

DYANAMICS OF GLOBALIZATION AND DEVELOPING ECONOMIES **ISSUES AND CHALLENGES**

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(I) **Introduction:**

(a) Globalization: The term globalization refers to a historical process of integration of economies throughout the world enabled through movement of capital, labour and technology (knowledge) across international borders. Globalization is a wider term and encompasses social, cultural, religious as well as economic aspect. However, it is only ‘economic globalization’ that is widely referred to unless stated otherwise. Also, it is called a historical process as it has evolved over centuries as a direct result of technological progress and human ingenuity. In fact, the earliest though there’s no agreed starting point, mention of the whole world as ‘one’ came from an Indian saint who coined the phrase ‘Vasudheva Kutumbhkam’ thousand years ago. Moreover, the earliest civilizations including the Roman, Egyptian and Chinese and the Mohanjodaro and Harappa resembled the modern day – free trade economists. In fact, they owed most of their prosperity and flourishing trade to free trade

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(b) Welfare Economy:

Kyeness exposed the basic weakness of capitalism and called for an end of *laissez-faire*. He argued in favour of strong public intervention in the form of public investment, especially during periods of economic crisis so that macro-economic equilibrium could be maintained and the economy could operate in conditions of economic stability with unemployment being reduced to very low levels of 3 to 4 per cent, approximating full employment. The emergence of socialistic states had a profound impact on the capitalist economies as well as the mixed economies. C. H. Hanumantha Rao is, therefore, right when he asserts: “Capitalism has thus done a lot of introspection and has learnt a great deal from the socialist experiment” This brought forth greater economic and social stability in the capitalist economies. Pulin B Nayak rightly concludes the controversy of the State and the Market: “The real issue is not whether to have the market or the state. This is an empty dichotomy and no serious school of political economy would today credibly argue for only one or the other. The question, however, is one of striking the right balance.”

(c) Neo-Liberal Economy:

The neo-liberal ideology had influenced the decision-making process in the developed world and India could not remain out of orbit. The state regulation was replaced by deregulation, the activity of the public sector was opened up for the private sector, collaboration with foreign capital and multinationals was welcome. Thus the Indian economy underwent transformation from ‘welfare’ to ‘neo-liberal’ economy during the decade of 1990’s. In spite of many positive outcomes, the negative impact was enormous. This rather is an effort to analyse the welfare impact of LPG. The role of government in Indian economy during the period 1951-91 was severely criticized by number of economists like J.N. Bhagwati, Padma Desai, T.N. Srinivasan and I.J. Ahluwalia. According to them the maximum state intervention by the government in India during 1951-91 has resulted in various adverse effects on the developing economies.

- (II) **Key Concepts:** Globalization, Liberalisation, Privatisation, Welfare Economies
Developing Economies are used interchangeably.
- (III) **Objectives:** The modest objectives of the present work are as follows:
- To articulate a conceptually clear and concise thesis on the paper theme.
To analyse critically the impact of LPG on Indian economy in particular and on the less developed countries in general.

- (III) **Methodology:** The entire study is based on the publications of various books, journals, periodicals, magazines and research articles pooled from the library collections which are clearly mentioned in the bibliography attached.

Historical Background:

International Economics developed with several new ideas and policy-orientation. Not only the theories of International Trade (IT), but the monetary analysis of payments of trade, that is, the Balance of Payments (BOP), the convertibility of one currency into other currencies of the world, the rate of such conversion, meeting deficits in the BOP, and so on, must be considered as the most important addition to knowledge. Fixed and Flexible Exchange rates, international liquidity, IMF and the WB, Direct Foreign Investments (DFI). etc., also came to be added. In the analysis of BOP, deficits and surplus were considered the most important. The foreign loans helps in overcoming the trading deficit and BOP is made to balance. It is the magic of standard double entry Book Keeping system in which for every receipt there is a corresponding equal value payments, that brings about the BOP balance. The economic reality is otherwise. In this case, the nation is struggling to make payments for imports as its imports are greater than exports forcing the Nation end on external source for financing importation. Almost till 1950, the deficit countries depended on bilateral basis on other countries for credit which was given, in most cases, through collaboration agreements, liberal credits, and so on. Originally the purpose of negotiations between deficit nations and developed surplus nations was lofty because the purpose was to aid the deficit countries to overcome importation problems by financing at low interest and to enable that country to develop and reduce in equality between developed and developing nations. The purpose was also technology transfers through developmental imports.

THE IMPORTANT AND CORRECT CONCLUSION in the period between 1936 and 1960 was that BOP deficits should be allowed to be overcome through liberal credit policy, collaboration agreements for transfer of technology, patent acts and laws which suited the deficit countries without pressure from the developed surplus ones. Bilateral agreements between nations also helped in establishing cordial relations, and there were democratic negotiations between nations. These were lofty international objectives.

Thus, the two propositions that emerged during the 1950s were

- I) All Public debts were not burdensome. International / External PD however was burdensome and could put the nation into debt trap.



II) Deficits in BOP to the overcome by liberal credit adjustments, low interest accommodations, technology transfers, collaboration agreements, establishing equality in development levels and stages.

However, with the passage of time, with USA taking over virtually the IMF and WB as institutions of capitalist expansion, the two propositions have been given up and instead of lofty objectives, most selfish, nationalist, capitalist objectives have been adopted. In order to bring about such a change for worse, bilateralism in negotiations between nations has been given up. All bilateral debts were settled in the name of institutionalization of debts with the IMF and WB taking over all debts in their books of accounts as LENDER and releasing the creditor countries by payment through the IMF / WB. Institutionalization was suggested as the best because all deficit countries will have debts with IMF and the surplus countries will have credit. It was also suggested that this will lead to new form of INTERNATIONAL LIQUIDITY through IMF / WB playing its role and deficit countries could apply to the IMF / WB and take loans through negotiations.

US HEGEMONY THROUGH THE IMF / WB THROUGH CONDITIONALITUES :

Eventhough the two propositions set out earlier have proved to be true even today, the US and the IMF / WB and their capitalist allies in Europe have clearly worked to set a naught both the propositions regarding burden of Pd and deficits in the BOP. The nations can overcome payment problems in international trade by borrowing from the IMF / WB, and thereby incurring huge external international public debt, forgetting the burden of such debts and the fact they will sooner or later, lead such nations to international bankruptcy.

Since however, the burden was identified by the government did not use the loan. For from Improving the BOP deficit and payment position, it enslaved developing economy forcing even an official devaluation of the domestic currency. In fact, taking more loans to pay less of loans, has become the feature of LDC's or developing economies foreign debt

No doubt that NEP has helped in increasing the rate of growth of developing economy and induced some sectors to grow which had remained stagnant. It has also allowed foreign investments to take place much more freely than ever before. It has filled up the technological gaps in certain sectors. It has promoted exports and injected new dynamism to the private sectors in developing economies.

In spite of these, however, the facts and figures show that the entire exercise has led to an economic and social havoc in the country and things that are happening without any one being able to give a direction.

In the name of economic reforms, the government has taken steps that have led to the closure of numerous small scale units. Many more are on their last legs. Agreed, self-reliance which has been our policy for decades – does not fit in the world of globalization. But there is something called self-interest which is non-negotiable. The policies are verging on extravagance. Yet the less developed countries remain cheer leader among the developed nations, because they help rich to sell themselves to the Third World. What this really means is that we will be pawning our country to foreign companies at a more feverish pace than before. Indeed, leading foreign investors are having a field day. They are acquiring local ventures and crowding out local competition through any pressure they can exert. Once they come to establish their supremacy, if we are to go by past experience, they will raise the price of their products to recover rapidly what they “lost” earlier. In any case, most of their investments are in food products, cold drinks, shoes, clothes, television and cars. This is where the purchasing power has come to count.

The very few persons can afford to buy what many Europeans and Americans find beyond their means. Some among them do not bother to even read the price tag and lap up anything that had once appeared. This kind opening up would create conditions where millions of persons are bound to be driven to the wall, but what people do not realise is that it is their own government which has been devising these policies. Is there no way that the government can protect vulnerable units and people? Too many distress calls are coming from the field, but the government is not responding to them.

It could have protected some sectors by not throwing everything open. It could have fixed its priorities so that foreign capital flows to specific fields which need it, like that of infrastructure. The Governments in developing and LDCs brought in economic reforms, without any open discussion. Is there any harm in taking the nation into confidence? A proposal, which the government wants implemented, should be the subject of public debate. At present, decisions are announced after Cabinet meetings, like the fiat of an autocrat government.

There is a proliferation of announcements, even ordinances, to “attract” foreign investment. . . Let us know whose agenda is being followed. The World Bank and the International Monetary

Fund (IMF) are said to have laid down certain conditions, which we have to follow to get any assistance. All we seem to be doing is signing on the dotted line. Yet both the WB and the IMF have come-in for public flak. The demonstration at Prague, is a case in point. There was similar demonstration against the WTO in Seattle. It will be used to influence other developing countries to submit themselves to these two institutions.

Convergence of interest can only happened between two equals or near equals. Otherwise, the rich will exploit the poor. What this means is that the better off states, like the better off people are cornering all the benefits, leaving most in the country to wallow in poverty.

MULTINATIONAL CORPORATIONS AND THE TRUTH: MNCs and their functioning in different countries have always been under severe criticism and the critics were dubbed by the government of LDCs and developing countries and the industrialists as the leftists. MNCs are interested in marketing and sales as distinct economic operation and not manufacturing. . Hence their reluctance to invest in developing economies are very clear. The MNCs have entered consumer goods sector and through unemployment.

The scholars have therefore concluded that the prospects of technological independence are fast receding. Technologies in making consumer goods do not make any contribution towards building the technological capabilities of the country. In fact, not country can risk its people's well being on fickle and volatile foreign capital and hot money transfers. We have examples of Asian tigers becoming paper-tigers. The rates of return on non-priority sector Investments were much higher and therefore they were chosen by investors from abroad. This will in fact put a greater burden on the people of developing economies through exchange outflows. Here again the margin of profits was much higher than what could be seen. In fact, multinational giants on the highest profit making companies in the world today. Though priority areas were to be thrown open, government could not withstand the foreign investment lobbies and MMCs and therefore an OPEN DOOR policy was adopted. Consumer and elitist consumption areas came under the operations of the MNC giants. Tragically several well managed companies have fallen victims already or are in line for that to happen. **For example, Glaxo fell to Hainz, Godrej to Proctor and Gamble, Parle bottling to Coca Cola. TOMCO, TELCO and TISCO are in the line, in Indian context and similar may be the experience of most of the less developed countries and developing economies.** Major part of the investment was also portfolio investment (financial institutions) involving hot money. Though many economies felt happy and



thrilled that our stock markets are getting globalised and finding rising trends, it was only a short-lived dream. Few realized that small and medium (and even big) investors were actually sitting on a volcano.

There are the cut-throat competition of unfair nature aimed at elimination of rivals This indicates things as alternative possibilities, that the price was artificially hiked up all these years, and the MNCs want the national companies to fizzle out of the market. Huge advertisement costs are already incurred by these MNCs domestic companies. This has pushed small producers already out of the market and they have sold up their concerns or closed up. The advertisement wars are taking place at high cost. The process is sure to pick up further before coming to an end with total monopolistic establishments in the country as price makers, controlling almost completely 100% of each product by one monopoly.

The Rural-Urban divide which was economic basically in the past, is now fast turning out to be wide cultural divide as well External Public Debt as burdensome and problem of Balance of Payment deficits which were two propositions handed down to us when the Classicism gave way to modern economics, have been thrown out of consideration though the said two propositions are universally true today. The economic reforms have not solved the BoP deficit of India though it has created machinery where payment through foreign loans has been made possible. The rising indebtedness of less developed or developing vis-à-vis the IMF/WB is not taken as a situation of debt Trap although the few developing economies clearly a case of DEBT TRAP with more amount being borrowed to pay less amount of debt. Sidelining fundamental economic principles and truths to justify pursuit of anti-people policies and anti-national conduct, can only be termed as economic dishonesty and the experience of globalization with developing and LDCs were emerging, till today, may be categorized as falling squarely under economic dishonesty.

CONCLUSION:

Under the concept of globalization 'market has to be our servant and not our master and economy has to be the product of human choice of right values. The potential is far grater than the performance. The essential reason for the gap has been the poor management of the economy. If we look back over the years, there has been an erosion of values. We do not find either conviction or commitment on the part of developed economies to the idea of social justice.

All developed countries together are robbing the LDCs & developing countries. There is a growing abridgment of the democratic system which however today's elites do not resent. In such political climate the MNCs flourish as to them 'dollars matter more than democracy'. Reforms were introduced in LDCs & developing economies because there was no other way, except to embrace it. It was accepted as they were incapable of delivering the goods. Under the banner of liberalization, privatization and globalization major deal was done with a sizable kickback, all forward economies having amassed lot of wealth are they throwing these LDCs & developing economies to the whirlpool and run away? Viewed in this context, the much talked about economic reforms may be considered as natural outcome of the erosion of public values. Last but not least, what we need today is not simply a set of Economic Reforms but also it should be preceded by both Political and Administrative Reforms to stabilize the economy. The reforms must also strengthen the governmental machinery to implement reforms efficiently and effectively. **As it is said, "Universal Education should precede the universal franchise." We can say that Political and Administrative Reforms must precede Economic Reforms."**

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