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# Globalisation and Decentralised Economic Development

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Professor

Centre on Global Business Management, EMU Business School,

New Delhi

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# GLOBALISATION AND DECENTRALISED ECONOMIC DEVELOPMENT



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## Preface

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This book contains those papers presented by him from time to time at the Seminars, Workshops, Conferences and round tables on issues pertaining to Globalisation, UNCTAD, WTO, GATT, Trade, Banking Industry, Insurance Industry, Recession in the Industry, Generalised System of Preferences (GSP) and Poverty unfortunately is a Growth Industry. Further, during the course of many years of Teaching and Research on International Economics, WTO, UNCTAD, GATT, etc., it became clear that neither an export-import or a Global focus explained what is going on today in the World with the conditions of developing countries, in the process of global marketing and management. Old 'isms fled the world scene with the fall of the Bertin Hall. Never ones, such as, Free Trade, the Market Economy, Global Business Management, and yet enterprise Capitalism grabbed hold of the World's Economic future and would not let go.

The Countries has diverse as Mexico and China were unhappy with their economy's lot. They had a desire for change. They took action and Mexico joined NAFTA. China created a markets with Socialist characteristics. Moreover, China has also joined the WTO from November 2001. Then most of the Third World Countries joined in this dash towards exports, opened markets, and privatised Capital Investment.

This volume attempts to capture the spirit of the times. The mid-1990s is a period of great change in the World. Either the poorer countries i.e. developing and least developed countries will combine their talents and resources with Foreign Capital to join the Global Economy, or they will be left behind. The fall back position is not another 'ism, but a retreat to a long periods of poverty

among even those who thought they finally had their fact planted in the middle class. The Globalisation and Decentralised Development shows how to assess risk among countries and markets, positioning products globally, and tailor marketing services nation-by-nation. Most of the suggestions made in the book came from many years' consulting with corporate clients in the various sector of economy in country and abroad.

Each Chapter in this book features like a unique three-scan model-environmental, competitive and marketing that provides a consistent framework for analysing the tremendous variety of Global Marketing problems. By using one model to determine the similarities and differences of different situations for students of Globalisation across markets, while taking regional differences into account.

All possible efforts have been made to incorporate the latest available facts and data in this work.

This book is divided into 14 Chapters whereas Chapter first examines the concept of Globalisation and Decentralised Development. The Chapter second critically examine the Globalisation and Agriculture Crises in India. While, Chapter third deals with World Trade Organisation and Its Impact on Indian Trade. The Chapter fourth examine the Financial Sector Reforms and Its Future Agenda. In the Chapter fifth, The Economic Recession in the Indian Economy and Role of Industrial Sector in Its Revival has been in corporated. Chapter sixth explain the Functioning of Money Market in a Market Economy. In Chapter seventh, the Levels of Development in the Different Parts of the World and Trade Liberalisation impact's has been explained.

While in Chapter eighth critical analysis of the Relevance and Scope of Strategic Planning in Very Large Branch Exceptionally Large Branches in Banks has been made. In the Chapter ninth, New Paradigms in the Theory of International Economy has been incorporated to have a overview of the changing Global Market Scenario.



In the Chapter 10, an effective analysis of the Profitability, Productivity and Efficiency of Public Sector Banks has been made. Further, in Chapter 11, a Critical Evaluation of the Working of Public Sector Banks in India has been incorporated. Chapter 12 explains that Poverty is Unfortunately a Growth Industry". In chapter 13, the Trade Effects of GSP on Developing Countries, and in Chapter 14, Insurance Market in India and Role of Intermediaries have been incorporated.

This book also provides me an opportunity for putting on record the Intellectual Debt accumulated in the course of its preparation. In this task, my note of thanks go to (late) Dr. V.M. Dandekar, Prof. and Chairman, Indian School of Political Economy, Pune who guided and encouraged me to fix my attention on the "changing economic scenario" and its impact on the various sectors of Indian Economy. I am extremely thankful to Dr. R.K. Pandey, Ex-Director General of IIFT, New Delhi and my guide for D. Litt. Degree in Economics, who guided me to concentrate on the: (i) Process of Globalisation and Development; (ii) Liberalisation of Trade; (iii) Unsuccessful Role of GATT in solving the Trade Problems; and (iv) Changing Scenario of the Global Marketing.

I am also thankful to Dr. G.N. Gandhi, Director, the Centre for Global Business Management of the EMPI Business School, New Delhi for encouraging from time to time to bring at this volume and to present it to the readers in this form.

I am extremely grateful to Dr. V.R. Panchamukhi, Director General, Research and Information System (RIS), New Delhi and Chairman, ICSSR, New Delhi as usual, has been very supportive and has provided the much needed intellectual stimulus to bring out this book.

I am thankful to my friend Dr. K.D. Gaur, Deputy Director, ICSSR, New Delhi and Dr. Mohinder Pal, Reader in Economics, Dyal Singh College, Delhi, University, Delhi, without their encouragement, the study would not have been completed.

In the last, I should like to thank my wife Mrs. Mohindera, and my children for their cooperation, patience active supportive attitude and bearing with me during the course of preparation of this book.

Mrs. Seema Wasan, Rajat Publications, New Delhi, also deserve great appreciation for turning expeditiously the manuscript into a book entitled, "Globalisation and Decentralised Economic Development".

This book is dedicated to all students and researchers who must get ready for a "tomorrow" that is still unwritten. Globalisation and Decentralised Development; and Global Business Management provides all of us with critical sign posts for the future.

— Dev Raj



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## Globalisation and Decentralised Development\*

The new millennium offers many challenges to all those who are involved in improving people's welfare. The most important challenge is how to handle Globalisation and its inter-connections with Decentralisation and Federalism. We know that Globalisation is a great force and an instrument capable of transforming the entire society. It is likely to influence all population groups, and sectors of the economy including the inter-governmental structures. While integrating with the Global Economy, the countries have witnessed many pressures for relaxing controls in both the economic and political spheres. These would have brought serious repercussions for the social and economic framework of the country and even the world system as a whole.

### What is Globalisation

Globalisation is characterised by increases in flows of trade, capital and information, as well as mobility of individuals, across borders. It is not a new phenomena. Globalisation has progressed throughout the course recorded history, although not in a steady or linear fashion. In other words, we can say that Globalisation is the process through which an increasingly free flow of ideas, people, goods, services and capital leads to the integration of

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\* Research Centre for Planning to Marketing, Shalimar Garden, Ghaziabad (U.P.)

economies and societies has brought rising prosperity to the countries that have participated. Globalisation has boosted incomes and helped in raising living standards in many parts of the world, particularly by making sophisticated technology's available to less advanced countries. Since 1960, for example, life expectancy in India has risen by more than 20 years, and illiteracy in Korea has gone down from nearly 30% to almost zero.

But in recent years, concerns have grown about the negative aspects of Globalisation and especially about whether the worlds' poorest—the 1.2 Billion people who still live on less than \$ 1 a day, will share in its benefits. Further, some are of the belief that free trade favours only rich countries and that volatile capital markets hurt developing countries, the most have led activists of many stripes to come together in an "anti-globalisation" movement. They highlight the costs of rapid economic change, the loss of local control over economic policies and developments, the disappearance of old industries, and the related erosion of communities. Further, they also criticised the International organisations for moving too slowly in tackling these concerns.

In the present study, focus have been given to the following aspects :

- (i) Explaining and simplifying the basic and difficult issues emerged while going for globalisation; and decentralised development;
- (ii) Exploring their inter-linkages;
- (iii) Bringing out their economic and federal implications for developing countries in general and India in particular;
- (iv) To analyse whether the Globalisation has helped in equitable economic principles of resource sharing; and
- (v) Whether Globalisation has helped the developing

countries in improving their number in the group of Developed Countries? To see how Globalisation has helped in improving the decentralised development in the developing countries.

### **Globalisation and Decentralisation**

We know that Globalisation is as old as the entire civilisational process. However, it must be acknowledged that in the past few decades with the growths of satellite communications, Internet Networking etc; it has assumed a dizzying, pace. Moreover, not all the consequences of the process of Globalisation are harmonious or beneficial, particularly to the developing and least developed countries in the competitive and developing world. The process of Globalisation has accentuated economic inequalities across the globe and within countries. This is all the more reason that this Globalisation process and decentralised development need to be studied in all its dimensions in detail.

### **Globalisation Process**

One of the most important challenges has to handle Globalisation and its process alongwith other issues including decentralised development, which are closely related to it. While integrating with the Global Economy, the countries have witnessed pressures for relaxing controls in both the economic and political spheres. These pressures have been reinforced with emergence of European Union, the economic collapse of the former USSR, growing disenchantment with the expansion of public sector and macro - economic imbalances emerging in many countries of the world. Most of the governments have adopted neo-liberal type of reforms with a view to liberalising trade, deregulate and integrate domestic economies to Global Markets. Thus, they are pursuing the policies of economic growth. Moreover, the forces of economic and political integration, are operating continuously to engulf the entire World. Further, the increasing integration with the World Economy,

generally termed as Globalisation has received inputs and encouragement by the revolutionary changes that have taken place in Transport, Communication and Information System.

Further, the Market Integration with the Global Economy has also influenced the issues relating to politically appropriate and acceptable Regulatory Systems. Owing to this, the pressures for Federal Restructuring, Decentralisation and devolution among around the World have grown substantially widespread and are getting intense. Interest in Fiscal Decentralisation in particular has become all pervasive. Virtually, every part of the World has been found grappling with this issue. Moreover, interest has not merely been confined to avowedly declared federations, but has also seen in unitary countries too.

In 1986, the United Nations adopted the Declaration on the Right to Development, signifying for the first time that the International Community has accepted the right to development as a new human right. However, it took about 7 years, when finally in 1993, at Vienna, at the second UN World Conference on Human Rights, a new consensus emerged which was supported by all the states including the United States. A country can develop by different processes. There may be a sharp increase in Gross Domestic Product (GDP) in the "Developed Countries", with greater access to financial and human capital, growing increasingly prosperous and the "Developing Countries" lagging behind, if not remaining deprived. There may be some industrialisation, rapid or not so rapid, without the increased income spreading over all the sectors, with the small - scale and informal sectors getting increasingly marginalised. With Globalisation, there may be an impressive growth of the export industries with increased access to Global Markets, but without integrating the economic hinterland into the process of growth and not breaking the structure of a dual economy. In other words, it may be regarded as development in the conventional sense.



Moreover, this will not be regarded as a process of development, as objects of claim, as human rights, so long as they are stimulating an increased inequalities or disparities and rising concentrations of wealth and economic power with - 18 - Developed Countries, and without any significant improvement in Indicators of economic and social development, education, health, gender balance and environmental protection. It is only that process of development in which all human rights and fundamental freedoms can be fully realised that can be a universal human right, which is the entitlement of every person and nation.

In turn all these right are dependent on each other, together with the growth of Gross Domestic Product and other financial, technical and institutional resources, in a manner which enables any improvement in the well-being of the entire global population and the realisation of the rights to be sustained. Fulfilling this would imply augmenting the availability of resources and ensuring the proper allocation of existing resources among all the countries. Other-wise poverty any where can prove to be disastrous to the prosperity every where. To realise this goal, there is an urgent need to change economy-wide policies, to ensure that the increased realisation of any one right is achieved without detracting from the enjoyment of the other rights. Hence, the fulfilment of above goals, whether they are economic, social and cultural rights, or civil and political rights or taking all the rights together-or the right to development, is associated with both perfect and imperfect obligations.

In fact decentralisation impacts have to go beyond the ideological spectrum and levels of development across countries. Fiscal and administrative decentralisation has often been prompted by the stress placed on providing efficient and responsive public services, and also by market decentralisation arising from economic liberalisation and globalisation. As a result, there has been great effect on



the ways in which the different levels of government i.e. the Central, the State and the Local self-governments interact among themselves and with the Private Sector in developing countries. Once these pressures become active, inter-governmental structures, institutions and their practices would undergo a drastic change, it would be difficult to have a decentralised development among all the countries of World. This could be a vital revolution, because inter-governmental shutters not only are determined by a variety of Social, Economic, Historical, Geographic & Political forces, but they also reciprocate, with the passage of time. Therefore, Fiscal decentralisation has been viewed as a potent instrument of influencing the economic and political performance at varying stages of development of the Country.

A recent World Bank study suggests that the countries that have opened themselves to trade in the last two decades have, on average, grown the faster. These "New Globalisers" among developing countries have reduced import tariffs, on average, by 34% since 1980, compared with only 11% for those developing countries that, on average, saw no growth in per capita incomes over this period under reference. Moreover, the faster growth goes hand in hand with bigger declines in poverty and larger increases in life expectancy. A recent World Bank study by David Dollar and Aart Kraay takes this full circle by deducing that since, in broad terms, trade is good for growth, and growth is generally good for the poor—they find that, on an average, increased growth raises the incomes of the poor in proportions to those of the population as a whole. Then trade is good for the poor. Further, capital market integration has also advanced substantially in recent decades. The benefits of Trade Globalisation are relatively clear, developing countries need to have a set of pre-conditions in place to benefit from Financial Globalisation and not to succumb to an increased probability of a currency or banking crisis occurring. Owing to this,

capital account liberalisation is being approached with much greater caution than during the bullish years of the mid- 1990s. Moreover, capital inflows contribute to growth by stimulating Investment and Technical progress and promoting efficient financial development.

Further, when openness to Capital flows combined with sound domestic policies, gives countries access to a much larger pool of capital with which to finance development. Foreign Direct Investment ( FDI) in particular—as opposed to potentially volatile-portfolio flows—speed up both capital accumulation and the adoption of Foreign Technologies and like trade, has been shown to promote economic growth. Thus, we can say that Globalisation has the potential to make all people better off. Further, the studies reveals that on an average, poverty declines with economic growth are encouraging. However, averages hide the negative impact on individual countries and on certain groups within them. There are important questions about the relationships between Economic Policies and Structural Reform Policies on Poverty. Moreover , the IMF and WTO are understanding further insights, to see that if necessary, to adjust the policy recommendations for better growth in the global village.

In this process, the IMF and WTO are committed to meeting the following changes:-

1. To help the poorest to sustain the adjustment policies and structural reforms to reap the benefits of Globalisation.
2. To Increase the Stability of International Financial Markets, being, considering stability as an International public goods.
3. To help all the members of IMF to have access to markets including those countries that have no access to market at present.
4. To foster a stable global macro-economic environment.

### Opportunities from Globalisation

The Globalisation provides the following the opportunities to all the countries:

1. Expansion effects and increased investments;
2. Allocation effects give the available resource - base;
3. Distribution effects expected from the gains of Globalisation; and
4. Risk effects through the process of World Market Integration particularly for the developing economies given them weak bargaining power and low level of economic development.

Globalisation, as is argued , can be reviewed as having the following components:

- (i) The market integration; and
- (ii) The evolution of the global mindset among key decision makers, particularly engaged in managerial operations.

Governments in different countries have to cope with Globalisation by withdrawing from certain areas, downsizing and shifting from "State" regulatory regimes to increasing reliance in market forces. These adjustments require reform, which usually are legislative in nature. They may involve political choices to repeal some statutes, abolish some administrative agencies and streamline other. This may compel for changes in political thinking and even constitutional provisions, and the general approach toward the concept, theory and practice of fiscal federalism as well. In this process of restructuring, Governments' withdrawal is also needed in the following areas:

1. As a producer of commercial goods;
2. As a promoter of designed activities;