
UNIT 29 GLOBALISATION AND LIBERALISATION

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29.0 OBJECTIVES

This unit is intended to acquaint you with a major development of our times called globalisation and how the policy of liberalisation is integrally bound with it. After going through this unit you will be able to:

1. Understand and appreciate the tendency towards globalisation:

- Distinguish globalisation from World Systems;
- Understand contemporary forms of dominance;
- Grasp the reasons for and forms of the increased significance of the market;
- Mark the changing role of the nation-state under globalisation;
- Assess the impact of globalisation; and
- Take into account and estimate the response of India to globalisation.

29.1 INTRODUCTION

Modern civilisation has brought profound changes in the productive capacities of men and women, in their social relations and institutions and the way they have thought of themselves and the world around them. However, these transformations were primarily bounded by what came to be called as the nation-state. There were some processes that went beyond the confines of the nation-state such as trade; expansion of capital; growth of knowledge; spread of ideologies; affiliation to religion and beliefs; spread of culture, arts, sports and even the rise of certain international institutions but the nation-state remained the final court of appeal. However, the last three decades have witnessed certain profound changes in this configuration resulting in new and larger networks of exchange; great movement of peoples, goods and information; transnational social and economic interaction and increasing flows of trade, investment and culture. New economic, political and cultural institutions have arisen. These changes have circumscribed the place and role of the nation-state in a profound way. Increasingly our lives today are intimately shaped by developments beyond the confines of the nation-state. Changes in technology and information have radically altered the hitherto familiar notions of space and time. The relationship between culture, economics and politics is being redefined through rapid exchange of information, ideas and knowledge. These widespread changes are attempted to be captured by the term globalisation.

29.2 GLOBALISATION: MEANING AND APPROACHES

Globalisation during last two decades has been called as the most talked about phenomenon. However, what exactly needs to be included under the term globalisation is deeply contested. It is a multi-dimensional phenomenon, involving diverse activities and interactions including the economic, political, technological, cultural and environmental.

29.2.1 Meaning

Anthony Giddens sees Globalisation as, "The intensification of world-wide social relations which link distant localities in such a way that local happenings are shaped by events occurring many miles away and vice-versa". The term has been used expansively to include an enormous range of features of contemporary life. Five of them can be considered as crucial to its understanding:

a) Stretched Social Relations

Globalisation involves cultural, economic and political networks of relations spread across the world, denser than in any previous periods. Further they are not confined to merely specific regions. They envelop the whole world,

b) Intensification of Flows

Globalisation is manifest in the rapid flow of information, capital and goods. They result in networks and interactions that transcend any effective monitoring and control by the nation-states. They beget social interactions that could have little to do with geographical and cultural contiguity. Mobile phones, satellite television and internet, which are based on these flows, do not respect the spatial frameworks that bound communication hitherto.

c) Increasing Interpenetration

Under globalisation cultures and societies that were hitherto distinct come face to face with one another and get interwoven into the ways of social life of others. Differences of language, food, dress and beliefs become constitutive of social make-up.

d) Global Infrastructure

They are formal and informal institutional arrangements in the economic, political and cultural domains that facilitate networking and flows. Their reach transcends the bounds of nation-state. They facilitate the functioning of a global market. They embody codes and regulations holding transnational interactions in place. They provide the mechanisms of global governance.

e) Reformulation of Social Relations

Under globalisation relations between social classes are brought sharply to focus on a global scale. In the earlier phases of capitalism class relations were primarily defined within the vortex of the nation-state. Globalisation brings about a dense interaction between dominant classes and regions outstripping national cleavages. It throws up new social strata and factions both at the national and global levels. It reformulates inequalities and existing unevenness in economic and power relations.

29.2.2 Characteristics

The above five-fold features inform the following characteristics of the globalising world.

- a) It is an inter-connected world: It is connected on account of modes of simultaneous communication to any part of the world. It is also a connected world on account of the problems that confront humanity as a whole. Problems such as global climatic changes, the depletion of the ozone layer, drugs, terrorism, pollution of the oceans etc. are beyond the scope of any particular nation-state.
- b) Distant actions in one corner of the globe have rapid and significant repercussions in other parts. For instance, the East Asian Crisis of 1997-1998 on the New York Stock Market or Nasdaq on Bombay Stock Market etc.
- c) There is the emergence of global social strata sharing certain common cultural features. For instance: English language, Blue Jeans, Sweat Shirts, etc. These features increasingly penetrate national cultures and may attempt to bring about levels of homogenisation of modes of living, thought and interactions.
- d) Globalisation encapsulates the entire range of social relations. It has its impact on every facet of life. However, the momentum of these relations may not move at a uniform pace. It may result in a great deal of

- e) Under globalisation power relations come to be articulated increasingly at the global level. New organisations come to be established for the purpose.
- f) Development of communication technology undermines the authority of the nation-state and poses a threat to its sovereignty.
- g) It connects localities with the world bypassing national boundaries.
- h) Sometimes individuals and smaller institutions in control of a front-line technology can challenge the power of global organisations by forming alliances. There grows up a new entrepreneurship around such knowledge-based industry.
- i) The prevailing pattern of globalisation has widened economic inequalities and has worsened the lot of the impoverished. It has threatened the existence of local cultures.
- j) Globalisation also brings new opportunities. It widens tremendously the range of choices available to people. It breaks down such geographic barriers as town and countryside and metropolis and periphery to access resources and information. One can live locally while being in tune with the global context.
- k) It is the integration of the global financial markets that often remains the hallmark of globalisation. It involves new forms of financial transactions, assisted by new modes of communication. It has led to the weakening of the national stock markets and tremendous growth in cross border transactions in equities, international bank lending, international bond markets etc.
- l) It involves a struggle to dominate global markets and centralisation of power in a few organisations. The rise of the Multinational Corporations (MNCs) and the new role that the International Monetary Fund (IMF), the World Bank and the World Trade Organisation (WTO) have come to play bear witness to it.
- m) The process of Globalisation has hitherto been accompanied by a strong dose of Americanisation manifest in such symbols as 'Coca-Cola' and 'Macdonald' and has reinforced its influence over the other regions of the world.

29.2.3 Approaches

There are two kinds of globalists, positive/optimistic and negative/pessimistic. The former point out at the benefits of globalisation. Pessimists see it as levelling down differences and promoting homogenisation. They may see it as the dominance of advanced capitalist countries especially United States of America over the rest of the world. They feel that globalisation is going to reinforce deprivation of the vast majority and exasperate conflicts. Its benefits will primarily accrue to those who are already advantaged in the prevailing relations.

- a) Traditionalists admit that there is intensification of flows and social activity at the global level but they do not see any significant shift in social relations under globalisation. It is not something unprecedented. They assert that there have been moments of great transformation in the past as well that connected the world. They see the continued relevance of the nation-state still. States are throwing up new institutions to face the new demands and requirements they encounter. It is nothing but the continuation of the trends and processes already underway.

Traditionalists resist the encroachment of global business in the name of globalisation and its supposed benefits. They also see grave danger to cultures and identities on account of it.

- b) Transformationists believe that globalisation has created new economic, political and social circumstances in which states are called upon to operate. It has led to transform state powers. This is a significant shift from the earlier situation. However, they see a major role for nation-states in the emerging context.

They think that globalisation is not a uniform and predictable tendency. Its course is not predetermined. The nation-state and other actors on the scene can play a major role in shaping its course and content. They, however, believe that the autonomy of nation-states is limited due to the presence of Multinational Corporations (MNCs) and Transnational Corporations (TNCs) and the dominance of certain nation states in this process. They call for a sustained endeavour for building democratic accountability at the various levels and seek to devise mechanisms of global governance.

29.3 GLOBALISATION AND THE WORLD SYSTEMS

29.3.1 The World Systems: Capitalist, Socialist and Mixed Economy

Till recently people spoke about distinct systems that prevailed in the world: capitalist system, socialist system and a third variant that went under several names such as mixed economy, democratic socialism etc. In the capitalist system the freedom of the market and freedom of choice were privileged; the socialist system stressed on state ownership and control of the means of production and planning in the allocation of resources and distribution of goods; in the mixed economy there was a state sector alongside the private sector. While no society mirrored exactly any of the systems fully, existing societies could be demarcated as tilted to one side or the other.

29.3.2 Transformation of the World Systems under Globalisation

In the wake of globalisation state controlled and socialist systems, with few exceptions, have paved their way to market forces. It has brought increasing interdependence and integration in the global economy as a whole. While trade is moving towards interdependency, a capital flows and investment have led to integration. But, while there is general agreement on the growing interdependency and integration in several aspects of social and economic life, its extent and direction has been deeply contested.

Globalists argue that there has been rapid forging of global bonds as expressed in international trade and investment and they have superseded and supplanted the national economy. Traditionalists, however, do not think that the category of national economy has been supplanted by globalisation. The transformationalists argue that although new forces of intense interdependence and integration inform the world we are not into a single system as yet. They feel that there is the disintegration of local and national economies and the emergence of more mixed, interdependent and highly uneven economies which cannot be encompassed within the fold of a single system

In the globalising world that is underway capitalism definitely holds its sway. There is also no doubt that the present version of globalisation is a triumph of the erstwhile capitalist system worldwide. Analysts, however, are not agreed on :

- to what extent we can characterise the global system as a new phase of capitalism,
- the specific nature of class relations under globalisation and the class blocs that ensue therefrom, and
- the relation of the market to class struggle

29.3.3 Regionalisation of Trade and Investment Flows

Recent studies indicate that while trade and overseas investment has grown the proportion of trade to gross domestic product (GDP) has remained steady since World War I, the pattern of domestic consumption of the produce, to the extent possible, has not seen major change. Besides, although there is growth in foreign direct investment (FDI) since 1980, FDI formed only 5.2 per cent of the world's capital formation. Resources to finance investment continue to be primarily domestic.

Even today, the international economy is characterised by the development of regional trading and investment blocs. The most significant configurations are USA or North American Free Trade Agreement (NAFTA), The European Union countries and Japan. They accounted for $\frac{3}{4}$ of the world's GDP in late 1990's and in 1996, 66 per cent of world trade flows although they account for 15 per cent of the World's population. A vast section of the underdeveloped world is out of this process. Further these three big economies were quite closed in terms of trade interdependence and investment integration in 1990's. When we look beyond these blocs there is little North-South trade as yet. The manufactured imports of the Organisation for Economic Cooperation and Development (OECD) countries in 1992 was not more than 2.3 per cent of the GDP of these countries.

In fact if there is a trend visible; it is the thickening network of trade participation within the core, the most developed countries. National economies continue to be primary players on the scene. Between 1991 and 1996 the USA, EU and Japan accounted for 60 per cent of the world flows of FDI.

Often the FDI flows are away from the periphery into the core of the system. Globalisation provides the mechanisms and the rationale for agents in the periphery to plough their investment in the developed world.

While the regional focus of the economy is intact, there is at the same time an attempt to forge agreements on a wider sphere of economic exchange. They lay down codes governing these exchanges and attempt to keep conflicts within control. The most important of these agreements was the one to constitute the World Trade Organisation (WTO) in 1995, which has become a major pillar of globalisation. A whole range of items which were earlier part of the national decision are brought before the WTO, such as agriculture and related activities, trade related investment measures (TRIMS), trade related intellectual property rights (TRIPS), trade in services and movement of persons, the prevention of foreign competition through duties and quantitative restrictions such as quotas, exchange controls and regulation. These agreements

do not favour subsidies. Market mechanisms are supposed to determine optimum pursuits.

In relation to the understanding of the world systems, we can note the following changes under conditions of globalisation:

- a) There is clearly more intense integration of the economy at the regional level in the developed world. The national economy still holds its ground.
- b) The developed world has marked the code, rules and regulations for the global economy as a whole. Although the ultimate repressive power still belongs to the nation-states it can hardly be wielded against the wishes of the developed world led by the US.
- c) The revolution in communication provides a mechanism for quick rewards and reprisals.
- d) There are cleavages in the developed world and there are sections in the developing world who are wholly integrated in the mainstream global trends but social relations are characterised by a great deal of fluidity and unevenness. New regions can be integrated in the global economy without being mediated through the local markets. The primary conflict of the globalising world is with the masses drawn into its relation but fragmented into distinct classes, cultures and communities.
- e) The culture industry under conditions of globalisation has become a potent tool to unify the world along with the market.

Check Your Progress Exercise 1

- Note:**
- i) Use the space given below for your answers.
 - ii) Check your answers with the model answers given at the end of the unit.

- 1) Outline the basic features of globalisation.

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- 2) What is meant by the regionalisation of the economy?

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29.4 LIBERALISATION

29.4.1 Meaning

In the context of globalisation, liberalisation primarily means removal of controls and regulations at various levels of the economy facilitating market forces to determine its course and direction. It favours a competitive market solution to economic issues and a reduced role for the state in economic management. In a wider sense the term is also used to mean creating conditions for the prevalence of civic and political rights, rule of law,

accountability of power, periodic elections, multi-party system and an impartial judiciary. These conditions are seen as holding public authority transparent and under scrutiny.

In its primary and stricter meaning liberalisation proclaims freedom of trade and investment; creation of free trade areas; elimination of government controls on allocation of resources in the domestic economy; progressive removal of restrictions on external trade and payments; expansion of foreign investment, loans and aid and rapid technological progress.

Liberalisation also advocates a balanced budget; reduction in progressive taxation, social security and welfare and a diminished role for the state in economic management. It does not favour subsidies and state protection and resource allocations through administrative means. It suggests that inefficiency, corruption and mismanagement are built into regimes with excessive state control.

29.4.2 Shift from State to Market

In 1970's an argument gained currency that economic problems confronting societies were due to the sprawling public sector, policies of full employment, high rates of taxation, generous social welfare benefits and growing state intervention. It was further argued that these policies led to excessive wage demands, introduced rigidity in the market, encouraged parasitism and blunted the incentives to save, work, invest and take risks. Political forces not favourably disposed towards welfare state and socialism, such as the Conservative Party in Britain, rallied behind this argument.

In the 1980's there was a strong shift away from the State to the market in the allocation of resources in large parts of the world. It was accompanied by the information and communication revolution which favoured the market. This shift led to widespread deregulation of the economy and measures to reduce taxes and government expenditure.

The primacy of the market upheld by liberalisation came to be supported by global capital with open arms. The transnational enterprises and multilateral agencies such as the IMF and World Bank too brought enormous pressures on States to pursue a policy of liberalisation. The collapse of socialist regimes in Eastern Europe in 1989 and the dissolution of the Soviet Union in 1991 were hailed as the triumph of the market and gave further impetus to market forces.

29.4.3 Facets of Liberalisation

Liberalisation is a global phenomenon, closely entwined with the process of globalisation. In fact, in its existing version, liberalisation is the enabling condition for the intensive penetration of globalisation into any society. But the contexts in which liberalisation has been carried out and the patterns it has assumed have varied across regions and states.

a) In Europe liberalisation has led to curtailment of public expenditure; cuts in social security and welfare programmes; reduction in progressive taxation; abandonment of full employment policies, curbs on trade unions, flexible labour markets and privatisation of state enterprises. However liberalisation did not affect highly protected agricultural production, the immigration

policy and certain categories of international trade, particularly involving advanced technology.

- b) In the developing countries, hitherto, the state regulated imports and exports, foreign investment, technology, labour markets and collective bargaining. The state owned and managed a wide range of industrial, agricultural, marketing and financial enterprises. By mid 1970's most of these countries were deeply in debt. In them, liberalisation involves the reversal of the previous policies of state directed modernisation and industrialisation. The early phase of liberalisation encompassed stabilisation of the economy through control of public expenditure and increase in tax returns; industrial policy reforms; price liberalisation; control of state expenditure; currency devaluation; reduction and removal of subsidies and capital and financial market reforms. At a later stage these countries have resorted to privatisation of state enterprises, currency convertibility and integration of the economy in the global economy.

29.5 GLOBALISATION, NATION-STATE AND SOVEREIGNTY

29.5.1 Shifting Conception of Nation-state and Sovereignty

The modern world was primarily organised around nation-states as its primary units. Nation-states claimed supreme jurisdiction or sovereignty over a demarcated territorial area. Sovereignty was associated with a political community associated with fixed borders and territories. Under globalisation there are profound changes in all these conceptions. There are other players in the international arena; the sovereign power of the nation-state has come to be deeply contested; the conception of the political community remains highly fluid and the notions of territories and borders have radically altered in the context of the explosion of communication and states have little capacity to police them as they did in the past. Not everyone, however, is agreed on or prepared to accept the changing role of the State. Globalists think that nation-state has become an anachronism today and there are other institutions, which have effectively taken over or poised to take over the role that it had played hitherto. Traditionalists assert the continued relevance of the nation-state and see the major changes that are underway, as either been authorised or agreed upon by the state or as issues over which nation-states would be competent to exercise its authority, if they so desire. The transformalists agree that nation-state with sovereignty as its attribute is under a cloud today but they argue in response that the nation-state itself is undergoing a profound transformation.

Disagreements on the changed role of the nation state apart, there is no disagreement that they function today in highly altered conditions. Nation-states are increasingly perceived as resources to be employed in negotiations with transnational and international agencies and to keep sub-state actors in control. In such an understanding sovereignty becomes a bargaining chip in multilateral and transnational negotiations. This reconceptualisation of the role of the state allows room for its continued salience in spite of the profound shift of power to systems of regional and global governance.

There are a host of issues today where the ability of the state to govern

be easily tied to the jurisdiction of individual nation-states. Such problems as environmental pollution, depletion of the ozone layer are simply beyond the control of individual states. No state today can monitor for long and effectively cross border communication. Further globalisation has reinforced such occupations as drug trade enormously. In 1990's the estimated annual illicit drug turnover was over 400 billion US dollars equal to the gross national product of India in 1998.

29.6 IMPACT OF GLOBALISATION

We can assess the impact of globalisation under three broad categories: Economic, Political and Cultural. Such assessments are deeply influenced by the approach one adopts towards globalisation. It allows him to highlight some features and ignore the rest. Some of the most salient features of the impact are highlighted here below:

29.6.1 Economic

- a) Those who are favourably disposed to globalisation stress the following:
- i) It has been beneficial to consumers. It has increased the scale and allocative efficiency of markets for goods and capital in the wake of globalisation.
 - ii) It is supposed to have released huge unutilised resources and led to a great economic recovery worldwide.
 - iii) It has resulted in the rolling back of the state; undermined parasitism and bureaucracy and has led to a spurt in entrepreneurship and knowledge based industry.
 - iv) It has introduced a great deal of flexibility relative to the kind of rigidity that prevailed under the welfare regime and state controlled order. There is, under its aegis, the rise of a flexible mode of production, work processes, labour markets, production, education, patterns of consumption, savings etc.
 - v) It has set into motion a highly intensified process of mergers and acquisitions of enterprises, promising a global economic order of both scale and quality.
 - vi) Globalisation has tightened the rules of the game while at the same time introducing flexibility. There prevailed a great deal of anarchy when national economies dictated the terms. Within the nation-states liberalisation has enhanced fiscal discipline.
 - vii) Globalisation has greatly facilitated the movement of capital and lessened the dependence of developing countries on bilateral and multilateral agencies such as the IMF and world bank. They can make their option today for FDIs or have an access to global capital markets.
 - viii) For several countries globalisation has been an important mechanism to upgrade their technology and get an access to the global markets.
 - ix) Globalisation has led to the appreciation of several technological innovations which closed societies may not have encouraged. In their turn these technologies have made global flows more intense and rapid.
 - x) Globalisation has linked communities and cultures and enhanced the

b) There are others who cite equally valid reasons why globalisation is not a desirable state of affairs. :

- i) Globalisation has greatly increased existing inequalities. Thirty years ago the gap between the richest fifth of the world's people and the poorest fifth stood at 30 to 1. By 1990 it had widened to 60 to 1 and in 2000 it stands at 74 to 1. In terms of consumption, the richest fifth of the world accounts for 86% of the global produce and the bottom fifth just 1% today. Further this unevenness operates at various levels reinforcing the disadvantage of the lowliest.
- ii) There appears to be a great deal of evidence to suggest the generalisation that the processes and policies of liberalisation and globalisation have contributed to a significant redistribution of income and wealth from the poor to the rich both nationally and internationally. Between 1975 and 1985 an estimated US \$ 165-200 billion were placed by individual investors from the Third World in the international financial markets.
There is growing disparity within the developed nations, between the developed nations and the developing nations, the developing nations themselves and among the poor across the world.
- iii) There is a growing prevalence of casual, part-time and informal sectors of employment. In the wake of globalisation there is a substantial increase world-wide in unemployment and feminisation of the labour force. There are large scale migrations of people within and across nation-states. But there is a growing tendency among the unemployed to target the migrants as responsible for their flight.
- iv) There has been a cut in welfare programmes due to the decline in public expenditure especially on social services and welfare, reduction in subsidies of goods of mass consumption and decline in real wages.
- v) There is an increase in the power of foreign investors and creditors, domestic business groups with links to foreign capital and technology. There is a shift of income in favour of capital engaged in international relations.
- vi) While a great deal of attention is paid to formulate rules for the expansion of global markets and capital flows little attention is paid to objectives like labour standards, poverty reduction and human rights.
- vii) The WTO defends its intervention in the name of breaking down tariff barriers, free flow of goods and capital and safeguarding entitlement. But it is perceived by many as market fundamentalism, narrowing down choices before the vast multitude of people rather than expanding them.
- viii) Capital flows and trade have remained highly confined to certain core developed areas of the world. The rest of the world is subjected to a discipline to safeguard the interests of these core economies.
- ix) The developed world has not shown much keenness in softening quantitative restriction, particularly against agricultural imports from developing countries in spite of WTO stipulations in this regard. On the other, large business houses have been quick to assert their claims and rights over the developing world.

- x) One of the biggest gainers from globalisation are criminals. At present, Six major international crime syndicates are believed to gross US \$ 1.5 trillion annually from the proceeds of crime.
- xi) There have been widespread protests against the creeping global order by those who are at the losing end of the globalising drive. Strong protests were voiced by thousands of protestors at the venue of the IMF-World Bank Spring meeting in April 2000.

29.6.2 Political

- a) It is argued that the great expansion of liberal democracy world-wide would not have been possible without the promises of globalisation.
- b) Globalisation has strengthened accountability and transparency of power and led to good governance.
- c) It has greatly circumscribed the power of the nation-state. Opponents of the ruling elites and the disadvantaged groups have an access today to a wider world. In fact several dissident voices and advocacy groups have effectively made use of globalisation to advance their concerns.
- d) There are new institutions of governance today at various levels. They fill an important vacuum by reorganising power at different levels and directing it towards specified ends.
- e) Globalisation has affected class relations enormously. There is a shift of power to capital and to the developed world and transfer of decision-making to an alliance of international financial organisations and corporate capital. There is a decline in the power of the organised working class.
- f) Globalisation has led to new linkages through patterns of migration and created a new elite with a similar life-style in every big city of the world. At the same time it has created a pool of migrant and local labour at the bottom of the labour market.
- g) Globalisation has radically undermined the spatial and territorial anchoring of power. In its wake there is the explosion of ethnic and community identities and the avowal of fundamentalism.
- h) It has created global electronic communities of sorts. They allow a diversity of alternative or radical voices to be accessed and heard as they facilitate the grouping of dominant interests.
- i) Globalisation has reinforced inequalities within and between nations in terms of access to information and knowledge. They have spawned new social categories of 'information rich' and information poor'.
- j) Neo-liberal ideology has emerged as the reigning ideology under globalisation with its stress on market freedom, private property and accumulation. It disparages politics overtly while upholding individual enterprise. At the same time globalisation has led to the construction of a hierarchised world presided over by the US and global capital.
- k) There has emerged an interesting coalition of the traditional 'left', opposed to global corporate capital and the 'right' defending national culture.
- l) Globalisation has led to the rise of new social movements that do not fall within the vortex of traditional class movements, such as of women, peasants, ethnic communities, displaced people etc.

29.6.3 Cultural

- a) Globalisation has facilitated a phenomenal growth in the global circulation of cultural goods. They include printed matter, music, visual arts, cinema and photography, radio and television. Elements of ethnic cultures are woven through them. However the ownership of these goods is concentrated in a set of media corporations. Fewer voices can be heard despite the proliferation of the media. Nation-states have little control over them as they are dominated by transnational corporations such as Time Warner, Disney, Viacom, Tele-communications Inc., New Corporation, Sony, Seagram, General electronic, Dutch Philips etc.
- b) Under globalisation there has been a great expansion of western and particularly American culture. There has been a great imbalance between cultural flows. Accusations of cultural imposition and domination have been widely heard. Cultures have become vulnerable. eg. vernacular languages in India.. However the extent of such domination and the ability of the local cultures to contest it has been a debated issue.
- c) The English language has emerged to a predominant position of being the language of communication within and between global organisations and institutions. It has become the transmission belt for western goods and services.
- d) It is interesting to note that in spite of globalisation certain institutions such as the press, television, national broadcasting are still anchored in national and the cultural ambiances.
- e) Globalisation involves extensive migrations of people both within and across states. The communication networks make other cultures shape one's way of life very intimately. They strengthen the fabric of cultural pluralism which increasingly confronts tendencies for cultural domination.

Check Your Progress Exercise 2

- Note:**
- i) Use the space given below for your answers.
 - ii) Check your answers with the model answers given at the end of the unit.

1) Highlight any three supposed economic benefits of globalisation.

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2) Enumerate the political impact of globalisation.

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29.7 RESPONSE OF THE INDIAN STATE

29.7.1 Measures towards Globalisation

The Indian government took recourse to certain piecemeal measures of liberalisation from 1980 onwards and warmly responded to the technological basis of globalisation. In the beginning its response to the larger measures of liberalisation continued to be lukewarm and hesitant. It was in the wake of the external repayment liability crisis of 1991 that government took a qualitative turn towards liberalisation. It involved the following major changes in policy:

- a) *Trade policy reform:* This reform sought to dismantle the earlier import licensing system. It proposed heavy scaling down or removal of tariff and reforms on quantitative restriction on imports. Except on consumer goods non-tariff barriers were phased out.
- b) *Industrial Policy Reform:* It sought abolition of industrial licensing except for a few specified industries; items reserved for public sector came to be highly restricted and it extended favourable treatment to FDI. Restrictions on investment by large industrial houses was abolished and a phased programme of disinvestment of public ownership in public sector undertakings was initiated. The Non-resident Indians (NRIs) were extended additional encouragement to invest and outward investment by Indian enterprises was liberalised.

Exchange rate reform: The rupee was devalued in 1991. Partial convertibility of the rupee was done in 1992-93 and full convertibility on current account in 1994.

- c) Capital market reform was undertaken by setting up the Securities and Exchange Board of India (SEBI).
- d) *Financial Reforms:* Private sector banks including foreign joint venture banks came to be permitted to undertake and expand their operations. A policy regime for private non-banking finance companies came to be established.

There is no policy agreement on the direction in which reforms, termed as second generation reforms, have to proceed further. In its absence, the government has attempted to build in competition in sectors where hitherto the public sector enjoyed a monopoly; thrown open the insurance sector for market competition; attempted to lay down a set of directives for disinvestment and removed tariffs on a large number of items in accordance with its agreement with the WTO.

29.8 DEBATE ON LIBERALISATION AND GLOBALISATION IN INDIA

Unlike in most of the other countries which set on reforms much earlier Indian liberalisation has been around for less than a decade. It makes assessment of trends and tendencies less accurate. The debate on liberalisation in India has squared around issues that have been central to the nationalist agenda in India. It is not entwined in the kind of ideological debates that marked the liberalising policies in the West, particularly Great Britain. Liberalisation in India has primarily been challenged hitherto from the

nationalist and Marxist perspectives and not from alternative liberal-democratic perspectives as in the West.

Given the fact that the political centre, from the right to the left, has not opposed liberalisation it enjoys widespread political consensus in India at present. Except the communist parties and the Rashtriya Swayam Sevak Sangh (R.S.S.) and some of its affiliates, all the other major political parties in India have extended their support to the liberalising measures. Anyway, they have not been actively opposed to most of these measures. This consensus, however, is highly precarious. The debate on the following issues shows that this consensus cannot be taken for granted for long.

29.8.1 Growth of the Economy

Although growth of the economy, both quantitative and qualitative, alone cannot be the rationale for liberalisation, in a developing society like India it cannot but be of central importance. Besides, although growth by itself may not meet the other desirable objectives growth is absolutely central to pursue them. Further we cannot gainsay that in the absence of liberalisation, the trends in the economy prior to its adoption would have persisted:

- i) India's compound rate of growth in the second half of 1980's was 5.8 per annum. The average rate for 1992-98 comes to 6.5 per cent per annum. Industrial growth for the period has been 8.1 per cent and it is slightly higher than 7.94 per cent that prevailed in the second half of 1980's. The growth of the industry, however, has been very unsteady. The rate of industrial growth reached a high of 12.8 per cent in 1995-1996 but during 1996-1999 it has been low and unsteady.
- ii) The fiscal deficit in the reform period has remained 5.7 per cent as compared to 8.8 per cent of GDP in the second half of 1980's.
- iii) Inflation has been on the decline during the reform period. However, the growth of consumer index relative to the wholesale shows that food prices and other goods of mass consumption are increasing at a faster pace affecting the weaker sections.
- iv) India has generally lagged behind in R&D effort. However, ever since India embraced the path of liberalisation and globalisation its spending in R&D has fallen. India spent 0.96 per cent of its GDP on R&D in 1988 which came down to 0.8% in 1999. The corresponding amount is 2-3% of the GDP for developed countries.
- v) There has been an unprecedented rise in mergers and acquisitions in the Indian corporate sector after liberalisation.
- vi) After liberalisation there is more flexibility for firms to make their investment decisions and in choosing plant capacities. Unprecedented restructuring of the Indian industry to meet the challenges of the global market has taken place during the last one decade. Dilution of the MRTP act has removed many restrictions on corporate investments and growth.

29.8.2 External Control

The growth of the economy has definitely been favourable so far. At the same time Indian economy has clearly tended towards monopolies and towards integration with the global economy. In this context following trends are visible:

- i) Proportion of trade to GNP has gone up steadily from 14.1 per cent in 1990-91 to 18.2 per cent in 1998-1999. India's economy has become increasingly interdependent on the global economy.
- ii) The remittances of Indians abroad has been to the tune of 2.5 per cent of GDP during the liberalising decade compared to just 1 per cent in the late 1980's. In fact just prior to liberalisation these remittances were declining. Indians are one of the major contenders in the global labour flows today.
- iii) The FDI flow to India in 1991 was \$200 million while US\$ 14.6 billion worth of FDI was approved in 1997 although the actual inflow was just \$3.2 billion. Even this amount was a major advance compared to the situation prior to liberalisation. However, out of the estimated \$684 billion FDI flow worldwide in 1994, India's share was a pittance. Besides most of the FDI flow in India so far has been directed towards the non-manufacturing sector and for acquisition of already existing units.
- iv) Liberalisation has facilitated Indian companies raising resources in western stock exchanges. It was 2.5 per cent of the GDP during the period 1996-97 to 1998-1999.
- v) MNCs have taken advantage of the new rules to increase their stake in their existing affiliates in India. However, the thrust is still to produce for the Indian Market. Little export-oriented FDI has hitherto come to India.
- vi) External debt has become much more manageable after embracing the liberalising measures. A healthy foreign exchange reserve has been built up of about US\$35 billions in 2000.
- vii) India has liberalised its trade with South Asia at a faster pace. All quantitative restrictions have been removed on imports of 2300 items from SAARC countries. However, given the volume of trade flows of South Asian countries, this regional liberalisation will not make much of a difference in the near future.
- viii) Changes in Foreign Exchange Regulation Act have removed shareholding and business restrictions. Restrictions on income repatriation have been removed. Similarly policies related to foreign technology purchases and licensing have been liberalised.

Following liberalisation Indian trade has registered a substantial increase and its foreign exchange position has definitely improved. The manufacturing base of India, however, has not seen any substantial expansion. Indian economy today has integrated with the global economy in terms of transnational capital. The remittances of Indians abroad provides certain leeway but its certainty depends to a great extent on the continued pursuit of the liberalising measures.

29.8.3 Impact on Unemployment and Poverty

Scholars in India are deeply divided into two rival camps on this issue. One group argues that unemployment and poverty have worsened following liberalisation and the other group suggesting that it is not so. The latter argues that either liberalisation has turned the slide or established the framework and conditions for reduction of unemployment and poverty. Here below are

- i) The incidence of poverty declined for all categories of workers over the first decade of liberalisation. However, the rate of decline in poverty ratios was lowest for casual workers and it was highest for regular workers. As per the NSS data, 1997, poverty in India was around 37 (rural 38 and urban 34) per cent. However, the 1980's recorded a faster decline in rural poverty and the decline slowed down considerably after the reforms. The share of self-employed workers came down from 61.4 per cent in 1972-73 to 54.8 per cent in 1993-94. There was increase in the proportion of casual labourers from 23.2 per cent to 32 per cent. There is a decline in the rural non-farm employment. Casualisation of labour got accentuated with liberalisation. Quality of employment has deteriorated on that account. Real wages for casual labourers increased in 1990's but the growth has been very slow.
- ii) Although rural poverty decreased in most of the states (except Assam, Bihar, Haryana & Punjab and U.P.) in 1993-94 as compared to 1987-88, this decline was lower than during the period 1983 to 1987-88 and 1977-78 to 1983. Urban poverty showed a higher rate of decline in nine out of 17 states during 1987-88 to 1993-1994 as compared to the earlier periods.
- iii) In India child labour is on the decline. It declined from 23 percent in 1980 to 16 per cent in 1997
- iv) Educated unemployment was declining over time and there has been no sign of its increase after liberalisation. However, in the rural areas unemployment among graduates, both boys and girls, has increased during the decade of liberalisation.

Although, liberalisation has not accentuated unemployment and poverty in India as much as in several other countries, the trend is clearly in that direction. Further liberalisation is exasperating the urban-rural cleavage in India.

29.8.4 Inequality between Rich and Poor States

Inequality between rich and poor states has increased during the years of liberalisation. However, it is difficult to bracket any one of the states has rich or poor with respect to all the indicators. However, certain states such as Gujarat, Maharashtra, Karnataka, Andhra Pradesh, and Tamilnadu have succeeded in orienting themselves favourably towards the liberalising and globalising measures much more than other states. Some states such as Bihar, Uttar Pradesh and Orissa have consistently remained lacking.

- i) In Andhra Pradesh, Gujarat, Karnataka, Maharashtra, West Bengal and Punjab, poverty started to decline under liberalisation to an appreciable extent while there is no such decline in Bihar, Madhya Pradesh, Orissa, Rajasthan and Uttar Pradesh.
- ii) The inter-state inequalities in per capita income increased significantly in 1990's while there was no evidence of convergence and divergence during the period 1965-85.
- iii) Rich states showed much higher growth while poor states recorded lower growth during 1985-96.



29.8.5 Basic Industries and Infrastructure

- i) There has been a sharp decline in government capital investment from 5.5 per cent to 3.6 per cent of the GDP from 1990-91 to 1998-99. It has led to the relative neglect of the infrastructural sectors.
- ii) The government has not succeeded in ploughing FDIs towards the basic industries and infrastructural sector to any significant extent.
- iii) The prioritisation of disinvestment during the second generation reforms is unlikely to expand the manufacturing base either.
- iv) The private sector in India has not elicited much interest in making investment in the basic industries and infrastructure.

India may not be able to sustain, let alone improve, the kind of advantage that it has enjoyed in basic industries for long.

29.8.6 Investment in Social Sectors

There is declining expenditure in social sectors such as education, health and poverty alleviation in the liberalising decade in India.

- i) The expenditure of central and state governments on education on the percentage of GDP is found to have declined from 3.6 per cent in 1992 to 3.4 per cent in 1996-1997, showing a declining trend during this period. The worst affected has been the sector of higher education. Even the priority sector of primary education does not seem to have received any significantly larger allocation during the reform period.
- ii) In the states too, the overall developmental expenditure has declined.
- iii) The allocation to health sector has declined from 1.7 per cent in VII plan to 1 per cent during 1997-98
- iv) While the central government has taken on a larger share of the social sector over the years, central assistance to states in these areas has declined. For instance, the share of education in centrally sponsored schemes was 12.1 per cent in 1991. It declined to 8 per cent in 1997-98

Check Your Progress Exercise 3

- Note:**
- i) Use the space given below for your answers.
 - ii) Check your answers with the model answers given at the end of the unit.

- 1) Enumerate the significant measures adopted by India towards liberalization.

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- 2) Suggest the impact of globalisation and liberalisation on the labouring masses in India.

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29.9 LET US SUM UP

Globalisation has brought the world together as never before. The communication revolution has facilitated this process greatly. However, it has been perceived, by the globalists, traditionalists and transformationalists very differently. The current version of Globalisation although heralds the triumph of the capitalist system, it is a significant phase in its development as well. For all the connectivity and interdependence that it has brought about, trade and capital flows in the world are still concentrated among three regions of the world, made of the US, Japan and European Union Countries. Globalisation has further buttressed the hold of the developed world over the rest. Through liberalisation states have hooked their societies on to the globalised world. While the nation-state has been attempting to cope with this development, in its own way, there are new institutions, below, along and above the nation-state, that have come to the fore.

Overall globalisation has had a profound impact on the economic, political and cultural domains. Although India was a late-comer to embrace liberalisation it is well-integrated today in the globalised world. While India has registered appreciable economic and trade growths following the adoption of the policy of liberalisation, the existing trends suggest that the lot of the disadvantaged and the labouring masses has worsened during this period.

29.10 SOME USEFUL BOOKS

Ahluwalia, Isher Judge and Little IMD, eds., *India's Economic Reforms and Development, Essays for Manmohan Singh*, Delhi, Oxford, 1998.

Giddens Anthony, *The Consequences of Modernity*, Cambridge, Polity, 1990.

Held, David, ed., *A Globalising World? Culture, Economics, Politics*, London, Open University, 2000.

Hirst, P.Q., and Thompson, C.E., *Globalisation in Question: The International Economy and the Possibilities of Governance*, Cambridge, Polity, 2nd Edition, 1997.

Sachs, Jeffrey D., Varshney Ashutosh and Bajpai Nirupam, (eds.), *India in the Era of Economic Reforms*, Delhi, Oxford, 2000.

29.11 ANSWERS TO CHECK YOUR PROGRESS EXERCISES

Check Your Progress Exercise 1

- 1) Intensification of world-wide social relations, rapid flow of information and capital, growth of global infrastructure, and reformulation of existing inequalities in the world.
- 2) Development of regional trading and investment blocks.

Check Your Progress Exercise 2

- 1) Increased scale and allocative efficiency of market for goods, undermined the parasitism of bureaucracy and enhanced the choices before the consumers.

- 2) Expansion of liberal democracy, good governance and the rise of new social movements.



Check Your Progress Exercise 3

- 1) Restructuring of Indian economy, liberalisation of trade, decline in the expenditure in the social sector.
- 2) It has worsened their conditions.