UNIT 27 GLOBALISATION OF INDIAN ECONOMY

Structure

27.0 OBJECTIVES

As you go through this unit, you will come to understand and appreciate the implications involved in globalisation of Indian economy. This unit is expected to help you answer the following:

- Is globalisation a reality and has India been able to adopt this;
- Examine the implications involved in the process of globalisation;
- Analyse the impact of globalisation on Indian economy;
- How do different sectors prepare to face the challenge of globalisation;
- What policy measures need to be followed for globalisation of Indian economy; and
- What conditions are required to have the best possible results?

27.1 INTRODUCTION

In recent years there is no special phenomenon that attracts more attention in mass media and in the scientific public than globalisation. For nearly a decade the nation's preoccupation has been with economic reforms. The enthusiasm and the excitement over '*deregulation*', '*liberalisation*' and '*globalisation*' remain undiminished since the time the three buzzwords entered the scene. These terms are frequently used in any general discussion.The common person seldom understands the exact import of these terms but (s) he knows that they imply radical changes in life. The literate population surmises that *liberalisation* indicates a reduction of rigors in laws and procedures to permit more efficient conduct of business while *globalisation* stands for *removal of protective barriers against free flow of trade, technology and investments among countries*. It is also recognised that the insularity and sheltered culture of industry and trade have to give place to a competitive environment, which would demand basic adjustments by the population, be they manufacturers, traders, workers or consumers.

How this change is to be managed with the least pain and with maximum benefit is the major concern. There have been innumerable seminars and workshops on the three related terms in general and globalisation in particular. However, the ideas and the basic vision behind the dominant policy choices made since 1991 have not been explained in simple terms by those professing to understand the policy choices. Policy makers and seminar speakers often assume that the objectives of globalization are understood by all. They, therefore, dwell on the ways and means to achieve globalization.

27.2 GLOBALISATION AND ECONOMY

Globalisation has some very clear features (K.L. Chugh, 1992). Globalisation puts an emphasis on consumer concern and encourages competition. *It is co-operative venture, where organisations and people complement and supplement each other in the service of the consumer.* It is for this reason, that one now sees the international trend to source raw material from one country, process it in another country and then market it worldwide. As a result, globalisation helps to synergies the roles of each country. Globalisation leads to quality assurance and it is as a guarantee of their quality that manufacturers brand their products. *It means a borderless world where there is a free exchange of money, ideas and expertise, fostering partnerships and alliances to serve the consumer best.* Globalisation relies on the quality of people. No initiatives, no innovation, no solutions are possible without outstanding people. The quality and training of people, their vision and their commitment, is the very foundation of globalisation.

Globalisation is the reversal of business from a macro to a micro point of view. What matters is the contact and collaboration between individuals and firms in various countries. Globalisation is complete decentralization of location. It will internationalise human resources and remove geographical boundaries.

The policy of globalisation emphasises that export sector should form an important ingredient of the national macro-economic aggregates. When exports form an important economic aggregate, the industrial growth to a substantial extent becomes dependent upon the export sector. When industrial production is attached to the export sector, indirectly the other sectors of the economy specially banking and services sector are also integrated with the export sector. Finally, since exports are dependent on the GDP growth of the major trading partners, the domestic economy cannot grow at a rate much different from that in the world economies.

27.3 BENEFITS OF GLOBALISATION

What are the benefits of globalisation? Some of the benefits are as follows:

i) Improved resource allocation due to the presence of a competitive environment
ii) Exposure to international economies would lead to the availability of better technology, inputs and intermediate goods
iii) Transfer of know-how and economies of scale

Thus, globalisation implies a regime of perfectly competitive markets *with no entry or exist barriers*. However, the onset of such an environment is not without fulfillment of certain preconditions on the part of the corporates – *global vision and global capability. Global vision* implies that the corporate should have the ability to analyse the dynamic competitive environment and should be able to develop superior strategies in a way, which is relevant to the new global opportunities, i.e., should have the vision of analysis and leadership.*Global capability* attributes, on the other hand, are reflected in the ability to amass and deploy productive human, technological and financial resources at the right time and at the right place.

27.4 GLOBALISATION AND INDIAN INDUSTRIES

The road to globalised markets has only fast tracks. There is no lane earmarked for leisurely traffic. This is a primary factor to be understood. When the country opens up its markets and invites new investors and new technologies from abroad, proven suppliers can come in with their quality goods, technologies and services at competitive prices. There is thus *an anxiety that globalisation would become a one-way traffic, with imports flooding the local market, and throwing the indigenous industry and workers into misery*. However, given the fact that Indian industries have absorbed modern technologies and some quality standards over the past five decades, they have the requisite strength and resilience to face the immediate challenges of globalisation. What is needed is strategic planning to fully tap the existing strengths and meet the initial pressures. In any case, *the question today is not whether globalisation is inevitable, but how to tailor the method to fit each business when it embarks on globalization.*

One must turn the spotlight on *the information imperatives for global competitiveness.* Indian industry and business need to be on top of the corpus of information on a whole range of subjects such as product preferences, technology choices, price trends, rivals' strengths and weaknesses, and investment sources. Without such mastery, no business enterprise can successfully aspire to a razor-sharp competitive edge, which alone can assure it a recognizable market presence, let alone an unshakable market dominance.

Inevitably, companies have to spruce up all aspects of operations, in terms of technology and design, material procurement, manufacturing processes, quality levels, finance techniques and dynamics of marketing for export promotion taking fair advantage of the liberalised environment provided by the government. Effective managerial information and control systems are essential for improving in house efficiencies and for quick assessment of the external market opportunities. Timely decisions and responses from delivery dates, assured quality norms, pro-customer policies and above all, a goal orientation, are needed to succeed in global pursuits.

Productivity has to improve in all areas of management and the entire work force should wake up to the new realities through meaningful counselling and HRD techniques. A new sense of urgency to scale higher targets needs to be created in each employee and executive.Reduction in prices based on cost control and waste elimination could bring in more orders and larger profits on enhanced turnovers. This is how countries like Japan emerged world market leaders.

Competition has been the driving force for progress. A thorough reshaping of attitudes and redesign of work methods is imperative to bring in a totally new culture of activity and achievement. Each manager and supervisor has to lead by example, rather than by precepts, to prove that every new target can be achieved. Recognitions and rewards for meritorious performance in all cadres should serve as an incentive for better productivity.

Policies of trade and investment liberalisation have a crucial role to play in providing an outward orientation, which will impose external audit on the domestic cost structure. Marketing strategies will have to be evolved which should take account of the global economic restructuring that is going on in the world today. Marketing strategies suited to every target country relative to its tradition and culture should be evolved and modified from time to time for achieving results. Flexibility and effective local liaison should form the core of the strategies. It is in this context the following three points are important:

i) *Making India the premier production centre of the world*. In several sectors, particularly in *agro-based industries*, India has the skills and the investments, which make it the lowest cost producer in the world. These investments can easily obtain a share of the world market and all that is required is to develop alliances with partners overseas and support it with a national policy for each sector.

ii) Indian corporations to go into world markets and to become India's "multi-nationals abroad, with markets, and later, production centres spread across the globe. Here again, India has a natural advantage in certain sectors such as the *knowledge-led services and wide range of agricultural, industrial and fashion products*.

iii) *Attracting foreign investments* to make India their home base for their world markets. India has amongst the *world's largest trained manpower, including farmer and scientists, engineers and professionals, entrepreneurs and skilled workers*. The cost of people is much lower in India than in the developed world and provides a significant competitive advantage to India.

The introduction of *full convertibility of rupee on current account* will greatly accelerate not just foreign investments in India, but also the export-import trade.

If India succeeds in attracting foreign investment, particularly in the area of infrastructure, then it would be possible for the government to re-invest into the rural sector. This will have its own beneficial impact on the total economy, as India's prosperity is entirely dependent on the rural, farm economy. This will help to usher in a *second green revolution in the country*.

To successfully participate in the world economy, *India needs to build strategic alliances – not just between trading blocks, but between corporations; and not just between foreign partners and India but partnership within Indian industry itself*.

Check Your Progress 1

1) What do you mean by globalisation?

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2) What is the implication of globalisation for an economy?

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3) Highlight the implications of globalization for Indian industry?

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27.5 POLICY CHANGES SINCE JULY 1991

Globalisation presupposes two things — *political will at the macro level which is reflected in various policies pursued by the government and corporate will at the micro level which is established by the existence of a global vision and capability*. The government has moulded its policies. In this regard, one can take a look at the following policy changes:

i) *A two stage devaluation* of the rupee by about twenty percent in July, 1991 in an attempt to align the exchange rates with the world exchange rates and provide additional incentives to the exporters to offset some of the disincentives arising out of the import barriers.

ii) Introduction of a system of *partial convertibility* of the rupee under the *liberalised exchange rate management system (LERMS)* and then allowing full convertibility of rupee on current account.

iii) *Foreign direct investment (FDI)* has been liberalised and now the foreign investors are allowed to participate upto 51 per cent, 74 per cent, and even 100 per cent of the equity of select industrial sectors.

iv) The list of products requiring import license has been pruned which shows that *physical controls are given way to fiscal controls* (all *quantitative restrictions* are removed by April 1, 2001)

v) Import duties have been reduced.

vi) Import of *capital goods* has been allowed without any specific licence if the payment for the imported capital goods is made out of foreign exchange received for the purpose of equity participation.

vii) *Decentralization* of several items has taken place and those items, which were initially under the purview of government agencies, are now being opened to private companies.

viii) *Foreign institutional investors (FIIs)* are given permission to invest in the Indian capital market. In fact, SEBI has already recognised several FIIs for this purpose and they have started making investments also.

ix) Guidelines have been issued for the floating of *Euro* issues by the Indian companies.

x) A major step towards globalisation has been to amend the Foreign Exchange Regulation Act, 1973 (FERA), which substantially dilutes its regulatory provisions to bring it in line with the new liberalised industrial, trade and exchange rate policies. The Act has removed a large number of restrictions on companies with more than 40 per cent non-resident equity and removed FERA controls on Indian firms setting up joint ventures abroad. The amendment also incorporates into law all the changes, which have so far been made by issue of notification by the RBI or the central government. These changes pertain to facilities extended to FERA companies on the appointment of technical and management advisors, opening of branches, acquisition of immovable property by FERA companies in India, borrowing of money or acceptance of deposits by them etc. Also, in an effort to rationalise the Act, about a dozen sections of FERA, 1973 were deleted as these had lost relevance over time. (As a matter of fact FERA 1973 itself is repealed and in its place a new liberalised legislation has been enacted which is known as *"Foreign Exchange Management Act (FEMA")*.

xi) Guidelines have been specified for setting up of Indian Joint Ventures Abroad (IJVA), which would enable 90 per cent of the proposals to be covered through the automatic approval route. The main objective here is to liberalize Indian equity investment in joint ventures and wholly owned subsidiaries abroad as well as to simplify the procedures for investment abroad by the Indian parties.

xii) Automatic permission is given for foreign technology agreements upto certain ceilings covering the high priority industries.

xiii) Foreign technicians can now be hired by Indian companies without prior approval of RBI if certain conditions are met.

xiv) *The foreign investment promotion board* (FIPB) has been instituted to facilitate and promote foreign investment.

These measures establish the fact that the government is indeed serious to help the industry globalize. The industry, on its part, is becoming more and more receptive to these structural reforms. The industry has responded by opting for *industrial tie-up as a threshold to building a global strategic presence*. Thus, there is a wave of multinational corporations (Macs) entering the Indian market and Indian businessmen too are fast setting up shop on the foreign shores.

To survive the threat of global competition, *Indian companies have no choice other than to restructure their business.* The way to tackle this would be to understand the *need for change* (the way?), *the paradigm shift required* (the what?), the implementation process (the how?), and prioritisation of the problems awaiting solutions (what is next?).

27.6 GLOBALISATION OF FINANCIAL MARKETS

India has been making use of the international financial markets. Exchange rate and interest rate movements now constitute the key variables. The volatility of exchange rates has turned out to be both a proximate cause and effect of capital movements. This in turn has made them autonomous variables not directly related to movements in the real sectors of the economies concerned. Another aspect of the vulnerability results from the quick transmission of impulses generated in one leading market to others. Today, *financial markets are global in scope; where the distinction between money and other financial assets is not so clear cut and indeed there is continuum of liquidity; where the line of distinction between financial intermediation by the banking system and other non-bank intermediation is also getting blurred; and as a corollary of this where financial institutions themselves are losing their specialist character*. Their wide geographical coverage is matched by wide functional activity against the background of increasingly intense competition.This has meant better opportunities both for the players in the international financial markets and those that transact business with them. Never have the world financial markets been *so integrated and offered so wide a variety of services.*

India is affected by trends in capital movements, exchange rates and interest rates. A more liberal domestic financial sector would be better able to interact with international financial markets. India has only been reacting to events abroad, i.e., *India remains 'events takers' rather than 'events makers', but even so, there is need for providing for a measure of structured rather than ad hoc response to external events.* This is also a matter of determining the rational sequencing pattern of increasing its markets' linkages with the international markets.

A cautious and step-by-step approach in terms of a well thought out framework of such linkages is called for. While Indian financial institutions and business should gradually and in a structured way get into the operations of the international financial markets, globalisation of the Indian financial sector is indispensable if it has to become efficient, vibrant and truly competitive in the years to come. *The process of globalisation involves two distinct challenges: (i) technological upgradation through computeriation, and (ii) establishing and forging links with international financial markets*. The Indian financial sector has been a late starter in mechanizing and computerising its operations. Regrettably, introduction of new technology is rather slow. What is even worse, the installed hardware does not seem to have been utilised to its full potential. This unfortunate state of affairs must end. *The Narasimham Committee has endorsed the view of the Rangarajan Committee on computerisation*. At the economic policy level, the issue of forging links with the international financial markets is closely intertwined *with interest rate deregulation and convertibility of the Indian rupee.*

27.7 PROBLEMS OF GLOBALISATION

An outward looking or globalisation policy carries a price, as it demands certain constraints on the formulation of national policies. These constraints are:

i) The international economic environment has qualitatively changed. When the industrialised countries are subjected to economic fluctuations, the dependent developing countries will have to bear these economic shocks.

ii) There is a relationship on the one hand between investment made for export-output and income generated via the multiplier, and on the other hand between income generated and imports via propensity to import. This problem stems from the fact that income multiplier effect in a developing economy is higher than in a developed economy due to a higher marginal propensity to consume. Consequently, demand generated is also relatively higher in the developing economies than in the developed economies. This rise in demand, under certain given conditions, will push up the domestic price level and if marginal propensity to import does not recede, it will further lead to higher imports to the extent that proportionate rise in imports may exceed proportionate rise in exports and thus the trade balance is shaken.

iii) The formation of a trade block in North America that has given rise to free trade between the US and Canada has created a new situation. With this, cartel like conditions will prevail on the demand side in these markets whereas *competition amongst the suppliers, intra-country and inter-country, will continue.* It is in these changed market conditions that India has to adjust itself. *Thus, not to speak of pushing up its share, even survival will prove a gigantic task for India*. In view of this, a better course for India will be not to rely too much on an export-led growth under the existing world scenario.

In this market oriented world there is no *godfather* who may come to India's rescue without asking for its pound for flesh.*Globalisation is perhaps irreversible. Success comes to those who learn to live dangerously. At best one can moderate the pace of globalisation. But globaliation is a conditional boon. One must put one's own house in order or at least mismanage it much less to get the boon working. India's options are limited*. One of them is to let the rupee fall freely. If the rupee depreciates, then the expectations of capping prices through imports would also be punctured.

The existing framework of global governance is weak, ad hoc and unpredictable, with international economic decision-making dispersed over numerous institutions, which are mostly dominated by the rich countries. Continued inhospitable international economic environment will frustrate the developing countries' determined efforts to end stagnation through *liberalisation, market-oriented reforms and outward-looking policies. Denial of access to markets, debt burden, inequities in global monetary, financial and trade systems, barriers to transfer of technology, dwindling flows of concessional resources, reluctance of foreign direct investment to flow to developing countries are making quantum jump from stagnation to sustained growth almost impossible.*

Domestically, there are several problems and issues, which act as hurdle towards global integration. These are : (i) *gross inequalities in income*, (ii) *poor infrastructure*, (iii) *lack of research facilities*, and (iv) *the problem of bureaucratic set up.*

According to Professor, P.R. Brahmananda (1993*) the economies are being asked to perform functions assigned to market systems without the requisite infrastructures* in storage houses, communication framework, trading establishments, organised stock exchanges, future markets, banking and financial institutions with branches, employment exchanges, commercial news-papers, advertisement media etc. Thus, *the transformation of the market has been sought to be achieved in a vacuum. Private property in land, capital and financial assets etc., has yet to be established universally. The information basis for a market economy is virtually absent. The state is simply divesting itself of its functions without compensating new institutional arrangements. Capitalism cannot be established without capitalist institutions and a legal framework.* Consequently, the transaction costs in the transitional processes have risen enormously, and great profits are being made by informal financial trading and information intermediaries. Consequently, the underlying basis for elastic supply schedules in various relative production lines has not come to exist.

The institutions such as IMF, World Bank and WTO are emerging as the watchdogs and monitors of developing countries on behalf of the developed. The loans are sources of additional demand for the products of the developed. The pressures on the moving down of exchange rates of the borrowing countries will be stronger. Further, there will be strong pressures to make the developing countries bring down the import duties and to free domestic markets.

Internationally, the point of worry is that major economies of the world are going through a major recessionary phase and are increasingly turning inwards in an effort to balance their domestic and international priorities. Thus, even they continue to preach the articles of globalisation and opening up to the world, they themselves are forming closed trading blocs, *NAFTA, Paciffic Basic Trade Bloc*, being a few such examples. Thus, there are both, opportunities and hurdles in the entire process. Whereas the domestic ones can be overcome by the necessary reforms, the trade policies and structural movements towards opening up may be slowed down by the protectionist polices of the industrial countries.

According to Uncial's Trade and Development Report (TDR) 1997*, the invisible hand (market) now operates globally and with fewer countervailing pressures.* It has sounded out a wake-up warning to countries that their faith in markets and economic openness could be overwhelmed by political events, since evidence is mounting that slow growth and rising inequalities are becoming more permanent features of the global economy.

The policy efforts of developing world should be accompanied by an accommodating global milieu. But, among the asymmetrie of globalisation is the fact that liberalization of the world economy has proceeded so far in a lop-sided way that tends to prejudice the growth prospects of developing countries by discriminating against areas in which they could achieve comparative advantage. Thus, *liberalisation of trade in goods has proceeded more slowly in those sectors where developing countries are more competitive. Major trading blocs continue to protect their agricultural sector.*

New forms of protection against exports of manufactures from the South are being sought as a remedy for labour market problems in the North. While many curbs have been lifted on the freedom of capital and skilled labour to move where it is best rewarded, no attention has been paid to abolishing many restrictions on the freedom of movement of unskilled labour.

Ultimately global efforts to help developing countries could still come to nothing if the slowdown in economic growth in the North is not reversed. For a return to faster growth, the policy of full employment is not only a pre-requisite for resolving the twin evils of high unemployment and increasing wage inequality in the North, but is also essential for defusing the threat of a population backlash against globalisation, which might put the gains of global economic integration at risk.

Check Your Progress 2

1) Highlight the implications of globalisations for Indian financial markets.

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2) Mention three problems associated with globalisation.

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27.8 EFFORTS REQUIRED FOR GLOBALISATION

While globalisation has arrived in the world, most organisations are still not ready for it. Yet, there is little doubt that to be viable during the next century, all organisations whether domestic or international, will need to become more global in their outlook, if not in their operations. The global organisation is a consequence to several new and sophisticated forces that have come to shape the world economy over the last decade. These are: (i) aggressive and massive financial accumulation and relatively free-flowing resource turner; (ii) well-defined and efficient communication channels; (iii) information transfer and control systems; (iv) technology development and application that seek both leading edge and low-cost product creation and production and clear recognition of the potential for mass markets, mass customisation, and (v) global trends.

A joint industry-government working group set up by the Ministry of Commerce has recommended that the country should undertake corporate sector type advertising campaign in major international markets in order to improve the international image of Indian industry and goods and services. It suggested a two-step promotional strategy, beginning with a focus on image building for the country as a whole to combat its adverse image, followed by specific campaigns aimed at generating trade and investment flows.

The expansion of international trade and the rapid growth of products and services out of India will be enormously assisted *if the image of India is improved by a special, sustained and co-ordinated effort by government and industry working together. Many developing countries like India do not have strong reputations. It is therefore imperative to build credibility among a targeted group of buyers and investors.*

In this context, twelve different promotional techniques used by other countries have been advocated by the working group. These are: (i) advertising in the general economic media, (ii) participation in trade fairs and exhibitions, (iii) advertising in sector specific media, (iv) trade missions to select countries, (v) general information seminars on trade and investment opportunities, (vi) direct mail campaigns, (vii) industry or sector-specific missions to select countries, (viii) sector-specific seminars, (ix) firm-specific research followed by sales presentations, (x) provision of trade and investment counselling services, (xi) speeding up the processing of applications, and (xii) provision of post-investment and post-trade services.

Moreover, while a host of bodies such as the Ministries of commerce, external affairs and finance, and several chambers of commerce are involved, there are no national coordinated efforts. Therefore, promotional work should be entrusted to an agency owned and funded jointly by the government and industry. However, it should function outside the purview of normal civil service rules and practices, should perhaps be a registered society, and *"should be run as a non-governmental, private sector organisation with a work culture different from government"*.

It may be emphasised that the organisation must be staffed by multi-disciplinary professionals, drawn not from the government but from the private sector.

"Essentially, a small, compact, fast moving group of people, led by a dynamic leader with task of promoting India internationally. As the international orientation of the Indian economy and Indian industry increase, it becomes essential for Indian industry to take care of details. Sustained efforts over a period, therefore, become necessary to build credibility. With this as the objective Confederation of Indian Industries (CII) has drawn up a list of *"Do's and Don't"* for Indian industry to assist companies to deal effectively in international trade.

In justifying the structural reforms that are being introduced in the Indian economy, the advocates of these reforms have brought the question of competitiveness to the centre of the discussion. Their argument runs as follows: The Indian economy needs to be integrated to the world economy. Globalisation requires that the Indian producers be competitive in the global market. It is only through these reforms that they can acquire the competitiveness and, therefore, the reforms are essential pre-requisites for successful globalisation.

Globalisation has of late become an objective in itself. This is both dangerous and ludicrous. *Globalisation should not be considered a goal in itself and that it was merely a means to the ultimate aim of improvement of the economy*. This simple objective needs reinforcement among the experts if the avoidable pitfalls of an economy in transition are to be avoided. Transition is a word that triggers both unease and heightened expectations. It is very important for us to cope with the unease if we are to satisfy the heightened expectations of nearly a billion people. The strengthening of the internal economy was a pre-requisite for a globalising economy. Given the ultimate aim of globlisation and given the pre-requisite for a globalising economy, the ultimate aim of improving the economy appears to be both the means and the end. This simplification without the use of expensive-sugar-coated words is the right approach to addressing the unease and the positive expectations.

The theoretical elegance of globalisation has its own attraction. It may help India to find some partial explanations for success and failure by systematically analysing the ability of a small set of firms to manage change. *But India needs practical and profitable applications that would be relevant to the large set of firms and individuals.* It needs consistent policies that can help to upgrade India's position in international competition in a substantial and enduring way. Towards this, *India needs to find out what it is good at so that it can better achieve the best possible*. The process of finding out what India and its firms are good at is yet to be put into motion at the national level and all the talk about globlisation is at best wishful and premature. Globalisation requires both static efficiency and dynamic efficiency, more of the latter than the former, and India is at a stage when it is unsure of economy's static efficiency. A nation that is unsure of static efficiency is least equipped to pay for the dynamic extra options that are essential to guarantee success. The power blackouts in the states are an example of unsure, unreliable static efficiencies.

Check Your Progress 3

1) Mention five new forces that shape the world economy.

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2) Mention a few promotional techniques that need be adopted by India.

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27.9 LET US SUM UP

India ought to know what it is good at before embarking on what it needs to be good at in order to reduce the unease and sustain the expectations of a prosperous future. A prosperous future is predicted on the competitive advantage of firms in all sectors of the economy. The basis of competitive advantage in many sectors and industries, each seemingly distinct, depends on a set of critical elements common to a range of sectors. The set would obviously include transportation facilities, trained labour, energy, education and health. This set is indisputably at the heart of the economy. Its static efficiency needs to be improved. This is a prerequisite for sustaining and expanding the technical possibility set. Globalization would then be a clinch.

"Behind the cost of production of every commodity, there is a story. It may be a story of innovation, technical progress and modern labour process, or it may be one of sweated labour, primitive labour process and pollution. By putting a price sticker on all commodities, the market suppresses these stories, and thus hides more than it reveals. It is like one of those dark nights in which all horses appear gray. No country today can live behind closed doors. Third world countries therefore must globalise. But while attuning the economy to the needs of the global market, it should be kept in mind that globalization does not generate the process of development, it is the latter that leads to, and in turn is reinforced by, successful globalisation. Unless the process of development which is basically a highly localised process – successfully triggered off, globalisation may lead to the classification of the structure of underdevelopment, instead of causing its dissolution" (*Kalyan K. Sanyal, 1993*).

It is interesting to note that the Nobel Laureate Professor Amartya Sen support removal of government control over industry and commerce and even endorses globalisation provided welfare is not ignored. He admits unhesitatingly that with the initiation of the right kind of policies, globalisation would secure more prosperity.

27.10 KEY WORDS

Backwash Effects: These operate where the economic growth in one region of an economy has adverse effects on the growth of other regions.

Common Market: An area, usually combining a number of countries, in which all can trade on equal terms.

Exchange Rate: The rate at which one currency may be exchanged for another.

Financial Capital: The liquid as opposed to physical assets of a company.

Public Utility: Essential good or service like power, gas, transport etc. A company or enterprise, which is the sole supplier of some of these essential goods or services and is, in consequence, subject to some form of government control.

Trade Blocs: Association of group of countries for safeguarding their interest vis-à-vis other non-member countries, like European Union (EU) and North America Free Trade Agreement (NAFTA), ASEAN, APEC etc., are some of the example of such trading blocs. Members of these trading blocs have eliminated all barriers to trade amongst member countries. The 15 members of EU have created a single internal market.

27.11 SOME USEFUL BOOKS

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27.12 ANSWERS/HINTS TO CHECK YOUR PROGRESS EXERCISES

Check Your Progress 1

1) See Section 27.2

2) See Section 27.2

3) See Section 27.4

Check Your Progress 2

1) See Section 27.6

2) See Section 27.7

Check Your Progress 3

1) See Section 27.8

2) See Section 27.8