pending basic conditions for industrial restructuring have, thus, been ushered in.

Alongside industrial liberalization, the reform of the external sector (the trade regime) has occupied pride of place in India's structural adjustment programme. The basic thrust is on shifting from inefficient, non-competitive import-substitution to a capable and competitive export-oriented growth strategy.

Opening up of the External Sector

- *Rupee devaluation of 20 percent in early July 1991, and a gradual changeover to market determined exchange rate.*
- *Full current account convertibility of the rupee in August 1994.*
- *Sharp rationalization and remarkable reduction in customs tariff.*
- *Long-term export-import (EXIM) policy: phasing out of (a) quantitative restrictions; (b) discretionary controls, and (c) canalized items of trade, etc.*

At the same time, to support the growth momentum of industry and the external sector, there has inevitably been a need for an investment and growth promoting tax policy.

Investment and Growth Promoting Tax Policy

Rationalization and simplification of the tax system:

- *Personal income tax: top rate reduced from 56 percent in 1990-91 to 30 percent.*
- *Corporate tax : (a) domestic companies from 51.75 percent to 35 percent; and (b) foreign companies from 75.75 percent to 48 percent.*

Excise duty

- *Fewer product classifications/ fewer rates: range 8 percent to 18 percent; in a few cases going up to 30 percent.*
- *Across-the-board extension of Modified Value-added Tax (MODVAT)*
- *Gradual shift towards VAT*

Customs Duty

- *Rationalization into fewer rates.*
- *Maximum rate reduced from 300 percent to 40 percent. Most rates now range from 10 percent to 25 percent.*
- *Trade weighted rate 27 percent.*

The financial system plays a critical role in channeling resources to the real sector of the economy, comprising agriculture, industry, infrastructure and external trade. Progressive liberalization has taken place in this sector during the last decade. The overwhelming objective has not only been to enhance the operational efficiency of the financial system, especially of the banking sector, but to expand the availability of resources of business and industry at competitive costs. Undoubtedly, fiscal consolidation is an integral part of this process. Accordingly over the last few years, some fiscal correction has taken place, but the problem is far from resolved.

Financial Sector Liberalization

- *Progressive deregulation of deposit and lending rates of banks.*
- *Sharp reductions in the Statutory Liquidity Ratio (SLR) and the Cash Reserve Ratio (CRR) allowing banks greater freedom in the deployment of lendable resources.*
- *Promoting integration of the money and foreign exchange markets.*
- *Strengthening the banking system through (a) capital adequacy (b) prudential norms of accounting; and (c) greater autonomy and freedom to banks.*
- *Allowing the setting up of private sector banks and foreign banks*
- *Major capital market reforms including : (a) free pricing of equity; (b) allowing foreign institutional investors (FIIs) entry to portfolio investment; (c) allowing the corporate sector to access Global Depository Receipts (GDRs)/External Commercial Borrowings (ECBs), etc.*

Nonetheless, the period starting in 1991, and especially the first few years, stands in marked contrasts to earlier years in Indian economic policy making. For the first time not only was it acknowledged

that reforms were highly desirable, and indeed essential if growth was to accelerate, but reforms were actually begun.

Post Reform Period

The momentum for reforms was greatest in the years immediately following the crisis of 1991. By the mid-1990s, reforms had largely stalled. While there were some further changes in the control and regulatory environment and the role of the public sector, by and large the major changes had taken place in the first half of the decade. In part because the governments were not secure and in any event consisted of coalitions, no major new initiatives were undertaken.

An attempt to review the key economic performance indicator during the on-going third phase, beginning with the crisis year or 1991 is being made.

The overall economy, in terms of real GDP, recorded a recovery after the first two years of reforms. In fact, during the three year period 1994-97, real GDP growth averaged a high 7.5 percent per annum. There was, however, a setback in 1997-98, when the growth rate decelerated to 5 percent. This is attributed to (a) negative growth of the agricultural sector (b) sharp deceleration in the industrial sector; and (c) overall sluggish performance of the external sector.

Growth rates reached 7 to 8 percent during the late 1990s. Moreover, analysts and policy makers alike became convinced that growth rates of 7 percent and more were achievable, something that would have been vigorously contested only a decade earlier. Nonetheless all

observers agreed that reforms have lost their momentum and that, if the economy is to be able to attain and sustain a growth rate of 7 percent or more, the momentum for reform will once again have to be regained.

The industrial sector, which was virtually stagnant in the crisis year of 1991-92, recovered strongly to achieve over 12 percent growth in 1995-96. This was brought about both by stimulation of consumption and by an investment boom. However, industrial growth thereafter slowed down to 7.1 percent in 1996-97 and further to 4.2 percent in 1997-98. There were clear indications of a sectoral slowdown, but not of a general recession.

India has been able to mobilize significant foreign capital by way of FDIs (\$7.9 billion) as well as portfolio investments through FITs (\$ 9.1 billion) and GDRs (\$ 7.8 billion). In all, therefore, since the launch of the reforms, India has received cumulative foreign investment of over \$ 25 billion.

Another important feature has been the resource raising efforts of the capital market during the post reform period. In 1980-81 it was difficult for the corporate sector to raise a capital of more than Rs. 3.5 billion. This figure had already increased to Rs. 109.20 billion in 1990-91 but most spectacularly to Rs. 486.3 billion in 1994-95. However, there has been a major setback. Since then, and capital raised in 1997-98 was only Rs. 313 billion.

India witnessed a better control over inflation; the average rate which was at the peak level of 13.7 percent in 1991-92 declined to 4.8 percent in 1997-98.

The sustained recovery of external sector is perceived as one of the major achievements. Export growth, which the three year period 1992-93 to 1995-96, slowed down to 5.3 percent in 1996-97 and 2.6 percent in 1997-98, the growth of imports also slowed down from an average of about 18.5 percent to 6.7 percent and 5.8 percent respectively during the same period. But the most significant thing was the reduction in current account deficit from the crisis level of 3.2 percent of GDP in 1990-91 to an average level of about 1.5 percent during 1995-98.

India has been managing its external debt prudently. In fact, in absolute terms, external debt declined from the peak of \$99 billion in March 1995 to \$93 billion in September 1997, even the proportion of short-term debt has been quite low at around 7 percent of the total debt. This is in contrast to high proportion of short-term, debt in most of the South East Asian countries which recently experienced a major currency crisis.

Forex reserves (excluding gold and special drawing rights) were built up more or less consistently after the period of crisis, from \$ 2.2 billion in March 1991 to a healthy \$ 26 billion by March 1998. these reserves are sufficient to meet any contingency of excessive speculation or volatility of the type that afflicted Southeast Asian countries during the later half of 1997. The present level of forex reserves can finance India's import requirements for about seven months.

The exchange rate management witnessed a transition after the deliberate devaluation in response to the crisis in July 1991. India now has full current account convertibility and a market determined exchange rate system.

Chadha and Sandhu ¹² in their study on the process of India's globalization cite the ratios computed by Brahmhatt and Dadush to gauge the extent of globalization of Indian Economy.

- (i) Ratio of Real FDI to Real GDP;
- (ii) Ratio of Real Trade (export plus import) value to Real GDP;
- (iii) Share of export of manufacturers in total exports.

(i) *Extent of India's globalization (Real FDI to GDP ratio)* : This index is reflective of the international flows of capital, signifying an economy's global integration. The larger the ratio for an economy, the greater will be its interaction with the outside world.

The New Economic policy in 1991 gave a tremendous forward thrust to FDI inflows in India, which during 1990-96 escalated at an annual rate of over 77 percent as highlighted in table 2.¹³ Consequently the globalization ratio rose from 0.1 percent in 1990 to 0.83 percent in 1996. This sharply rising trend in India's globalization is evident from the sharply rising globalization trend curve in figure 1 for 1990-96.

(ii) *Extent of India's globalization (Real Trade Value to GDP Ratio)* : The extent of an economy's globalization may also be measured by the proportion of its total real trade (import plus export) value to its real GDP. The larger the trade value component of GDP, the greater is the degree of an economy's global integration. Hence a liberal trade policy is a pre-requisite of an economy's global orientation.

It has been estimated that as tariff and non-tariff restrictions are being either lifted or brought down to 'binding' tariff levels by 2005, real

¹² Chadha, Vikram And Satinderjeet Sandhu (1999) An Analysis Of The Nature And Extent Of India's Globalization. *Foreign Trade Review*, 34(2), 1999 (July-Sept) pp. 13-35.

¹³ All Figures And Tables Cited At The End Of Chapter 3.

world incomes could increase by US\$510 billion annually, of which US\$116 billion would accrue to developing countries.¹⁴

With considerable global exposure of the economy since 1991, India's real trade value picked up from Rs. 336.49 billion in 1990, to about Rs. 626 billion in 1995-96, and therefore the globalization ratio increased smoothly from 15.90 to 22.67 during this period. In figure 2, the smoothly upward rising curve for 1990-96 shows India's increasing global integration in terms of to and fro movement of goods from India.

(iii) *Extent of India's globalization (Share of manufactures in total exports)*: A significant, though imperfect index of an economy's globalization is the share of its exports of manufactures in its total exports, because a larger volume of manufacturers exports implies a wider acceptance of the technological prowess of the exporting country in the global markets, and hence its integration with the world economy.

Since the introduction of structural economic reforms since 1991, we find that the proportion of the export of manufactures rose steeply from about 48 percent to about 75 percent in 1996, so that the trend curve is sharply drifting upwards in figure 3. This shows a considerable integration of the Indian Economy with the world markets. Table 3 traces the extent of India's globalization through share of manufacture in total exports.

S.S.Bhandare, points out that many beneficial impacts of reforms in Indian can be listed. It is also evident that the key macroeconomic indicators have performed well, but the reforms cannot be simply

¹⁴ Harmsen, R. (1995) The Uruguay Round : A Boon For The World Economy, *Finance And Development*, March pp. 24-26.

viewed as a bag of unmixed blessing. According to Jenkins¹⁵, the reforms were introduced by stealth. It has been described by many as a radical departure from the policies, which led us to a systematic crisis, also that the reforms of 1991 do not quite reflect a paradigmatic shift of policies, but are rather the policies introduced earlier sometimes in a piecemeal manner, were put as a package boldly in a more transparent manner. This calls for a critical look at the reforms.

Reforms – A Critique

Krueger points out three disquieting signs on the fiscal front, firstly, fiscal deficit was not reduced as much as had been announced at the outset of the reforms. Second, the composition of government expenditures has not been altered to increase their efficiency. The need for infrastructure and other public sector investments is very great, and yet prospects for increased resources in the public sector do not appear good, reallocation of resources is clearly called for. Third, investment as a percentage of GDP has remained fairly stagnant, despite the pressing need for new investments in a number of areas. If one were to assess fiscal performance since the crisis, the conclusion would have to be that the initial stabilization package met with some success, but that reforms filtered before the underlying structural problems of inefficient expenditures and inelastic sources of revenue could be tackled.

As a part of development strategy developing countries, including India, are keen to attract FDI several measures are taken to attract foreign capital, latest being the removal of cap on foreign ownership in

¹⁵ Jenkins, Rob (1999): *Democratic Politics And Economic Reforms In India*, Cambridge: Cambridge University Press.

several industries. According to the Centre for Monitoring Indian Economy (CMIE), during the fiscal year the FDI is likely to be around US \$2.3 billion. However, this pales into insignificance when compared to FDI received by China, its share shot up from US \$2.65 billion to US\$42.3 billion, or from about 2 percent to 12 percent. But India remained a marginal recipient of FDI, whose share rose from barely 0.12 percent to 0.74 percent, or from US\$0.17 billion to US\$2.59 billion during 1985-96. Thus the main benefit of globalization, i.e. transfer of foreign investments has so far eluded India. ¹⁶

A worrisome feature is the nature of deployment of their foreign resources. A lions share of these resources is not going into fresh capital formation but in the take over and mergers. According to CMIE about 50 percent of the FDI inflow went into either foreign partners buying out Indian partners or even public holdings in the joint sector. Another feature to be careful about is the growing proportion of portfolio investment in equities. Such investment was of the order of US\$ 105 million in 1990, it increased to US\$ 1,302 million in 1999. There is little new capital formation in the economy with foreign financial resources. Besides, deployment of foreign private resources is largely in 'white goods' sector, in automobiles and other luxury items catering to the needs of rising middle and upper middle class. Share of investment in strategically important hi-tech sectors, or in consumer goods industries catering to the needs of the poor is not significant.

¹⁶ Of The Reasons, Why India Has Failed To Emerge As An Attractive Destination For FDI, Are Partial Convertibility Of Indian Rupee; Restricted Exposure Of Certain Sectors Including Services And Mining; Low Absorptive Capacity Of Indian Industry With Regard To Investments And Technology; Slow Pace Of Economic Reforms Including Privatization, Depreciating Currency; Tax Rate Being On The Higher Side; High Degree Of Red Tapism.

Apart from FDI, portfolio investment and private borrowings are playing a crucial role in financial integration. Private foreign investments are very mobile. Higher the role of private foreign financial investment generally, more vulnerable the country becomes. In India since our regulatory mechanism are fairly strong so far we have been able to weather these shocks more satisfactorily. However, in our case also exchange rate of rupee, our interest rate structure and prices in the stock markets are significantly affected by the short-term, in most of the cases speculative, movements in the financial inflows. Once the share in the short-and long term investment increases we will also be exposed to the vagaries of sop and internal fluctuations

Whether the reforms (will) intensity (or have intensified) or (will) alleviate (or have alleviated) poverty in India, is a contested issue, but that the reforms have increased inequalities and made them much more visible is a more or less agreed fact. There are two types of differentiation that are mentioned most in the literature: regional differentiation between various states or regions within states and social differentiation between classes or groups of people. Various authors have pointed to the fact that the liberalization process will lead to an intensification of regional differentiation. Chakravorty ¹⁷ analyzed differential regional development, and concluded that in general the already advanced industrial regions benefit more than the non-industrialized areas, metropolitan areas are favoured more than non-metropolitan areas and coastal regions benefit more than non-coastal regions. FDI tends to concentrate on coastal regions and metropolis while domestic private

¹⁷ Chakravarty, Sanjoy (2000) : How Does Structural Reform Affect Regional Development? Resolving Contradictory Theory With Evidence From India. *Economic Geography*, Vol. 96, No. 4, pp. 367-94.

capital tends to invest in the western parts of India and parts of the south and southeast.

Suresh Babu¹⁸ observes that the growth process is caught in a set of centripetal forces tending to keep development in certain confined pockets. This is clear from the fact that five states namely, Maharashtra, Gujarat, Karnataka, Andhra Pradesh and Tamil Nadu, consistently register high levels of growth. This pattern remains unaltered in spite of successive 'generations' of reforms. Clearly, early movers have an advantage in the growth process, but the structural adjustment programme intended to change the existing production structures was expected to bring about changes in this structure as well.

The point about regional disparity needs no emphasis given the spate of self-explanatory available empirical evidence. Eye-balling the data on per capita net state domestic product (NSDP) clearly reveals that the state with the highest per capita income Punjab, has an NSDP almost five times that of Bihar, which has the lowest per capita NSDP. The point to be noted is that despite a decade of economic reforms there exist wide disparities in regional growth/development, which might get worse given the nature of policies pursued.

Maharashtra, Gujarat and Tamil Nadu head the list, with each accounting for more than 11 percent of the investments. The case is no different with regard to FDI as well. After the economic reforms were launched, six states including Andhra Pradesh, Karnataka and Madhya Pradesh accounted for nearly 42 percent of the total FDI approvals. The

¹⁸ Babu, Suresh, (2002) Competition And Competitiveness Among States. *Economic And Political Weekly*, March 30, 2002, Pp. 1281-1284.

share increases to 57 percent when Delhi is also included,¹⁹ FDI, regarded as a package including superior technology could propel industrial growth in these six states leaving the others as permanent laggards.

P.R. Panchamukhi²⁰ focuses on the impact of economic reforms on the social sector in India, he compared the data of the pre-reform period and the reform period, and noticed a declining trend in the budgetary allocation of both the central and state governments for various sub-sectors of the social sector, especially health and education. a decline is witnessed in central government expenditure. The plan expenditure between 1985-90 was 33.5 percent of total expenditure which reduced to 28.3 percent between 91-97, development expenditure during the same period reduced from 56.4 percent to 49 percent; and capital expenditure during the same period reduced 22.7 percent from 30.1 percent.²¹

At the same time he draws attention towards the increasing trend of consumerism; rising unemployment coupled with frustration from failure to earn legitimate income which has led to corruption in social life.

Trailing the line of social differentiation between classes or groups of people, Smitu Kothari²² points out that the economic reforms resulted in growth, which was, however, jobless. In the first half of 1990s,

¹⁹ CMIE, Monthly Review Of Investment Project. April 1999.

²⁰ Panchamukhi, P.R. (2000) Social Impact Of Economic Reforms In India , A Critical Appraisal, *Economic And Political Weekly*, March 4, 2000, pp. 836-845.

²¹ Economic Survey For Various Years. As Quoted In M. Narsimhuln: Economic Reforms: Prospects And Retrospects, VB Bhosee (Ed.): *Economic Reforms In Ninth Five Year Plan*, Anmol Publication, New Delhi, 1998, pp. 95.

²² Kothari, Smitu (1997): Whose Independence The Social Impact Of Economic Reforms In India. *Journal Of International Affairs*. Vol. 51, No.1, pp. 85-116.

employment had increased by 1.2 million people but in the same period 35 million people were added to the labour stock. There is an unambiguous relation between the structural adjustment programme and the deterioration of livelihoods of rural labour on the other hand, the incomes of the richest segment of the population have only increased. In the last 30 years, the income disparities between the poorest 20 percent of the population and the wealthiest 20 percent have doubled and now many salaries in the corporate sector exceed \$300,000. In a national situation where the minimum daily wage is less than \$2 and half the working population does not even earn that much, serious ethical and political issues arise.

An important relation exists between economic reforms and governance of a state. According to Chiranjib Sen,²³ the reforms started with an attempt to introduce a rule based type of governance, to replace the relation based government style. Another paper by Bob Currie²⁴ investigates the way in which the World Bank has dealt with the issue of governance. Good governance is now central concern of this organization, because it assumes that good governance in the political and administrative sphere is essential to make policies and projects work. Good governance for the world bank means accountability, transparency and the rule of law. In principle, the loans given by the World Bank would give it some leverage to implement its good governance agenda, but Currie points out that World Bank uses relative

²³ Sen, Chiranjib (1998) : The Budget, Government Style And Sustainability Of Economic Reform In India, *Economic And Political Weekly*, Vol. 33, No. 45, pp. 2843-2854.

²⁴ Currie, Bob (1996): Governance, Democracy And Economic Adjustment In India: Conceptual And Ex Empirical Problems. *Third World Quarterly*, Vol. 17, No. 4, pp. 787-807.

pressure as its agenda is applied partially and in an ad-hoc manner. Currie further illustrates that impact of India's structural adjustment on democracy is mixed, positively it has led to erosion of 'License Raj' and a leaner state 'with less personalized economic relations and a more autonomous civil society' and negatively it has led to weakening of the nation-state, narrowing of social base of the state and its increasing authoritarian tendencies. Hence an important equation exists between economic reforms which extracts India on its globalized path and democratic governance of the state. An attempt to examine this relation is made in the subsequent chapter.

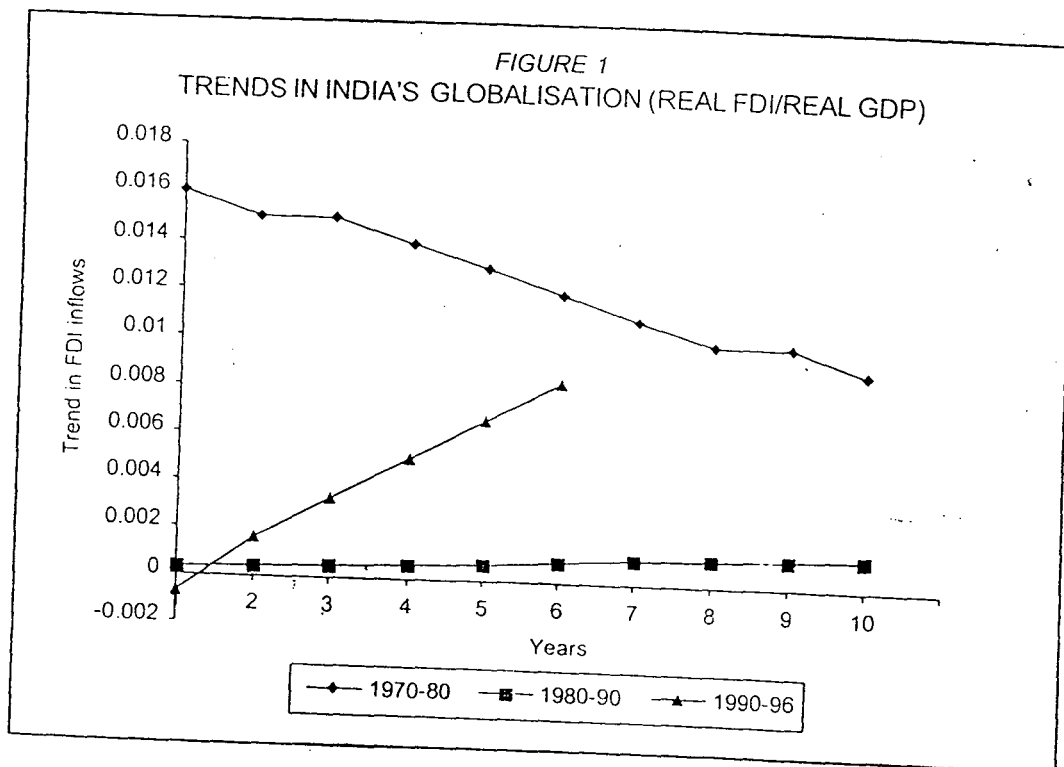


FIGURE 2
TRENDS IN INDIA'S GLOBALISATION (REAL TRADE/REAL GDP)

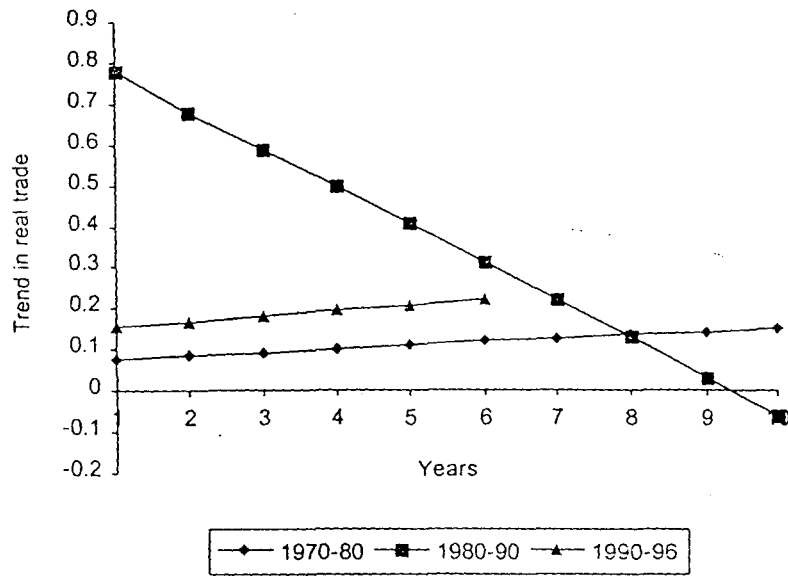


FIGURE 3
TRENDS IN INDIA'S GLOBALISATION
(PER CENT SHARE OF MANUFACTURES IN EXPORTS)

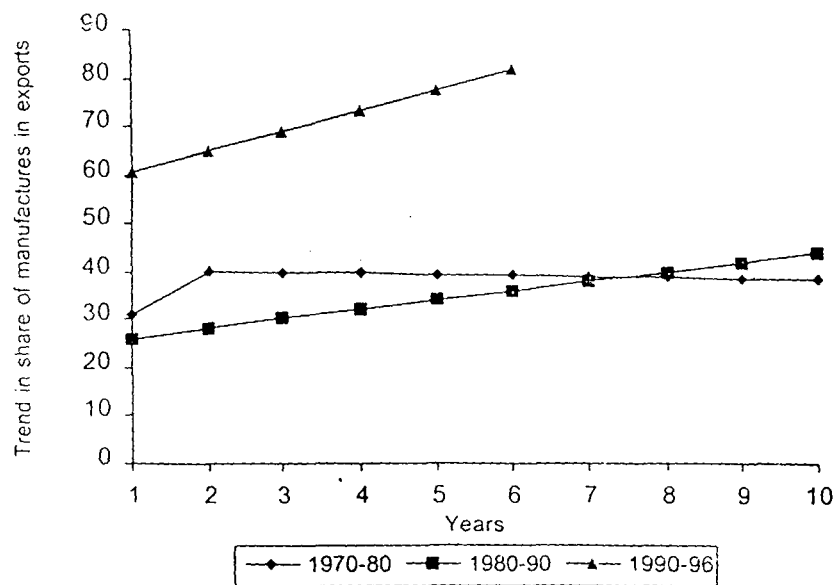


TABLE 2
EXTENT OF INDIA'S GLOBALISATION (REAL TRADE VALUE/GDP RATIO)

(At 1980-81 prices)

Year	Real GDP (Rs billion)	Real trade value (Rs billion)	Real trade value/ GDP ratio (%)
1970-71	904.26	72.17	8 [0.076]
1971-72	913.39 (1.10)	74.22 (2.85)	8 [0.084]
1972-73	910.48 (-0.32)	75.19 (1.31)	8 [0.093]
1973-74	951.92 (4.55)	91.56 (21.77)	10 [0.101]
1974-75	962.97 (1.16)	112.73 (23.13)	12 [0.110]
1975-76	1049.68 (9.00)	137.12 (21.63)	13 [0.118]
1976-77	1062.80 (1.25)	141.86 (03.40)	13 [0.126]
1977-78	1142.19 (7.47)	149.43 (05.34)	13 [0.135]
1978-79	1205.04 (5.50)	160.92 (07.69)	13 [0.143]
1979-80	1142.36 (-5.20)	73.53 (-54.31)	15 [0.151]
Annual growth rate	3.45	6.59	
1980-81	1224.27	196.20	15.73 [0.78]
1981-82	1298.89 (6.10)	194.21 (-1.01)	14.95 [0.68]
1982-83	1339.15 (3.10)	194.04 (-0.09)	14.49 [0.59]
1983-84	1448.65 (8.18)	136.80 (-29.50)	09.44 [0.50]
1984-85	1504.33 (3.84)	208.39 (52.32)	13.85 [0.41]
1985-86	1565.66 (4.08)	204.60 (-1.82)	13.07 [0.31]
1986-87	1632.71 (4.28)	204.37 (-0.12)	12.52 [0.22]
1987-88	1703.22 (4.32)	219.04 (7.18)	12.86 [0.13]
1988-89	1884.61 (10.65)	258.97 (18.23)	13.74 [0.03]
1989-90	2014.53 (06.90)	310.49 (19.90)	15.41 ¹ [-0.06]
Annual growth rate	5.41	-6.07	
1990-91	2122.53	336.49	15.90 [0.156]
1991-92	2139.83 (0.82)	355.73 (5.71)	16.62 [0.169]
1992-93	2252.40 (5.26)	418.02 (17.51)	18.58 [0.182]
1993-94	2391.45 (6.17)	466.14 (11.51)	19.49 [0.195]
1994-95	2577.00 (7.76)	512.55 (09.96)	19.88 [0.208]
1995-96	2761.32 (7.15)	625.96 (22.13)	22.67 [0.220]
Annual growth rate	5.68	13.10	

Notes: (i) Figures in circular brackets are yearly growth rates.
(ii) Figures in square brackets are trend values.

Sources: (i) Government of India, *Economic Survey* (various issues), New Delhi: Ministry of Finance.
(ii) Economic Intelligence Service (1996), *Foreign Trade Statistics of India*, Mumbai: Centre for Monitoring Indian Economy, May.

TABLE 3
EXTENT OF INDIA'S GLOBALISATION (SHARE OF MANUFACTURES IN TOTAL EXPORTS)

Year	Total exports (Rs billion)	Export of manufactures (Rs billion)	Share of manufactures in total exports (%)
1970-71	15.35	06.16	40.12 [30.90]
1971-72	16.08 (04.76)	06.65 (07.98)	41.36 [39.71]
1972-73	19.71 (22.55)	08.16 (22.72)	41.42 [39.52]
1973-74	25.23 (28.04)	10.01 (22.57)	39.65 [39.33]
1974-75	33.04 (30.94)	11.58 (15.78)	35.06 [39.14]
1975-76	40.43 (22.36)	13.36 (15.33)	33.04 [38.95]
1976-77	51.46 (27.28)	21.17 (58.46)	41.14 [38.76]
1977-78	54.04 (05.01)	21.94 (03.64)	40.60 [38.57]
1978-79	57.26 (05.96)	23.44 (06.84)	40.94 [38.38]
1979-80	64.59 (12.80)	24.00 (02.39)	37.16 [38.19]
Annual growth rate	19.36	18.78	
1980-81	67.11	23.20	34.57 [26.09]
1981-82	78.03 (16.27)	25.82 (11.29)	33.09 [28.01]
1982-83	88.03 (12.82)	15.56 (-39.73)	17.68 [29.93]
1983-84	97.71 (10.99)	29.55 (89.90)	30.24 [31.86]
1984-85	117.44 (20.19)	36.09 (22.13)	30.73 [33.78]
1985-86	108.95 (-07.23)	37.11 (02.83)	34.06 [35.70]
1986-87	124.52 (14.29)	45.31 (22.10)	36.39 [37.62]
1987-88	156.74 (25.89)	61.81 (36.42)	39.43 [39.55]
1988-89	202.32 (29.68)	92.42 (49.52)	45.68 [41.47]
1989-90	276.81 (36.82)	126.04 (36.38)	45.53 [43.59]
Annual growth rate	14.93	21.67	
1990-91	325.53	155.52	47.77 [60.71]
1991-92	440.41 (35.29)	326.93 (110.22)	74.23 [64.84]
1992-93	536.88 (21.91)	408.35 (24.90)	76.06 [68.98]
1993-94	697.51 (29.92)	527.02 (29.06)	75.56 [73.11]
1994-95	826.74 (18.53)	646.83 (22.73)	78.24 [77.25]
1995-96	1063.53 (28.64)	791.33 (22.34)	74.41 [81.38]
Annual growth rate	25.93	34.74	

Notes: (i) Figures in circular brackets are yearly growth rates.
(ii) Figures in square brackets are trend values.

Sources: (i) Government of India, *Economic Survey* (various Issues), New Delhi: Ministry of Finance.
(ii) Government of India, *Report on Currency and Finance* (various issues), New Delhi: Reserve Bank of India.

POLITICAL IMPACT OF GLOBALIZATION ON INDIA

Major changes are being inaugurated in state and civil society in India today in the name of 'good governance' and reform. In terms of the prevailing thinking, economic reforms, good governance and democracy form three interrelated and mutually supportive aspects of the development process. A package of measures is being presented by the government, backed up by international agencies and donor governments, as necessary for efficient and honest administration and which is perceived as the pre-condition for the success of economic reforms and for political stability.¹

In the last two decades the western development agencies, particularly the World Bank, have put forward indicators of 'good governance' in the form of 'institutional components' 'essential pre-requisites' or 'inputs' required for 'good governance' An analysis of various literature shows that the world bank criteria reflected in several successive reports also forms the basis on which many western development agencies, aid donors and some scholars have put forward indicators of governance. World Banks own conceptualization has been altering through years, upto 1989 good governance was perceived in a narrow and technical cum managerial or institutional sense, relating it to bureaucratic reforms, policy analysis and greater efficiency of the public services based on the notion of the minimalist state enunciated by leaders such as Ronald Reagan and Margaret Thatcher.

¹ Joseph, Sarah, Democratic Good Governance, New Agenda For Change, *Economic And Political Weekly*, March 24, 2001, Pp. 1011-1014

International financial agencies and donor governments by 1980s began to push for Neo-liberal theories, which supported a limited state and greater scope for marketization as means of achieving redistribution and faster economic growth. This was a strategy seen as part of structural adjustment programmes. Apart from liberalization and privatization, the kind of reforms advocated by the IMF and World Bank included sliming down of bureaucracies, de-regulation, privatization and removing of subsidies.² But it soon became evident that the reforms had not been able to deliver on their promises in African and other developing countries and that mounting economic problems had contributed to political instability and popular protests in the region. This turned the focus onto the need for political reform. The success of East Asian countries also stimulated some re-thinking about the possible need of state intervention in the economy.

In its 1989 report pointing to a 'crisis of governance' in Africa, the bank for the first time introduced explicitly 'political pre-requisites' such as legitimacy, participation, pluralism and free press and human rights, factors, which would empower civil society, these became key prescriptions applicable to the developing world as a whole and as constituting a basic requirement for a modern state."³ Secondly, it identified non-institutional aspects of governance associated with civil society, i.e., support for voluntary organizations and NGOs, the formal and informal economies as well as groups in civil society such as universities, trade unions and professional organization.

² Leftwich, Adrian(1993): 'Governance, Democracy And Development In The Third World' In *Third World Quarterly*, Vol. 4, No.3

³ Williams, David, And Tom Young (1994) 'Governance, The World Bank And Liberal Theory', *Political Studies*, XIII: 84-100.

All this contributed to shifting attention back to the state and its role in promoting development and economic growth. But it needed to be a streamlined and limited state, supported by a market based economy and a democratic polity. The need for tonning up administration was emphasized. The linkages between governance and development were made in a number of publications from the World Bank from the late 1980s including 'governance and development' 1992, and the 'The World Development Report', 1997, 'The state in a changing world'. The emphasis now, unlike earlier was on insulating some aspects of decision-making from politics by building-horizontal linkages between state and business and other elements in civil society or 'embedded autonomy', as it has sometimes been termed.⁴

It is the assumptions underlying the concept of good governance and its indicator that have been criticized by scholars.⁵ The indicators of managerial type such as efficiency, transparency, effectiveness and capabilities as well as the process of development that would emanate from it, are assumed to be universally applicable with little sensitivity to specific developmental needs of particular countries, they are both prescriptive as well as descriptive and are couched therefore in the bland language of neutrality, the specific concept of 'good' as mentioned may not be shared by all societies, clearly the 'good' that IMF and World Bank stands for is a market economy and a neutral state.

Sudha Pai critiquing the neo-liberalist base of the concept of 'good governance' as employed by World Bank and IMF; discusses alternative

⁴ Sarah Joseph, Cited Earlier

⁵ Hirst, Paul (2000) 'Democracy And Governance' In *Debating Governance: Authority Steering And Democracy* (Ed) Jon Pierre, OUP, London: Pp. 13-20.

conceptualization of governance, which should be used for developing countries like India. These are the discrediting of the conventional definition of development as purely economic growth, an aspect seen in the writings of Amartya Sen and Second, the adoption of the Human Development Perspective by International agencies, such as the UNDP.

Country like India, which is the most successful democracy in the world solicits a different criteria for measurability of governance, as the so called 'political prerequisites' promoted by IMF and World Bank already exist here and have been functional since its independence. With renewed emphasis by the Bretton Wood Twins on state as the implementator of reforms and democracy as a criteria, their arises a necessity to examine the uniqueness of Indian democracy in light of the perceived wave of globalization and how the Indian state encounters it.

The Success Of Indian Democracy

Indian democracy has succeeded against considerable odds for more than five decades. Atul Kohli⁶ points out that the success of democracy in India defies many prevailing theories that stipulate preconditions for democracy. India is not an industrialized, developed economy; Indian businessmen and middle classes do not fully control the country's politics; India is anything but ethnically homogenous, and India would probably rank low on a number of attributes of "Civic culture". But after more than five decades of periodic elections in which all political offices are contested, and in which all adults are qualified to

⁶ Kohli, Atul (2002) *The Success of India's Democracy* (Edt.) Atul Kohli, Cambridge University Press, New Delhi.

vote, there is little doubt that democracy in India has taken root. Moreover, India enjoys free and lively media, freedom of assembly association and considerable scope to express political dissent and protest. Even India's founding national party, the congress, which increasingly came to resemble a dynasty- has by now been voted out of power, replaced by other challengers. It is in these procedural or political senses of the term that India's democracy has succeeded.

Austin⁷ calls attention to the fact that the foundational principles of a nation state were enshrined in the Indian constitution adopted in 1950. key institutions of the modern state- liberal democracy, universal adult suffrage, democratic decision making and modern citizenship- these were put in place in the formative years between 1947 and 1950.

Rajni Kothari⁸ says that the distinctiveness of the Indian model of development was based on the simultaneous pursuit of 4 basic goals. (1) National integration (2) Economic development (3) Social equality and (4) political democracy- nothing like this had ever been undertaken anywhere on such a large scale. What is more is that it was a design that went against India's own heritage of an apolitical parochially- structured, hierarchically oriented, and essentially inequitable social order.

India not only undertook to pursue all these tasks simultaneously which itself was unprecedented, but also decided to make the democratic political process central to the whole enterprise and made the other major processes- of nation building, of economic development

⁷ Austin, Granville(2000) *Working A Democratic Constitution: The Indian Experience*. New Delhi: Oxford University Press.

⁸ Kothari, Rajni (2001) *The Crisis Of The Moderate State And Decline Of Democracy* ' In Nirja Jayal (Ed) *Democracy In India*, Oxford University Press, New Delhi

and of achieving an equalitarian social order-contingent upon the democratic process.

It was these values, the institutions they nurtured and the pragmatic political forms, through which they were played out that provided the reviews of integration to a highly diverse, in many ways divided, and inherently plural and segmented social fabric. This was the greatest achievement of Indian democracy, of building a unity, which derived its strength from infinite diversity and differentiation and did not need to stream roller the country into some dead uniformity under a leader or a party or an idea.

India had inherited a number of political traits from British Rule which were significant for India's future democratic evolution: a relatively centralized state, including a well functioning civil service, early introduction of elections and socialization of the highest political elite in values of liberal democracy. At the same time, Sumit Sarkar credits Indian for shaping their own version of democracy and its nationalist leader developing the conception of "unity in diversity" with, one stroke of pen they gave the right of universal adult franchise to themselves which was resisted by Britishers and looked at with skepticism.

Indian democratic system has passed through several phases. Atul Kohli marks out three distinct phase calling the first phase as Nehruvian phase between 1950 and 1960 with a well functioning civil service and a popular ruling party. Then the authoritarian period under Indira Gandhi, where, mentions Kohli that regular elections were held

and it was a need to re-confirm the legitimacy that pressured her to call elections after a brief interlude (1975-7). He further lays stress on the thriving Indian democracy by bringing to notice that even the assassination of great leaders like Indira Gandhi and Rajiv Gandhi, which also ended the era of congress dominance, was 'dealt with' by yet another round of elections to select alternative leaders. The decline of congress hegemony has been met by two important political development: the rise of the BJP, especially in India's Hindi speaking 'heartland' and the growing significance of regional parties especially in southern India. The most recent phase of Indian politics characterized by considerable governmental instability is the third phase, whereas India's first eight general elections were spread out between 1950 and 1990, India held five general elections in the 1990s alone, hence this phase is marked by instability because of regional party's failing at collective action and BJP policy to garner sufficient support to form a national government. This era heralds India's entry into 'coalition politics'.

Aswini. K. Ray,⁹ views this long era of weak coalition governments lasting until the present day as also the era of India's formal entry into the process of globalization in conformity with long-standing western strategy, further he says that the "reform", suggested as 'conditionalities' of the fund bank, consisted of measures which were a total reversal of earlier economic policies, and ensured conformity with western "advice"- This was endorsed by a minority government led by a weak leader that

⁹ Ray, K. Aswini (2002) 'Globalization And Democratic Governance: The Indian Experience. In *Globalization And Democatization In Asia, The Construction Of Identity* (Eds.) Catarina Kinnvall And Kirstina Jonsson.

confronted the newly elected parliament with the “Hobson’s choice” of endorsing new economic “reform” plan or facing a general election. Hence Ray views India’s economic liberalization beginning in an era of considerable de-liberalization of its political democracy and atrophy of the post-colonial democratic institutions.

India is a unique liberal democratic country, with a well functioning system of legitimate governance confirmed by regular periodic election, under the supervision of independent election commission guaranteed by the constitution (Pt. XV, Art. 324-29), an impartial judicial system and a strong bureaucracy, added to it a free press, a politically aware population with mass participation, with growing intensity of civil society, India by far is reflective of a strong state, hence somewhere political agenda of globalization as carved out by the Brettonwood institution, seems to already have been in existence in India. At the same time the growing wave of globalization presses a threat not only to the Indian state but to the sovereignty of nation-state archetype too, since the same agenda is being given to all in an attempt to bring about a ‘homogeneity’ and ‘sameness’ in the globe, it definitely challenges the intrinsic loneliness of various state system of governance and hence challenges their sovereignty. Hence, it calls for examining the threat or a perceived threat to the nation-state of the world in general and India in particular.

Globalization as a Challenge to State Sovereignty

Cerny declares that “the transformation of the nation-state into a competition state lies at the heart of political globalization”. At the same

time Prakash and Hart ¹⁰ raise the question as to how will globalization impact governance at the country-level? Will the Westphalian system and Keynesian welfare state survive its onslaught?

In the Westphalian system the state is the major agency to supply collective goods and state-centric security consideration play a dominant role in International relation. The notion of welfare state is predicted on the “embedded liberalism” and Keynesian philosophy that markets are not self-regulatory. The former suggests that costs imposed by liberalized trade on labour and other domestic actors are to be offset by side- payments in the form of social safety nets such as unemployment insurance, old age insurance, welfare payments and other re-distributive social policies.

There are three broad categories of views on how globalization may impact on the Westphalian system and the welfare state. It is suggested that the nation state will wither away; perhaps not physically but in terms of policy options it can effectively exercise in the economic realm. Further, the emerging ‘new world order economics will increasingly dominate security considerations. Thus globalization heralds the demise of both the Westphalian system and the welfare state.

Second perspective in contrast, views business as usual for the state. It is suggested that the existing instruments of economic policy, perhaps with some modification are sufficient to handle the challenges

¹⁰ Prakash, Arseni And Jeffray A. Hart (1999) (Edt) *Globalization And Governance*, Routledge, London.

of globalization; further the security imperative of international relation will remain important.

Third perspective is that the state will neither whither away nor remain unchanged, rather, states will re-articulate themselves by shedding some political and economic functions and adopting new ones. Although national security consideration will remain important, a new perspective on security will grow.

The most important political fall out of globalization is the decline of the nation state. David Held¹¹ argues that the nation is being undermined by forces of globalization. He even foresees its eventual displacement by a world-government. He holds that increasing economic and cultural connections reduce the power and effectiveness of governments at the nation-state level- they can no longer control the flow of ideas and economic items at their borders and thus their internal policy instruments become ineffective. State power is further reduced because transnational processes grow in scale as well as in number. TNCs, for example, are often larger and more powerful than many governments. Many traditional areas of state responsibility (e.g defence, communications, economic management) must therefore be coordinated on an international or intergovernmental basis. States have thus been obliged to surrender sovereignty within larger political units (eg. EU, ASEAN) Multilateral Treaties (e.g. NATO, OPEC) or international organizations (e.g. UN, WTO, IMF). Therefore, Held is convinced that a system of global governance is emerging with its own policy

¹¹ Held, David, (1991) '*Democracy And The Global System*' In D.Held(Ed) Political Theory Today , Cambridge Policy, Pp. 197-235.

development and administrative system which further curtails state power.

Further explaining the process, Scholte¹² holds that by dissolving sovereign statehood, globalizing capitalism has made the traditional model of democracy impracticable. Transborder production, markets, movies and business associations readily evade most democratic controls that might be attempted through a state. Moreover, no mechanisms have been desired thus far to guarantee transparency, open debate and accountability in relationships between states and their supra-territorial constituents.

Sheth and Nandy¹³ also question the triumphalism of liberal democratic governance. The proponents of globalization argue that liberal demo is the only suitable form of governance both for managing the modern state which is now ubiquitous and for mediating the forces of rapid economic and cultural exchange in all societies. This view endorses the continued existence of the third world societies at the receiving end of the global system and celebrates the fact that the option of delinking or opting out from the global system is no longer available to them. The best they can do is adapt to the system. They further argue that by creating 'political institutional guarantees' in the receiving countries, liberal democracy ensures predictability in the world economic arena. The political governance of different nation states when structured in the universal term of liberal democracy is expected to

¹² Scholte, Jan Aart, 'Global Capitalism And The State' *International Affairs*, 73.3, 1997, P. 444.

¹³ Sheth. D.L. And Ashish Nandy (Eds) (1996) *The Multiverse Of Democracy*, New Delhi, Sage, Pp. 13-17.

weaken, if not erase, the idea of national citizenship in favour of global consumership.

Jean-Marie Guehenno¹⁴ also argues that the territorial nation state is giving way, from without to a welter of overlapping, transnational networks fuelled by information technology; from within, to sub-national ethnic communities. At stake is the future of democracy for the transition from the former 'institutional' to the coming 'imperial' age (dominated by large supranational organization and loyalties) involves a massive shift from public to private purposes and the disintegration of the common good into irreconcilable selfish interests.

Martin Wolf¹⁵ views it differently and points out that globalization is not destined, it is chosen. It is a choice made to enhance a nation's economic well-being and adds that experience, suggests the opening of trade and of most capital flows enriches most citizens in the short run and virtually all in the long run. Hence, he stresses that if integration is a deliberate choice, rather than an ineluctable destiny, it cannot render states impotent. Their potency lies in the choices they make.

Robbert. J. Holton¹⁶ puts forward the view that one of the major difficulties with the argument that national sovereignty is under attack from globalization is the presumption that there was once a golden age when states possessed some kind of absolute control over their territory and the movement of resources, people and cultural influence across

¹⁴ Guehemo, Jean Marie (1995), *The End Of Nation States*, Minneapolis, University Of Minnesota Press.

¹⁵ Wolf, Martin, 'Will The Nation State Survive Globalization' In *Globalization Challenges And Opportunity. Foreign Affairs Editors Choice*, 2002, Pp. 100-101.

¹⁶ Holton, J. Robert, 'Globalization And The Nation State'.

their borders. This, he says, is however a myth, because national sovereignty as it has developed over 300 years is not absolute and unconditional, as the sovereignty of any one nation has usually depended on recognition by other nations within the interstate system and partly because states have never been able even if they wanted to achieve absolute control of transnational movements of people and resources across borders.

Some analysts see the global regulation and restructuring of the inter-state system under globalization as the new colonialism. Philip Mc Michael¹⁷ argues that the world is on the threshold of a major political transition in the political regulation of economic activity from a primarily national to a primarily global form of regulation. Under the pressure of multi-lateral agencies, global forms and global and regional free trade agreements, nation states increasingly surrender the organizational and ideological initiative to transnational forces. In short nation states face a form of colonization distinct from previous forms. Rather than the colonization of territories and peoples as in the past it is a colonization of the regulators of territories and peoples, viz, the nation states.

The institution most directly affected by globalization is the state. The current restructuring of states proceeds via limitation of democratic politics, declining economic sovereignty and enlistment of state administrators in the service of global circuits. In this sense the state increasingly assume, albeit unevenly or incompletely the colonial posture administering the colonizers needs by organizing the

¹⁷ Mc Michael, Philip (1995): 'The New Colonialism: Global Regulation And The Restructuring Of The Inter-State System' In Smith Borcoz (Eds) *A New World Order? Global Transformation In The Late 20th Centuries*: Prager, London

exploitation of labour and natural resources for global banks and corporations.¹⁸

Paul Kennedy¹⁹ suggests that the important actors in contemporary world affairs are global corporations. According to Kenechi Ohmae,²⁰ the nation state has become an unnatural, even dysfunctional unit for organizing human activity and managing economic endeavours in a borderless world.

Central to the new economic dispensation is a shift in the role of the state particularly in its commitment to the people. There is a major change in the paradigm of state intervention, a fundamental change in its welfare commitment. After having demolished the welfare state, globalizers now speak of 'compassionate state' and 'human state'. Scholte²¹ adds that "while the state has retained pivotal significance in globalizing capitalism, it has lost its former core attribute of sovereignty... insofar as states have lost the capacity for the unilateral exercise of comprehensive macroeconomic policy.

Ninan Koshy,²² says that the growth of supra-territorial capitalist constituencies appears to have put significant downward pressures on the provisions of social security. Much evidence points to the link between the globalization of capital and the oft-proclaimed crisis of 'welfare states'. In the first three quarters of the 20th century there was considerable expansion of social security and welfare programmes by the states. In many countries this was the result of protracted struggles

¹⁸ Mc Michael, 1998, pp. 37, Cited Earlier.

¹⁹ Kennedy, Paul (1993): *Preparing For The Twenty First Century*, Harper Collins, and London.

²⁰ *Foreign Affairs*, Spring 1993, Pg. 78.

²¹ Scholte Aart Jan, *International Affairs*, 1997, 73.3, Pp. 443.

²² Koshy, Ninan 'Political Dimension Of Globalization' *Economic And Political Weekly*, May 5, 2001, Pp. 1513-1517.

by workers and others. Koshy adds, that the added pressure from global capital for reduced taxes and labour costs has driven many governments to cut back welfare programmes, also, in the wake of globalization most governments have rolled back social welfare programmes. The famous 'retreat of the state' is a retreat mainly from the realm of welfare and social entitlement, combined however, with very aggressive interventions in favour of capital.

Garett and Mitchell in an extensive research on fourteen industrial countries, claim to find that greater exposure to international trade and foreign capital penetration averted no downward pressure on welfare state, firstly according to them globalization increases level of insecurity for large section of the population, thereby heightening expectations of redistributive social support, secondly, welfare spending does not necessarily mean a capital flight because countries with greater social stability offer a better environment for investors than more unstable mileux..

Multi National Enterprises (MNEs) represent the growing wave of globalization and are perceived to pose the greatest threat to state sovereignty. An important point is that MNEs make decisions on the basis of optimizing the private profitability of the corporation rather than the economic health of the nation. The dilemma for the nation is that economies may stagnate without MNE involvement, but the price for bringing them in may be too high in terms of loss of control over economic affairs or in relation to opposition from domestic economic and political interests. Another important mechanism whereby MNE operations have disadvantages for the host economy is the unwillingness

to share firm-specific intellectual property and technological and managerial skills with national competitors. This threatens to create a dualistic system in which information-rich corporations dominate nations who lack intellectual property advantages. Such nations are either shut out entirely or must pay high royalties to MNEs for access to related areas of information technology.

Theories of multinational dominance assures that such decisions are made more or less, under the unilateral dominance of MNEs. Looking at it from a vintage point of a theory of pure coercion, the argument is that governments could act differently by organizing investment and economic planning on a national basis but are constrained to do so by the power of multinationals backed up by the ideology of economic liberalism and free trade and in cases such as Allende's Chile, backed by political destabilization.

This brings us to the question as what then of developing world? In a fast changing governance system around the world, so much so that Jessop argues²³ that there has been "hollowing out of the state" especially in regard to its sovereignty and responsibility to the citizen; where do the developing states stand and how do they face this challenge.

Developing World And The Threat To State Sovereignty

An earlier generation of critics tended to emphasize the victim status of Third World Economies and governments in relation to multinationals. For the poorer countries it was argued that small sets

²³ Jessop, B (1990) *State Theory: Putting Capitalist States In Their Place*. Oxford Polity Press

of MNEs could dominate an entire nation, as in the case of fruit companies in Central America or copper mining firms in part of Latin America. The more general argument proposed was that a New International Division of Labour (NIDL) had been created based upon the systematic exploitation of developing countries. This was reflected in the use of cheap, minimal skill transmission from MNEs to local workers, and a lack of long-term commitment to sustained investment. Governments in this scenario exercised little bargaining power. Instead, their role was to maintain authoritarian labour market policies that suited the exploitative economic regime.

The victimology of Third World domination by western MNE, backed up by market-oriented regulatory institutions such as the IMF, has come under critical attack for a number of reasons. First, the success of a number of third world countries in east and south east Asia in breaking out of dependency and asserting their autonomy has undermined any notion of dependency as a permanent condition. This in turn challenges the very concept of the third world as a homogenous group of under-developed nations unable to exercise any kind of sovereignty. Second, and following on from this, comes evidence of the complex bilateral nature of the interaction between developing states and MNEs; the principle of juridical sovereignty gives all states the capacity to regulate their domestic polity, to set rules and so forth. Krasner, observes that developing countries vary ever then, in their bargaining capacity with MNE, on basis of size, relative military capacity and wealth. India has an advantage of large home market and many other have advanced because of raw material monopoly.

MNEs exploit third world countries, because of easy availability of cheap labour, at the same time governments in third world countries scramble to attract MNEs, hence on the other front, developing countries face brunt of neglect as much of exploitation.

At the same time another argument put forwards lays stress on the need by MNEs for nation-states which is not merely to the home base and country of domicile, but also to other outside countries, the general argument is that MNE's need strong states and stable societies capable of defending property rights, securing the free flow of factors of production and legitimizing capital. Social relations, implying that the pursuit of these functions gives government a certain autonomy in relation to MNEs.

What seems clear enough is that foreign investment is of major significance in any development strategy, that MNEs generally benefit more than developing countries from the way in which investment takes place, and that the positive impact of foreign investment is often less than is claimed. At worst, MNE penetration of local markets often puts local producers out of business or inhibits the entry of domestically owned competitors into sectors of MNE domination.

The Indian Scenario

The Indian state has worked with the concept of equality which is essentially liberal in its objectives although given the legacy of structured inequalities and power differentials in society its task has been complex and it has had only limited success so far. Traditional goals of social justice and welfare still have an emotive appeal in India

and political leaders often reiterate them but their interpretation of how to redress inequalities is also being influenced by the new agendas which seem to offer a relatively 'painless' 'quick fix' solution. The new governance agenda now being adopted advocates a more market-oriented approach in wake of the liberalization of the Indian economy.

Patnaik²⁴ raises the question as to whose interests are served by the Bretton woods institutions, which played such an important role in prescribing further liberalization of the Indian economy. These interest include, according to Patnaik, certainly those of the MNCs. The economic effect of liberalization, according to Patnaik is not so much export led growth, but rather the import of crisis and stagnation, he questions again the reasons behind sustenance of reforms without much opposition. To this his answer is, because on abridgment of democracy has taken place, in atleast three ways: firstly there is a small group of people involved in policy making mostly favouring the reforms, secondly, at certain point there is no way back, if people suffer under neo-liberal economic policies, they could suffer even more from attempts to break out of these policies, i.e. in the aftermath of the speculative outflow which would accompany any effort to change neo-liberal polices and lastly, the political arena itself changes as a result of liberalization policies.

These changes are very much manifested in the present Indian political scene, where the state has to face the pulls from both within and without. At one level it is enticed towards global integration under

²⁴ Patnaik, Prabhat (2000): 'Economic Policy And Its Political Management In The Current Conjuncture' In Francis Frankel, Zoya Hasan, Rajeev Bhargaba And Balveer Arora (Eds) *Transforming India: Social And Political Dynamics Of Democracy*. New Delhi: Oxford University Press, Pp. 231-253

the phenomena of globalization and at another level it has strong responsibility towards the Indian masses. At the same time several new developments are taking place on its political scene with a formal entry of India into an era of coalition politics leaving behind the perceived umbrella like protection of congress and opening the flood gates to the deluge of globalization, the state apparatus in India is undoubtedly under strain.

Ray, points out that coalition governments consisting of political parties representing regional and sectional interests have become the rule, rather than the exception, and are likely to be so in the foreseeable future. The economic impact of the process of globalization, by widening the regional and sectional disparity is, on the one hand, making them difficult to manage. The fiscal incentives and disincentives-“conditionalities” of globalization- inequality affect the different constituents of India’s system of universal adult franchise. For eg. Withdrawal of subsidies for the public distribution system, or for fuel used by the poor, and for transport of agricultural inputs are affecting food prices, similarly withdrawal of subsidies from education affect the middle class youth. Tax incentives to boost exports and the stock market also affect existing regional and sectoral disparity, making the complexity difficult to manage through coalition governments within a democratic system with weak institutions of conflicts.

Sandy Gordon²⁵ points towards India having its own brand of democracy-one which, according to him is more personal, less institutionally based and more attuned to local cultures; politics in

²⁵ Gordon, Sandy, ‘Globalization And Economic Reforms In India’: *Australian Journal Of International Affairs*, Vol. 51, No. 1, 1997, Pp. 73-89.

India, he says is highly volatile, the instability in government, has implication in terms of globalization too, as, he claims, central governments can no longer guarantee to international investors that their policies can be implemented at the state level or even at the cultural level, should a change of government occur.

According to Patnaik, globalization in India has intensified communalism, fundamentalism and secessionism. The same line of thought is echoed by Jayti Ghosh, who points towards a disturbing trend of rising majoritarian fundamentalism and violent expressions of aggression against groups defined as 'other' she argues that this process is dialectically related to the forces of economic and cultural globalization. The greater social instability in India of Hindutva and similar forces has had a lot to do with the economic repercussion of a pattern of growth which leaves the vast majority of the population either untouched or even worse off, while generating specializing incomes and an increasingly flamboyant lifestyle of a minority.

She has termed the process of globalization as "voiceless" because it denies true democratic voice to large section of the population in an effort to create a most extraordinary cultural sameness, a sort of hybrid 'Mcworld' making the universal culture an unlashd celebration of consumerism with the media through advertisements making it more evident.

At the same time what cannot be overlooked is that the Indian state though presently facing the pulls in several direction, has stood the acidic test of time and proved true to its basic democratic ethos. The politics of nation-states is still one arena in which the collectivity of people can hope to fashion some resistance to the onslaught of

international capital and create democratic space for more equal social and economic interaction.

B.C. Smith ²⁶ analyzes various reasons which confirm the need for state and its position in face of the globalization challenge: its provide safety nets to protect vulnerable people or manage the political conflict and crime. The costs of economic adjustment also needs to be moderated by retraining policies, health care, and macro-economic policies that produce economic stability. Social policies, that invest in skills, promote job-creation, strengthen workers rights, generate tax revenues, improve the efficiency of tax administration, reduce military spending and support culture and the arts and also provide benefits of information technology.

In the Third World the state continues to be the context for sustaining a dignity restored after independence as for resisting outside pressure. Attempts to make state sovereignty a reality, reflect the need for political communities to enjoy the dignity which comes from self-government and resistance to external forces, even when such 'interference' is unavoidable.

Important role is played by state in environmental protection; it is needed to provide legal and fiscal content that encourages economic development, national governments are becoming more important in promoting and regulating international trade and investment. National institutions, governments strategies and position in the international system allow states to allow mediate and resist the effects of globalization.

²⁶ Smith. B.C. (2003) *Understanding Third World Politics- theories of Political Change and Development*- Palgrave Macmillan, New York

David Held²⁷ summarized the present scenario of state sovereignty, he points out that the sovereign power and authority of national government of states to rule within their own territorial space, is being re-defined but not necessarily eroded. In the context of transnational system of rule with other governments and agencies, states now use sovereignty less as a legal claim to supreme power than as a bargaining tool. Within this complex system of multi-layered governance, sovereignty is bartered, shared and divided among the agencies of public power at different levels. The Westphalian conception of sovereignty as an indivisible, territorially exclusive form of public power is being displaced by a new understanding of sovereignty as the shared exercise of public power and authority.

²⁷ Held, David(2000) *A Globalizing World ? Culture Economics, Politics*, Routledge, London.

CONCLUSION

There are in the whole world a few societies in which, despite the powerful centralizing and homogenizing thrusts of the modern age, the state has been made into an instrument of human freedom and social justice. While each of these societies face new threats to democratic survival, it is also true that in each of them there are distinguishing and special reasons why they have been able to withstand challenges to their existence, at the same time moderating the totalistic tendencies of the modern state.

In developing world without doubt the leading example of such statehood is that of India. More than five decades of democratic governance regular elections with universal adult franchise, has affirmed the distinctiveness of Indian state as a democracy with its focus on development, social welfare and fundamental rights.

Through the chapters in this work an attempt has been made not only to lay emphasis on this distinctiveness which is the strength of Indian state but also to trace how the Indian democratic system has been reconciling itself to the phenomena of globalization and maneuvering it to its advantage.

Globalization has an uneven disposition. It cannot be truly global as there is no uniform and unconditional flow of finance and capital from metropolitan centres. At the same time it is unclear that it is simply a process of homogenization since the process of fragmentation and hybridity are equally strong. It is not only American culture affecting the

rest of the world. It may be noted here that Asian cultural practices have become increasingly influential in many part of western world. Therefore, globalization is not to be viewed as one way traffic of 'west to the rest. It is observed that there is growth of regionalism. It may be noticed that processes of homogenization are simultaneous. Asia and the world, is being shaped by global flows, it is also part of a trend towards creating regional blocs which may be of an economic, military, political and social in nature. Hence attempting to define globalization is a tedious task. It has been recognized in the academic field as a proto-paradigm, which, though not a new phenomenon, has involvement of a novel dimensions as a result of its unprecedented scale and speed, new issues and attitudes.

The next chapter throws ample light on the Third World scenario in the post-cold war era. The IMF and World Bank emphasized on a set of structural adjustment lending conditionalities in exchange of government's commitment to economic reforms, these conditionalities were known as 'Washington Consensus' which in one way was the apostle of the creed of globalization. This consensus proved to be policy failures. The push for competition, de- regulation, privatization and open capital market undermined economic prospects for many millions. Hence globalization maneuvered by the Brettonwood twins has proved expensive for Third World Countries, especially in the present unipolar world.

Among the Third World newly emergent post-colonial societies, India by far remains the most vibrant democratic state, which has been

re-asserting its existence for more than five decades and still going strong. The Indian Economy showed a virtual paradigm shift from its unique model of 'Mixed Economy' to ushering of economic reforms in July 1991. The third chapter focused on an analysis of the extent to which India has been able to achieve global integration and what has been the nature of India's global orientation, it traces it through three distinct phases; the pre-reform era marked by import-substitution policy and licence quota raj to opening up of the economy and post reform era. What comes to light is that inspite of great achievements still much remains to be desired. The unevenness of the impact of reform is evident from increasing regional disparity in the country and low FDI flow. Hence, economic reforms still have a long way to cover.

One of the most significant features of globalization is its impact on the state. What is of interest is the extent to which the drive for a global competitiveness has reduced the economic and political role of the state and how this has affected the government's image as a protector of citizen's welfare. The last chapter brings to light the fact that political agenda of globalization, as presented by the World Bank and the IMF conceptualization of good governance in its successive report, does not fit India, this is so because of India's uniqueness as a democracy, example, its decentralization and consistent electoral performance, hence the pre-conditions laid down by them have been in existence and practice since the time of Indian independence with an orientation towards development. At the same time the threat to state sovereignty due to the wave of globalization cannot be overlooked. There are various

views regarding it which have been examined in the chapter, but the under current of the acceptance that the state authority is not only being undermined but also greatly threatened, is reflected in most of the views.

What is amply demonstrated is the difficulties and resistance from the west when "the rest", as represented by India had talked back, insisting on its own version of modernity. The Indian preference for indigenous developmental priorities, based on self reliance, had thus stood in stark contrast to pressures of the western agencies to globalize and pursue a policy of export led growth. Of particular interest here is how the relative strength of democratic institutions of governance had positively affected India's ability to resist western pressure and allurements to globalize atleast upto a particular point. But global pressures have been more difficult to resist at times when the state and democratic institutions are weakening. India has progressed towards weaker governments consisting of political parties, representing regional and sectional interests. It underscores the entrance of Indian democratic system into the new phase of coalition politics. Hence, a decline in the state's bargaining power and constant compromise making are getting evident everyday. Consequently, the process of integration into the greater global arena has already taken shape for the Indian state.

However slow, faltering or reluctant, the process of reversal has already become quite expensive for India. Infact all political parties implicitly atleast acknowledge this. And this is the ex-post-facto political consensus around the general thrust of globalization.

In the specific historical reality of the Indian experience, any reckless increase in the pace of globalization has endemic risks for democratic governance, which is dialectically linked with the national security and territorial integrity of the country.

Globalization, hence, as a process needs to be faced squarely, since the integration with the global economy is seemingly inevitable, the best approach would be to plan for it aggressively so as to maximize benefits, the challenge is to seek its advantages while avoiding the perils.

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