# GLOBALISATION AND IMPLICATIONS:
# A Study with reference to Indian Pyramid[1]

Justin Paul

**ABSTRACT**

*Debate abounds over whether globalization of the economy is good or bad for the self, the family, the nation, and the world. Globalization means integrating the economy with rest of the world, which involves dismantling of high tariff walls among the various countries. Some pessimists see the presence of globalization as increased interdependence, while optimists see a more diverse and better life for all. Globalization is used to describe the impact of removal of restrictions on foreign trade, investment, and innovations in communications and transport systems. People are linked together economically and socially by trade, investment and governance. These links are spurred by market liberalization and information, communication as well as by transportation technologies. The present paper is an attempt to study the meaning & scope and phases & indicators of globalization in the Indian market, a country known for educated, but many poor people. The country is also known as destination for marketing products from multinational enterprises from other countries, looking at the opportunities at the bottom of the pyramid. The purpose of the study is to assess the effects of globalization on the Indian pyramid with specific reference to different sectors or industries of Indian economy, such as Telecom, Insurance, Banking and finance, Retail sector, FMCG, Textiles and Agriculture.*

## Introduction

As we entered the brave new world of the 21st century, we found global business and industry grappling with persistent ideas. One of the most fiercely debated topics is internationalism, which means recognition of all nations bound together in a collective enterprise that calls for cooperative action. The quest for international opportunities resulted in some companies achieving great success and others will deep disappointment. Within the last one hundred years, humankind has generated an impressive host of invasive ideas such as imperialism, feminism, socialism, collectivism, industrialization to mention a few, which have shaped the world markedly. Paramount among these ideas is internationalism, which has global perspective (Demirdjian, 2006). Globalization is the term used to describe the impact of removal of restrictions on foreign trade, investment, and innovations in various sectors like service, manufacturing, textiles, communications etc. These changes have encouraged nations to reduce the high levels of protection between countries and to adopt policies to liberalize their economies in order to increase their volume of trade.

People are linked together economically and socially by trade, investments and governance. These links are driven by market liberalization and information, communication and transportation technologies. This thinking has changed in the recent years and revealed criticism of the accounting rate system for discrimination against liberalized countries as well as the lack of cost orientation

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and transparency (Kelly, 1998). Globalisation of the economy means integrating the economy with the rest of the world. This involves dismantling of high tariff walls, i.e., reduction of import duties thereby facilitating the transition from a protected economy to an open economy, removal of non-tariff restrictions on trade such as exchange control, import licensing, quotas etc., allowing Foreign Direct Investment (FDI) and Foreign Portfolio Investment (FPI), allowing companies to raise capital abroad and encouraging domestic companies to grow beyond national boundaries. Chakraborty and Basu (2002), Love and Chandra (2004), and Tian et. al. (2004) in their studies also supported the argument that trade and FDI function as engines of growth.

Some important factors give the impression of undergoing the movement towards greater globalization. These factors are the barriers to the free flow of goods, services, and capital that has occurred since the end of world war, and technological change, particularly the dramatic developments that have occurred in recent years in communications, information processing and transportation technologies. It is interesting to note that globalization has not been a continuous process. Countries have been back and forth with globalization and nationalization. Developments in the technological and service convergence have brought about a shift towards a more open telecommunication market (Gan, et. al., 2006). This resulted in the changes in careers business size, supply structure and market organization (Gerpott, and Massengeil, 2001). Kenneth and Slaughter (2002) in their study explored a contradiction of others who claimed that globalization of production through FDI generates economic insecurity among workers. The less secure workers support a more generous welfare state. According to the authors FDI is an activity in the industries in which individuals' work is positively correlated with individual perceptions of economic insecurity and is more likely to support political parties that promise a relatively more generous welfare state. One more argument has been added to this by Chaudhuri (2000) that it was easier to operate in protected domestic market than compete in the international market.

A world economy existed since the 16$^{th}$ century based on the development of international trade, foreign direct investment and migration. The engine of the world economy is the national state. However, a global economy has the capacity to work as a unit, in real time, on a planetary scale. Four primary, interrelated factors have driven globalization in the recent past, these are increased international trade, the growth of multinational corporations, the internationalization of finance, the application of new technologies in all these operations, especially computer and other information technologies. Grossman and Helpman (1990), Romer (1986, 1990), Coe and Helpman (1995), Fagerberg et al (1997), and Frantzen (1998), in their studies emphasized on the role of trade in the international dissemination of facts and modernization. According to Tarjanne (1999) the liberalization of telecommunication market and escalating digitalization would fuel competition for global activities and services. Globalization in turn would bring about challenges to the regulatory and legislative regimes, blurring traditional regulatory definitions and jurisdiction boundaries (ITU, 1999).

Globalization is a multidimensional phenomenon, which encompasses a great variety of tendencies and trends in the economic, social and cultural standard (Sameti, 2006). If global cultural trends change national social norms and local feelings of national identity, there may be strong pressures for changes to social policy (Lars Osberg, 2002). There are some effective forces behind increased need of globalization and such business environment that gives interdependence and freedom to work, these forces are trade and investment liberalization, technological innovation and the reduction of communication costs, capitalism and global social networks. In the process of globalization, national economies are integrated in several fundamental ways through trade, finance, production and a growing web of global treaties and institutions. Both foreign investment and International trade volume have grown rapidly over the last few years. Firms go global as part of their business strategy mainly because they get access to more markets and customers; they can create a better ‘brand’ by way of expansion so that the acceptance at home market also increases; and there could be a saturation point in the domestic business. Chandrasekar (1996) emphasized on replacing domestic investment or acquiring domestic assets by taking the advantage of globalization through increase in shareholding, mergers and acquisitions.

National governments have played a pivotal role in allowing greater interdependence and economic integration in a number of economic areas and have supported economic liberalization. Citizen’s demand has improved levels of services and promoted higher standards of behaviour from their governments, and as a result social dispute has taken a different form (Guido and Albert, 2001). This dispute continued and the countries that trade more, ceteris paribus are subject to more internal and external risk. Such countries normally have bigger governments so that they find themselves capable in facing all these uncertainties (Rodrik, 1998). Coe, Helpman, and Hoffmaister (1997), Eaton and Kortum (1999), Grossman and Helpman (1990), Romer (1990), and Young (1991), in their growth theories have provided some important insights into the role of technological diffusion as a stimulus to economic growth. In 1991, the acceptance of globalization in india, and incursion of MNCs in large numbers, has toughened business operations and decision making processes. Many Indian companies either closed down their operations or sold their business into the hands of MNCs or entered into Joint Ventures with leading MNCs (Sharma 2005).

In the context of the changing role of the state under libralization and globalization, entrepreneurs need to concentrate on institutional parameters and practices vis-à-vis state regulations. Efficiency there consists in comprehending and managing in an institutional milieu at the global level (Devi and Thangamuthu, 2006). India could become a very important source of new global spending in the not too distant future. Certain estimates suggest that India’s economy could be larger than Japan’s by 2032 and the BRICs economies taken together could be larger than the G6 by as early as 2039. This focuses on India as an emerging nation, which is linked more closely to the impact of globalization, by many economists. However, this is a debatable topic, since some previous researchers correlated this with the political issue and mentioned that the politics of economic policy remains most critical, if unstated and determinant of its content (Ghosh 2000). A drastic change in the global economic balance has been predicted by the Goldman Sachs Economic Research report, which forecasts that, by 2050, the BRICs (standing for Brazil, Russia, India and China) economies together could be larger in U.S. dollar terms than the G−6, consisting of the U.S., Germany, Japan, the U.K., France and Italy. This has significant implications for international policy-makers and investors. Let us understand what this report means for India. Higher growth in the economy may lead to higher returns and increased demand for capital. The weight of India in investment portfolios could rise sharply. Capital flows might move further in its favor, prompting major currency realignment.

## Implications of Globalization

***(A Sector-wise Analysis)***

In the Liberalization era i.e., 1991 onwards, India has taken a series of measures to structure the economy and improve its balance of payments. The New Economic Policy (NEP−1991) introduced changes in several areas. Some of the salient features of NEP−1991 are: liberalization (internal and external), extending privatization, redirecting scarce public sector resources to areas where the private sector is unlikely to enter, globalization of economy, market friendly state. We discuss the implications of globalization on select sectors based on the idea- Mirage of Marketing to the bottom of the pyramid − in India, where more than 1.2 billion people live.

### Telecom Sector

The effects of globalization are very visible in this sector of the Indian economy. This sector has moved from being completely under public control to privatization and now foreign investment up to 72% has been allowed. Post independence, the Indian government had decided that the telecommunication systems would be managed under the public sector entirely. Posts, Telephone and Telegraph (PTT) were instituted in 1947 under the Ministry of Communications. India responded to the emerging wave of globalization and technology; and introduced first telecom reforms in the 1980s. In 1984, private companies were allowed to manufacture and market the equipments and instruments. The Telecom Commission was set up in 1989. During the 1990s, the next phase of telecom reforms was included in the liberalization programs of the economy. In 1991, the telecom equipment manufacturing was de-licensed and value-added services were opened in 1992. Gradually, cellular and basic telephony sectors were also opened up. National Telecom Policy (NTP) was formulated in 1994, which placed emphasis on universal service and qualitative improvement in telecom services. Under this policy, the government stimulated domestic private investment and foreign direct investment to cover the huge capital requirements. This helped the further opening up of the telecom sector. But the environment was still highly regulated and the foreign partners were allowed only a small stake in the companies (around 29%). This step was not good enough to attract FDI to the telecom sector.

The New National Telecom Policy was announced in 1999, called as NTP 99. It allowed the existing operators to shift from fixed-license fee regime to a revenue sharing scheme. The policy also aimed to increase the competition with a plan to license additional cellular operators. The sector was further deregulated. This helped in attracting a lot of foreign capital to the telecom sector and telecom reforms were underway in full swing. This provided a lucrative opportunity for foreign investors and a huge inflow of FDI is expected. This may limit the expansion plans of a partnership if the Indian firm is not able to produce its 10% share required for expansion plans.

Taking another step towards globalization and market controlled economy, the Government has abolished charges (paid by private operators in lieu of public operators providing infrastructure in rural and non-profitable areas. It formed a part of interconnectivity charges). Also the government has stated that they would not provide any fiscal incentive for broadband players, amongst which the largest is BSNL (publicly owned). This will further encourage healthy competition and encourage new foreign investors to enter the telecom sector. However, one appreciable part of government policy is that it has started opening up the sector only when the local players like BSNL, Reliance, Bharti etc. have grown strong enough to compete with any new foreign company.

**Insurance Sector**

Insurance sector used to be one of the most regulated sectors of Indian economy. But the sector has been opened up for the private sector in India, as part the liberalization programs. The general insurance business was nationalized after the implementation of General Insurance Business (Nationalization) Act, 1972. The General Insurance Corporation of India (GIC) and its four subsidiaries undertook the post-nationalization general insurance business. The penetration rate of life insurance in India was only 0.5%. This was partly due to the inefficiencies of public players. In 1993, Malhotra Committee, headed by former Finance Secretary and RBI Governor R.N. Malhotra, was formed to evaluate the Indian insurance industry and recommend its future direction. The Malhotra committee was set up with the objective of complementing the reforms initiated in the financial sector. The reforms were aimed at creating a more efficient and competitive financial system suitable for the requirements of the economy. The committee recommended in 1994, bringing down the government stake in the insurance companies to 50% and that private companies with a minimum paid up capital of Rs. 1bn should be allowed to enter the industry. One of their most important recommendations was to allow foreign companies to enter the industry in collaboration with the domestic companies. An independent regulatory body was set up to ensure independence of insurance companies. Accordingly, the Government of India liberalized the insurance sector in March 2000 with the passage of the Insurance Regulatory and Development Authority (IRDA) Bill, lifting all entry restrictions for private players and allowing foreign players to enter the market with some limits on direct foreign ownership. Under the current guidelines, there is a 26 percent equity cap for foreign partners in an insurance company. The current players in the life insurance field and their partners are listed in *Exhibit 1*.

**Banking and Financial Sector**

The financial sector can be considered as the most vulnerable sector with respect to globalization. Indian reforms have taken a step-wise approach in this sector rather than a Big Bang approach like Chile, meaning that India has launched reforms in this sector gradually. The result of the reforms has been deregulation, liberalization of interest rates and pro-market policies. The liberalization process started in the 1990s with 10 new private banks being set up. Two major steps were taken in the direction of financial deregulation and globalization. The first was permitting foreign institutional investors (FIIs) to enter Indian markets. The aggregate FII cap raised to 40

**Exhibit 1**

| | Name of the company and Head Office | Partner |
|---|---|---|
| 1. | Life Insurance Corpn. of India | 100% government owned |
| 2. | Tata-AIG Life Insurance Co. Ltd, Mumbai | AIG |
| 3. | Bajaj Allianz Life Insurance Co. Ltd. Pune. | Allianz, Germany |
| 4. | ICICI Prudential Life Insurance Company Ltd. Mumbai. | Prudential |
| 5. | OM Kotak Mahindra Life Insurance Co. Ltd, Mumbai | Old Mutual of South Africa |
| 6. | HDFC Standard Life Insurance | Standard Life, UK |
| 7. | Max India Ltd | New York Life, USA |
| 8. | Birla Sun Life Insurance | Sun Life, Canada |
| 9. | SBI Life Insurance | Cardiff, France |
| 10. | ING Vysya Life Insurance | ING, Netherlands |
| 11. | CGNU Dabur Life Insurance | CGNU, UK |
| 12. | Hero PNB Zurich Life | Zurich Life, Switzerland |
| 13. | Sahara India Life Insurance | No Partner |
| 14. | Reliance Life Insurance | No Partner |

percent from 24 percent in 1998. FIIs are now allowed to purchase and sell T -bills. The second step was allowing domestic companies to raise capital from abroad. The recent government decision to increase FII limit and the move by several companies to hike their FII investible stake to 49 percent will surely have positive implications and will prove to be yet another step on the road to globalization of India. The banking sector reforms were guided primarily by the recommendations of the Committee on Financial System (Narasimhan Committee, 1991). These involved (a) reduction in the levels of statutory pre-emption, (b) dismantling the complex structure of administered interest rates, (c) laying down of capital adequacy requirements; (d) introduction of prudential norms and (e) liberalization of entry norms for domestic and foreign banks. At the macro level, firstly there has been a reduction in the level of banks' reserve requirements. The statutory liquidity ratio (SLR) was reduced from 38.5 percent in 1991–92 to 25 percent. Interest rates on domestic term deposits have also been deregulated. Liberalization of branch licensing policy has allowed banks more freedom to plan branch expansion. We are slowly but surely moving from a regime of "large number of small banks" to "small number of large banks". The new era is going to be one of consolidation around identified core competencies. Mergers and acquisitions in the banking sector have already become the order of the day. Successful merger of HDFC Bank and Times Bank earlier and Stanchart and ANZ Grindlays has demonstrated that the trend towards consolidation is almost an accepted fact. One can expect such signs in respect of a number of old banks, many of which are not able to cushion their Non-Performing Assets (NPAs), expand their business and induct technology due to a limited capital base.

**Exhibit 2**

| International Retailer | Retailing Activity | Current Status In India |
|---|---|---|
| Auchan | Hypermarket | Plan Evaluation |
| Dairy Farm | Multi-format Retailer | Collaboration with RPG |
| Landmark | Lifestyle Stores | Operating |
| Marks & Spencer | Lifestyle Stores | Operating |

**Retail Sector**

The Indian retail industry is no more in a nascent stage. From small street-corner groceries to big super markets; a transition is happening. The unorganized sector still holds a dominant position and the organized share today remains about 1.5 percent of the current Rs. 10,00,000 crores (US $ 245 billion) retail market, which is expected to almost double by 2020. It has been touted as the second most attractive retail investment destination after Russia, in the recent studies. The forecast for 2003−2008 growths in retail sales is almost 8.5 percent per year, which is higher than the expected 7 percent growth in consumer expenditure. This has been possible only due to the increasing globalization of the sector and the hordes of MNCs joining the market. (Refer *Exhibit 2*)

The recent developments and their impact on the current scenario show that despite the huge presence of the unorganized sector, the Indian retail industry is attractive for international players, as China is still seen from the communist angle. Moreover, the initiatives taken by the WTO and the Indian Government are making the environment conducive to allowing the foreign players to enter the industry.

Major consultants and research analysts across the world are also optimistic and willing to wager on an Indian retail boom. A McKinsey report has laid great emphasis on the need of removing barriers to the growth of organized retailing, which would ensure an increase in the efficiency and productivity of all the economic activities and strive for a higher GDP growth. Already giants like Carrefour, Debenhams, Wal-Mart and Target have big plans in India and Germany’s Metro Cash & Carry run their operations in Bangalore. These MNCs will bring superior quality, variety and unique value propositions to the consumers, by drawing on their competitive and superior items as they sprawl across the globe.

FDI need not be seen as a threat but as a growth engine, which can help in filling the resource and technology gaps in the retail segment. The various tax and licensing systems will have to be restructured to ease this movement while at the same time to protect the interests of the regional players. The key to success will lie in building an extensive network of stores across the country so that a wider audience can be reached. Use of electronic tools and technology like e-commerce will be added attractions in this vast sector. These measures, if rightly implemented, would provide a competitive environment for the retail sector. With growing internet awareness, rise in, incomes and the willingness of the urban people to experiment and taste the way the world shops, the techniques of home shopping, direct mail and telemarketing are fast becoming a reality. It remains to be seen whether the domestic industry lays flowers in the path of the global giants or not.

**FMCG Sector**

The Fast-Moving-Consumer-Goods or the FMCG sector has been the cornerstone of the Indian economy, taking shape post-independence and recently emerging as one of the pillars of growth. Generally, FMCG refers to consumer non-durable goods, like toothpastes, soaps and shampoos, etc. required for daily or frequent use. This industry is a low-margin business and here the profitability stems from sheer volumes. These factors, coupled with fierce competition, lay stress on marketing and distribution. The players in this field are not the companies or their employees, but the Brands. Brand perception influences purchase decisions and this results in heavy advertising to create and/or retain that perception. As India opens its doors to globalization, stipulated by WTO and treaties, it is exposing itself to a completely new market field. The global corporations look forward eagerly to extending their investments in Indian market. Unilever recently announced its intentions to rename its Indian arm Hindustan Lever Limited, as Unilever India Ltd., which was a surprising move, given the strong reputation HLL enjoys. But these moves are gradual shifts towards consolidation and creating a single identity.

Another interesting development in the Indian FMCG sector has been that of brand acquisitions. The Procter & Gamble's acquisition of Gillette and Dabur India's acquisition of Balsara Company in 2005 are the most recent examples. At the same time, the real challenge for all FMCG players is in ensuring that competitors do not poach upon their employees. This is one of the biggest worries of domestic companies as MNCs have landed on Indian shores with fat paychecks. Traditionally, the domestic FMCG companies have been family businesses and thus were shrouded in typical mindsets which hampered their growth trajectory. Here, the MNCs gain the edge over them. They have extremely good product propositions, professional management and deep pockets to back them. Their global products' portfolio allows them to constantly offer variety and choices to the consumer, at low costs and world quality standards. As a result of lifting of the QRs (Quantitative Restrictions) by the government, the inflow of imported consumer goods has increased manifold, especially from China, and this is a cause of concern for the domestic players. Lifting of the QRs and de-reservation or removal of items from the restricted list of several items, is expected to have adverse impact on Small Scale Industries (SSI). This sector has ample opportunities for growth and development. In the wake of such developments, the distributional strength of a company would determine success or failure. The fast advent of internet and the penetration of mobile telephony will expand the horizons of this battlefield. The domestic players are taking pre-emptive measures by weeding out small or weak brands and putting their plans firmly in place. The mantra is to focus on urban markets for value and on rural markets for volumes. But the biggest barrier lies in finding methods to woo the rural consumer who is still evolving. Only companies with resources, unflinching commitment and staying power can win in this ruthless game, which is now in the international arena.

**Textile Sector**

Besides agriculture, textile and clothing is the only industry, which has a separate and independent agreement, multilaterally negotiated, under the aegis of WTO. The international trade in textile and clothing has been transformed significantly owing to the phasing out of the Multi-fiber Arrangement (MFA–in force from 1 Jan. 1974 to 31 Dec. 1994), and with the quota-free trade. Each country/region has become busy preparing its own national/regional strategy for competitiveness in the new scheme of global trade. The textile industry provides direct employment to about more than 30 million people and is the second largest employment provider in India after agriculture.

India's cotton textile industry has a high export potential. Cost competitiveness is driving the penetration of Indian basic yarns and gray fabrics in international commodity markets. The protectionist tools of the WTO era have now changed. The world trade in textiles and clothing has grown 55 times between 1955 and 1995, whereas Indian exports have grown only by 15 times in the same period. That is corroborated by the falling share of Indian textile and clothing export in the global sectoral trade. Garments are the engine of growth in this sector in the foreseeable future. Given that the developed countries are likely to remain deficit countries, and developing ones are where textile and clothing would be overflowing, it is of paramount importance for the developing countries to ensure a meaningful market access to the developed country markets. Over 115 Regional Trading Arrangements (RTAs)–including the EU and NAFTA–are in place as of this date. That import of textile has grown remarkably in the last couple of years is a well-known fact. The growth rate of import of textiles imported into India has been more rapid before WTO came into existence (1 Jan 1995) than after India's commitments to reduce its import tariffs came into effect. While the export market has become more competitive during post–2005, the domestic turf too would be threatened by increased imports as custom tariffs fall. The quota phase-out (2005) can be considered as an opportunity as well as a threat. And with the emerging trade patterns, the pressure to become globally competitive is stronger than ever before, while the time to attain such global competitiveness is increasingly shorter now.

**Agriculture Sector**

Agriculture is a way of life in most developing countries. Recent changes, especially the technological changes and the processes of globalization pose new challenges to the agriculture sector and livelihoods dependent on it. The major issues related to the agricultural sector in the era of globalization are–preservation of biodiversity, subsidized agriculture, import/export of food, shift to cash crops, rural policies, use of water resources and chemicals, role of governments and impact of WTO, employment in rural areas and the food chain: the role of super markets in food supply. The statistics pertaining to the agricultural sector would give a clear idea about the structure and trends in the sector. Employment of population: around 2/3 of population, Small Farms: 60–70 percent of total farms, Exports: 21percent of total exports.

Main export products from the Agricultural Sector are–Tea, coffee, spices, cashews, basmati rice, and seafood Soybean meal, fruits and vegetables, processed food products, and dairy and poultry products. Some main import products–Pulses, rubber, sugar, vegetable oil, rice, wheat, cashew nuts, oilseed, wool, silk, Cotton. The implications of globalization on the sector can be assessed based on the following aspects:–farmers have to compete with products providing high subsidies, large biotechnological companies could have monopoly over seeds, biotechnology can threaten biodiversity and ecological stability, dumping, controversy over the use of High Yielding Varieties (HYV) of seeds for cultivation. Technology transfer, improved productivity, newer markets are some of its advantages.

Various research studies and policy papers highlight the fact that the Indian Agricultural sector faces resource constraints, infrastructure constraints, institutional constraints, technology constraints, and policy induced limitations. To achieve sustainable agricultural development, it is essential to combine natural resources, capital resources, institutional resources, and human resources. Information Technology and Bio-Technology, which are "the drivers" of globalization with their complementarities of liberalization, privatization and tighter Intellectual Property Rights (IPR), are bound to create new risks of marginalization and vulnerability in the Indian Agricultural sector.

## Conclusion

From the preceding analysis, it is fairly evident that the phenomenon of globalization, the processes and institutional frameworks through which it is propagated, and its multifaceted nature have numerous implications for the promotion and protection of all the sectors. This implies that there is a need for a critical re-conceptualization of the policies and instruments of international trade, investment and finance. Such re-conceptualization must cease treating human rights issues as peripheral to their formulation and operation. There is a growing clamor–particularly from the main beneficiaries of globalization–that rules need to be established to govern the international economy, with a specific focus on questions such as copyright violations, trade sanctions, and protections for increased foreign investment. However, what is required is a more balanced approach, which ensures that the growth and development are integrated into the rule-making processes from the outset. The primacy of all other regimes of international law is a basic and fundamental principle that should not be departed from. In seeking to achieve this objective critical challenges must be made to the dominant neoliberal economic framework of analysis, and in particular to the measures of austerity and punitive conditionality that have been the modus operandi of the existing system.

Given that the parameters of the subject of globalization remain very wide, and that even within the context of this preliminary analysis there are numerous issues that require deeper consideration, it is recommended that researchers remain seized by the subject and should undertake more in depth study in order to give a clear picture of globalization and its impact on current world trade.

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