Globalization: Framework for Perpetuation of Asymmetries by Traditional Firm on the Marginalized

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Abstract

From the existing literature, the paper presents the sociological, cultural and technological perspectives of globalization. It then discusses the role of state, theories of regulation, the theoretical blind spots in the argument for globalization and the associated atrocities with the process of globalization. Subsequently, the paper analyses the logic of efficiency and control that advances the process of globalization. It discusses the underlying dynamics, history of globalization, the stages and process of globalization in general and India as a developing country in particular.

The key argument of the paper is that the capitalistic logic of globalization lets the government and institutional framework to support and perpetuate the existing asymmetries between the traditional firms and the marginalized; the ordinary and marginal producers and consumers. The increasing perpetuation of asymmetries with the faster globalization of trade and investment has lead to disruption of cultures and life styles of the ordinary people across the world. The firms expand their boundaries and grow in size and profit by exploiting the institutional and regulatory deficiencies in the developing countries context. Finally, it argues that the socio-economic-cultural-psychological-environmental disruptions in the last two decades have brought to light the 'global war' between the Firms and the Marginalized and their common resources that stated long back through the Bretton Woods Conference in 1944.

Key Words

Globalization, Asymmetries, Institutional Deficiencies, Developing Countries, Firm, Marginalized, Socio-cultural-psychological Disruptions, Global War

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© Associate Professor, Strategic Management, Xavier Institute of Management, Bhubaneswar, Orissa. India

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Globalization has been understood as a phenomenon that includes the integration of socio-political-economic and cultural dimensions of nations across the world. The forces of globalization, their power of influence, and the pace of changes largely determine the nature of change. Under rapidly changing regulatory environment along with the socio-economic-political changes, the process of 'integration' that takes place can have different impact on different categories of people and organizations. The changes might come about out of pressure to change or might occur involuntarily under the overall socio-economic-political environmental of globalization. The faster pace and greater magnitude of change could be perceived as imposition of change rather than a gradual integration for synergies.

Instead of interacting with different regulatory frameworks in different countries, the multinational enterprises would like to interact with a single system of trade and investment like that of the World Trade Organization so that the efficiency of the MNE would increase. The large firms and the multinational agencies would like this process of transition to be faster without recognizing and valuing the negative impact such fast changes have on the industrially developing countries with weaker institutional mechanisms to integrate with a single world system.

Efficiency of the traditional firm is at the core of this process. Disabling the existing local systems and practices in favor of the global systems automatically creates advantage for the large firms with the asymmetries that they possess as compared to the local and small players and marginal consumers. In other words, globalization from a firm's perspective is a process that smoothen the interfaces among the regulatory systems of different nations and let free the global corporations to create their own rules across the world through the national governments as their intermediaries.

As the corporations across the world try to shape the process of setting the new rules for international trade and investment, firms within a country through their individual capacities and through the lobby of their industry associations bargain and negotiate with their national government to represent their case in the international rule making. To

strengthen their argument within the respective countries, the respective national governments and the domestic firms within use the notion of nation to curry support from the citizens of their respective nations such that appropriate legislation can be framed at the national level so that the views of the firms and the respective nation has a strong representation at the global forum for negotiations.

It is interesting to observe how firms in a developing country grow in the above context; where the institutional settings undergo fast changes from being a state controlled industry and enterprise system towards a free market and free enterprise system? The institutional mechanisms are usually not developed for a free market mechanism; the asymmetries are plenty for exploitation and hence opportunities are large. Whether these advantages have helped the explosive growth of private enterprises from the developing countries like India, China, Russia and Brazil would be interesting topic of research. Is the current wave of globalization the unannounced violent third World War between the firms and the marginalized and their common resources?

General Perspectives of Globalization:

The phenomena of 'globalization' are so complex that the term globalization have been understood and explained differently by different groups of people. Further, the impact of globalization has been so deep and diverse to different segments of the society that the different groups of people have different notions of globalization.

While some perceive globalization as a profound and technological developments which enable companies from the industrially advanced countries to produce their products using cheap labour from say China or India, some others are politically charged with this phenomenon and view this as the game of great power of international corporations, privatization of state assets in order to meet IMF and World Bank requirements and as the imperialistic tendencies of western media and culture.

Globalization is also used in various contexts as a 'political category of blame', a 'cultural category of fear', and 'an economic category of opportunity and enterprise' (Ericson and Stehr, 2000). Globalization has also been defined as the growing interconnectedness of the world as something new and unique (Held, 2000). Further, Globalization has been defined as the intensification of worldwide social relations which

link distant localities in a way that local happenings are shaped by events occurring many miles away and vice versa. In other words, globalization is a dis-embedding and stretching process of the various modes of connection between different social contexts or regions across the globe and the globalizing process is an essential part of late modernity (Giddens, 1990). Robertson (1995), on the contrary emphasizes that global interconnectedness is a cultural process unfolding through the development of global consciousness, rather than simply being a process of global expansion of capitalism and modernity.

Giddens, however, argues that people's lives are influenced and ordered by events and social institutions spatially far removed from their local contexts and social life takes place at a distance. Harvey (1990) point out that globalization has been fuelled by the increasing speed of communication and movement of capital, resulting in the 'shrinking' of space and shortening of time.

Globalization is also described as the global flow to be in constant flux and the boundaries between the inside and the outside of different communities and cultures are getting blurred resulting in hybridity of entities that otherwise were relatively stable. The issues of concern have been on how to deal with constant flux of sometimes unfamiliar and undesirable people, ideas, images, objects, and activities. The meaning of home, community, nation, and citizenship is changing rapidly to extent of creating hybrid identities.

Giddens describes Globalization to an increase in reflexivity, disembeddedness and time-space compression. Castells explains the time-space compression using the idea of network society. He builds his explanations on two aspects viz., existence of the capitalists mode of production that focuses on commodity production, and (b) growth of information technology is the cause for the reorganization of social practices in space ant time leading to capital restructuring and autonomous technological change (Ray, Kiely in Politics of Globalization, 2009). It has been observed that both Giddens and Castells explain globalization as a reality but does not answer on how much of it is desirable. In a way they do not sufficiently explain the limitations of the processes of globalization.

Globalization has been summarized as a phenomena that is neither a free floating (Giddens, 1990) nor a technologically driven (Castells, 1996), the relationship between

nation states and global capitalist social relationship has varied over time, liberalization of trade, investment, and finance has been intensified in recent times, the different tendencies and outcomes cannot be solely explained by capitalism and the role of particular agents embedded in particular places need to be recognized in understanding this process, and contemporary globalization has to be understood as a phenomenon of a specific period within capitalism.

Ray summarizes that capitalism and globalization in five different aspects. Capitalism has been summarized as (a) the most dynamic mode of production in history, (b) its dynamism is rooted in the competitive accumulation of capital through the extraction of relative surplus value, (c) this dynamic process is prone to crises of over accumulation, (d) capitalism dynamism leads to more and more parts of the world into its orbit, (e) the national state remains to be the dominant form of organizing and expanding these relationships.

As Bourdieu (2001) described that "the word 'globalization' is a simultaneously descriptive and prescriptive pseudo-concept that has the place of the word 'modernization', long used by American social science as a euphemistic way of imposing a naively ethnocentric evolutionary model that permits the classification of different societies according to their distance from the most economically advanced society, which is to say American society". Bourdieu (2002) also argues that globalization is not a fate but politics and that the neo-liberal politics of globa lization has also weakened the trade unions.

Globalization is described as dynamic nature of capitalism (Marx, 1976). Capitalism can be seen from different perspectives, viz., separation of man from the land as it began in the 17th century. It characterizes high levels of specialization. It separates the producers from the owners. It distinguishes the employer from the employees. It is a situation where the rulers and landlords are replaced by capitalists. Further, monetization is a key phenomenon of capitalism where all human activities get codified in terms of money, where money replaces or represents all human activities. In simple terms, the expansion of capitalism across the globe has been the essence of Globalization. In the emerging country context, the market represents the economic sphere; whereas the state and its regulatory framework provide the political sphere in which the capitalist and large enterprise systems develop their social relationship.

Globalization and Role of State:

The role of the state has also been significantly changing with the neo-liberal forces of globalization. Long before, as the American multinationals began to expand across the boarders, Vernon (1971, 1972, 1977, & 1998) described the declining sovereign powers of the independent nations with the rise of multinational enterprises. He also argued that some nations could also use these multinational enterprises as conduits to control other nations. As the process of globalization intensified in the 1990s, many became expressed similar concern that Vernon has indicated earlier. Nation state was perceived to be withering away with the onslaught of the forces of globalization (Bauman, 1998; Hardt and Negri, 2000).

Friedman (1999), observes that the September 11, terror attack and the era of terror war show that capitalism, technology, and democracy do not work smoothly together to create a harmonious and increasingly affluent social order. Instead of spreading prosperity as argued by the neo-liberalists, globalization led to discontent across the majority in the world (Stiglitz, 2002). Through the neo-liberals ideas of globalization, the industrially advanced countries were forcing upon the developing countries to throw away the same policies the industrially advanced countries had followed during their respective growth phases (Chang, 2003).

With increasing globalization, the role of government has emerged as a significant point for analysis. Since the emergence of industrial revolution, the idea of *laissez faire* gained momentum and the role of government had been questioned. Only after the *Great Depression* in the 1930s and the strong argument of Keynes (1936), brought back the role of government in national economy. However, with increasing globalization since the 1980s, the role of government has been questioned once again. Free market mechanism has been proposed to bring equilibrium and equity in countries irrespective of whether it is a developed country or a developing country.

Mudambi (2003) observes the changing role of governments in state-run command economies like Russia, privatization of state enterprises in Western Europe, and deregulations of some sectors in USA. The fast globalization process has been marked with removal of government restrictions and abolition of regulatory barriers to free

movement of goods, services, capital and labour. Many of the roles of the Government has been transferred to the private enterprises in the era of globalization.

It has been argued that asymmetric information is core to economics of regulation. If the government and the firm's managers had access to the same information on industry, market, firm's behaviour, etc.; the government could easily direct the managers to implement socially optimal plans. Since the managers are much better informed than the owners and regulators, the behavior of mangers can only be monitored imperfectly (Mudambi, 2003, pg.133-176). Indeed, this understanding can be further refined in the context of India; it is only the major individual shareholders and the top executives close to the controlling shareholders/owners who have the detailed information of the business and industry.

Further, contrary to the 'public interest theories of regulation', the 'economic theory of regulation' focuses on the income distribution consequences of regulatory processes and the incentives faced by the regulators themselves as have been argued by Stigler (1971), Posner (1971), and Peltzman (1976). These theories seek to explain how particular forms of regulation emerge and change by evaluating gains and losses implied by alternative institutional arrangements for the various interest groups involved. The dynamics of the formation of various committees of the Government of India, the inclusion of different members from the companies, and the entry of businessmen into the Indian Parliament and the recommendations of these committees in the Indian context could be greatly explained from this theoretical window.

A theoretical perspective on the process of collusion between regulator and firm is also provided in the works of hierarchies, i.e. principal-agent relationships consisting of several levels (Caillaud *et al* 1985). The economic theory of regulations do provide a framework to understand the information asymmetries between the firms and the government and how the strategic interaction between firm and regulator / government shape the policies; whether policies of privatization, liberalization, or globalization, etc. of a country that invariably favour only a few interest groups (with a few individual regulators and policy makers included) in a country.

Bagchi (2007) provides a historical context to the process of global financial integration during the period 1873-1914 to develop the argument that the process of today's

globalization has been in operation for a long time. Beginning with the pressure of fiscal extraction of the Ottoman Turkey in the pre-colonial states, the developing countries were coercively integrated in the subsequent years of industrialization in the west. The introduction of the gold standard, Bagchi argues had been a device for imperial control. The landlord dominated social structure across the countries further enhanced capitalism and control. He also observes that formal colonial India was financially excluded and exploited in the process of financial integration. Bagchi argues that the finance theories ignore colonialism in their analysis. In other words, the finance theories and the neo-liberal theories ignore the inherent and built-up asymmetries over time between firms and commons.

Globalization in Developing Country Context:

Dymski (2007) summarizes that asymmetries of power arising out of the legacies of the imperial age and the colonial era between the core and the peripheral economies has been leading to exclusion, vulnerability and systemic fragility in the contemporary global financial system and its integration across the core and peripheral economies. The lower and middle income households in the developing countries and former colonies or the economies in the periphery are increasingly being excluded in the process. Bagchi, Dymski and others (2007) suggest that we should move away from the theoretical fantasies and unrealistic assumptions to be able to capture the core issues of the reality.

Ghosh (2007) writes that in the age of finance, the forces of globalization have undermined the autonomy of Central Bank in the peripheral economies. Financial liberalization has reduced the powers of Central Banks to determine the monetary and fiscal policies of their respective developing countries. However, these have not resulted in attracting capital inflows and have increased the cost of capital for the Government to meet its fiscal requirements.

Patnaik (2007) explain the dynamics of global finance through an interesting prism. Describing the evolution of human relationship over time, he notes how the current system is under the illusion of finance. In the 17th century, the Marginalist revolutionists explained the notion of ‘factors of production’ that emphasized the symmetry between ‘labour’ and ‘capital’. Karl Marx developed that point and explained ‘commodity fetishism’ of his times, where the social relationships were obscured by the world of

commodities as objects that has remained the basis for the 'mainstream' economists. Further, the current world order of global finance is deeply under the illusion of finance divorcing the other important human relationships.

Patnaik refers to three types of financial illusions that are reflected both in policy making and even in theoretical discourse. First, government spending that might be through fiscal deficit does not improve the employment levels (under demand constraints) as per the Treasury view of 1930s and later as per the 'crowding out' effect. This argument however, misses to see that savings depend not only on interest but also on the level of output. In the above theoretical context, Patnaik argues against the policy decision of the Government of India on fiscal deficit management and their inaction on public investment especially under high demand constraints. On the contrary, the Government of India has been selling off (divesting) the Public sector enterprises at throw away prices as advised by the neo-liberal theorists and policy makers.

The second illusion is that there is no difference per se if the government were to borrow from domestic market or from foreign market. Borrowing foreign exchange either for imports when domestic unutilized capacities exists or for parking the foreign exchange in the central bank and print local currency where the interest rate of borrowing is higher than the lending rate, the proposition of borrowing from foreign market is dear to the domestic economy.

The third illusion is on the persistent demand to completely free the foreign exchange market in India that is rupee should be completely convertible and should not be pegged through Reserve Bank of India. Removal of controls in foreign exchange market would increase foreign investment into the country. Here the fallacy is non differentiation of 'capital-in-production' and 'capital-as-finance'. Indeed, what India has got in the last two decades is the 'capital-as-finance' and the havoc in the stock market at the cost of retail investors.

Pal (2007) observes from the existing literature that the financing patterns of firms from the industrialized countries are very different from the financing structure of the Indian firms during the last two decades. Drawing from the works of Mayer (1988, 1989, 1990), Pal summarizes the following with regard to the financing patterns of firms from the eight industrialized countries: Retentions are the dominant source of finance, minimal

amount of finance has been raised from the securities market, despite advanced capital markets, the stock market has contributed the lowest net funding in UK and USA, banks are the dominant source of external finance, etc.

On the contrary, Singh and Hamid (1992) and Singh (1995, 1998) show a paradox to the above phenomenon in the developing countries. The firms from the developing countries rely much more on external finance than the firms in the industrially advanced countries. Contrary to the theoretical proposition that deficiencies in the information gathering and market structure and the subsequent share prices being arbitrary and volatile, corporate sector will not rely on stock market but depend on internal sources or lending from the banks (Tirole, 1991), the firms in developing countries have behaved differently.

Despite the weaker stock market institutional mechanism in India, Pal observes that market capitalization in India has significantly risen since the process of liberalization began around 1985. The market capitalization to GDP ratio has risen from about 8.5% to 50% during 1985-2003. On one hand, Singh (1995) show that the top hundred companies in India has raised substantial amounts from the stock market and presents this as a paradox to the existing understanding that corporation in industrially developed countries rely more internal sources and bank loans. On the other hand Cobham and Subramanium (1995) using the accounting data of 1500 companies in India roll back to the old view that corporations in India have relied on bank loans and internal finances, an observation similar to that of the industrially developed countries.

It has also been argued that corporations in developing countries are unlikely to rely on the stock market for raising their capital because of the risk associated with a weak stock market institutional arrangement in the developing country context. How do explain the capital raising paradox of top 100 Indian companies (Singh, 1995) and 1500 Indian companies (Cobham and Subramanium, 1995). This will remain a paradox, when the large sized firms, medium sized forms and small sized firms are treated as similar entities as in the standard economic analysis. However, the size of the firms determines the characteristics and power of influence. Indeed, there are inherent asymmetries among these firms on various factors. With higher asymmetric power, the larger firms are better positioned to exploit the institutionally weaker stock markets in India to raise huge capital for their expansion and growth as compared to the small and medium sized firms in India.

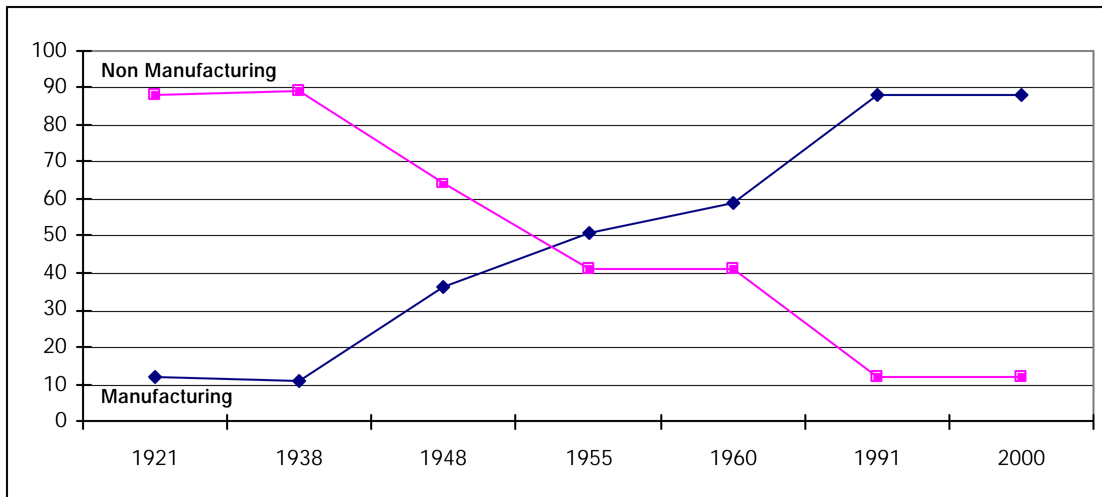
Like the stock markets in several large developing countries, the situation in Indian stock market has reminded many to the observation of Keynes (1936): '*when the capital development of a country becomes a by-product of the activities of the casino, the job is likely to be ill-done*'. Interestingly, only the large and powerful are found to play and profit in the business of Casino.

Globalization In and Of India:

India has had a long experience of foreign investment in India since the 1880s. Foreign investment in India has been largely in the trade and services until 1931. With the introduction of import duties in 1931, small amounts of direct investment in the manufacturing sector began. The share of direct investment in manufacturing industries rose slowly from the late thirties to early 1990s. See **Figure 1** for the trends of foreign direct investment in India during 1921-2000. However, the outward investment from India has been little until around the mid 1990s. During the last decade there has been some amount of outward foreign direct investment from India. The story of globalization with regard to India has been more a case of globalization in India than globalization of India until the end of twentieth century (Nayak, 2008).

Foreign Investment in and out of India was limited until around the end of Second World War. Before 1931, the British Managing Agents under the colonial rule of Britain in India invested largely in trade and services. After India was free from the colonial rule, India formulated policies that increased the share of foreign investment into the manufacturing sector until around 1991, when the industrial policies were reversed at the behest of the World Bank and IMF.

Fig.1: Sector wise share of FDI, 1921 – 2000



Source: Nayak A.K. J.R (2008), Introduction: India in the Emerging Global Order: A Historical FDI Perspective, 1900s-2000 in Nayak & Jomon (2008), India in the Emerging Global Order, Tata Mcgraw Hill, New Delhi

The history of foreign trade and investment in India in the modern times could be summarized to have evolved through a six-stage process: Free Flow (1883-1917), Stimulated Flow (1917-1947), Restrictive Flow (1947-77), and Free Flow (1977-2005). **Table 1** summarizes the periods and the drivers of change that led to the evolution of the present liberalized and globalized structure of FDI in India.

1882-1917: This period was marked with virtually no or very limited restrictions on foreign trade and investments in India. British Managing Agents and British manufacturing companies were the key driver of trade policies in India during this period.

1917-1947: While UK became vulnerable, USA and Japan emerged as powerful nations. We find especially that the Japanese cotton textile firms like Mitsui Bussan and Gosho steadily increased their share of trade from around 1919 to 1930. By the end of WW-II, USA began to influence the decision on the overall global trade and economy and on India through its institutions of United Nations Organization and World Bank.

1947-1977: This period is probably the most hotly debated period with regard to the FDI policies in India. Having been free from the British Empire, India began a new journey from August 15, 1947. There was also a qualitative change in the nature of FDI, with the

share of FDI in manufacturing sector increasing significantly. The years 1962–77 of this period clearly marks a shift in the government's FDI policy.

1977-2005: We find a new and far more complex drivers and driving forces that have made India a highly liberalized economy with a globalized structure of FDI. This period can be seen from two phases 1977-1991 and 1991-2005, the direction of movement being the same in both these phases. Industrial Licensing Policy, 1977 announced relaxation of remittance of profits, royalties, dividends and repatriation of capital of foreign companies. Subsequently, a number of export-import items were brought under Open General Lincense (OGL). Indeed 1977-90, seems to be the preparatory period to lead the country for a plunge in 1991.

1991 is the watershed of the process of liberalization, privatization and globalization process in India. Vigorous and rapid policy changes were pushed down upon by the IMF, the strong arm of the G-8 countries led by USA, when India went to IMF seeking financial support for structural adjustment in the country.

Nayak (2008) summarizes that the historical analysis of foreign trade and investment and FDI in particular in India during the period 1882-2005 shows that today's liberalized economy and globalized structure of FDI in India have been an outcome of the alignment and adjustment processes of the Government of India to the pressures from foreign governments, multinational enterprises, Indian business houses, international finance and trade organizations with the free market perspective for over 120 years and is not merely a phenomenon of post 1991 sovereign policies of the Government of India as popularly perceived. The rapid change and development in FDI Policies in India in the post 1991 are only the manifestation of the changes initiated by the global forces in the past. The policy changes, their objectives and the outcomes for India should therefore be seen from these historical perspectives.

Table 1: History of FDI in India: 1882-2005

Characteristics / Period	Drivers of Change	Driving Forces	Major sources of Investments	Nature of Investments	Stages of Evolution
1882-1917	British Government, British Managing Agents & British Manufacturing companies	No restriction in FDI Import Duties in India were removed	UK	Trade & Finance	Free Flow Phase
1917-1947	1917-1930: British Government, British Managing Agents, British Manufacturing companies, & Japanese Cotton trading companies	Introduction of Import Duties	UK and Japan	Trade & Finance	
	1930-1947: British Government, British Textile Mills, Indian Textile Mills, & American companies	Imposition of Heavy Import Duties	UK	Trade & Finance and Manufacturing	Stimulated Phase
1947-1977	Government of India, International Agencies (UNO, World Bank, IMF & GATT), & Governments of USSR, USA, UK and other industrialized nations.	Industrial Policy, 1948 Industrial Policy, 1956 Monopolies & Restrictive Trade Policies, 1970, Foreign Exchange Regulation Act,1973 (FERA)	UK and USA	Manufacturing	Restrictive Phase
1977-2005	1977-1995: Government of India International Agencies (IMF, World Bank, GATT) & American Government& American MNEs	Industrial Policy, 1977 Industrial Policy, 1980 Liberalization of imports and exports Industrial Policy, 1985 Industrial Policy, 1991	USA, Germany and UK	Manufacturing	
	1995-2005: Government of India, International Agencies (IMF, WTO, World Bank), American Government, MNEs from Industrialized countries, & Indian Business Houses	Liberalization of trade & investment, Privatization of Public properties, and rapid Globalization in India Replace FERA with Foreign Exchange Management Act, 1999	Globalized	Manufacturing, Trade and Financial Services	Free Flow Phase

Source: Nayak (2008), Drivers of FDI Policies in India: A Historical Perspective, 1882-2005

What has been the impact of policies of trade and investment of General Agreement on Tariffs and Trade / World Trade Organization on India during 1955-2000? Nayak & Nayak (2005), through, the individual discussions with several industry experts, we estimated the lag between foreign direct investment (FDI) and reduction in imports and the lag between FDI and increase in exports. Instead of making a year to year correlation of FDI with imports and exports, they found correlated FDI with imports and exports with their respective lags. Further, instead of taking total imports and total exports, they took only the imports and exports that were affected by FDI for the analysis. The study showed that the trade and investment policies of GATT/WTO during 1955-2000 have had a mixed impact on the overall development objectives of India. Imports during 1955-75 substantially reduced with increase in FDI, meeting the objective of India.

However, the study showed that imports increased with FDI in the period 1976-2000. Exports slightly improved in the period 1955-60 and subsequently declined with increase in FDI. However, it has grown steadily with FDI in the period 1976-2000. Outsourcing, a part of exports from the services sector has been growing in India since 1991 and the outward FDI from India also gathered momentum since 1995. While foreign exchange reserves highly fluctuated through out 1955-1991, it has steadily grown after 1991 but there have immense loss to retail investors in the Indian Stock Markets. From direct investments in the manufacturing industries, investments have moved to services, financials services and stock markets through the foreign financial institutions.

Precursors to Globalization:

There has been a general understanding that the process of globalization has been there for a long time now and the current phase of rapid globalization has been observed to be a special case of the overall process of capitalism and globalization. While some historian trace the beginning of the current process of globalization to 1880s (Jones, 1996), other historians trace it to the 1750s. Bagchi (2007) argues that the present process of globalization and financial exploitation can be traced back to fiscal extraction of the Ottoman Turkey in the pre-colonial states. The process of colonization

and subsequent introduction of the gold standard were some mechanisms to enhance rent seeking by large traders, companies and powerful governments.

With the industrial revolution of the 17th century and surplus produce lead to international engagement of firms and governments. But the two World Wars and the Great Economic Depression in the first part of the 20th century disrupted the process of globalization as new forces emerged from these severe man-made disasters. These developments lead to adoption of new ways or mechanisms to continue the process of globalization and rent seeking of the earlier periods in the middle of the 20th century.

The Bretton Woods Conference in 1944 (after the 'Great Depression' of 1930s in the industrially advanced economies and the losses incurred due to the Second World War), set the tone for the current form of global trade and investment. The current trend of globalization and laissez faire capitalism with the implementation of World Trade Organization (WTO) was indeed introduced as International Trade Organization (ITO) in 1944. While ITO was not approved by the member nations of the United Nations Organization (UNO), it was presented as General Agreement on Trade and Tariffs (GATT) in 1948. Subsequently, in 1995, the intensions of ITO was approved by the UNO and set up as WTO. With the setting up of the WTO and global institutional arrangement of International Monetary Fund (IMF) and World Bank, the process of globalization has gained the full momentum since the 1990s.

How did the developing countries that objected to ITO in 1944 accepted to set up WTO and adopt the laissez faire approach to economic growth? How has WTO evolved over time and what have the key steps adopted in the developing countries to fasten the process of globalization; as we see today?

The notion of efficiency within a closed system (say a firm), that efficiency is at the core of firm's existence (Williamson, 2002) and that the free market mechanism will be fair to all in any context, ignoring the assumptions of perfect market conditions are the underpinnings to the belief on the grand scale globalization that we see today. These notions have been used to liberalize the regulations on industry, trade, commerce, finance, labour laws, etc in the developing countries across the world.

Liberalization has indeed been a process in order to create free market within a nation, where the larger corporations are let free to make their own rules in the absence of strong institutional mechanisms or are able to shape the legislations of rules in the domestic market that further their business interests.

To enhance the efficiency of the firm, the logical step from liberalization is privatization of public assets. The large private firms and their spokesperson lead the key decision makers and legislators to promote privatization of the public assets. To advance the competitiveness of the local domestic firms, individual nations justify the process of Liberalization and Privatization in their respective economies. See **Table 2** for the amount of privatization of public assets across the world.

In the context of developing countries, large scale privatization of public assets is undertaken where the domestic large private corporations with deep nexus with the legislators buy out huge amount of public assets at throw away prices. The value of these public assets sharply rises once they are privatized. Further, the private enterprises hugely benefit from the complementary capacities of the public assets and resources.

The case of liberalization and privatization of valuable public enterprises in Russia in the early 1990s shows the overnight transfer of public assets to private hands at throw away prices. The depreciation of Rouble by 2000% made it very easy for private investors with foreign currencies like US dollar to acquire public assets in Russia. Large state run enterprises like Rusal and Severstal were quickly acquired by private capital. Several state run enterprises across the developing countries like India, China, and Brazil have either been fully or partially divested in favor of private capital.

With the advancements in liberalization and privatization and as the firms grow, their desire to find markets and resources outside the home country leads to advance the process of globalization. While all the three pillars to growth of firms, viz., liberalization, privatization and globalization, there is some sequential arrangement among the three. Liberalization and Privatization appear to be the typical precursors to Globalization.

Table 2: Amount of Privatization, 1990-99, World-wide

(USD in millions)

County	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999
Developed										
Australia	19	1042	1893	2057	2055	8089	9052	16815	7146	15220
France				12160	5479	4136	3096	10105	13596	9478
Italy			759	3039	9077	10131	11225	24536	14497	25594
Japan					13857		2039		6641	15115
UK	12906	21825	604	8523	1341	6691	6695	4544		
Others	7653	1371	4058	8772	15314	3440	32236	30700	47973	32404
Developed	**20506**	**24238**	**7314**	**34551**	**47141**	**48327**	**64343**	**86700**	**89853**	**97811**
Developing*	**12658**	**24242**	**26180**	**23663**	**21717**	**21903**	**25400**	**66573**	**49311**	**44075**
Global Total	33218	48480	33494	58214	68858	70230	89743	153273	139164	141886

Source: Naib, Sudhir. 2004. *Disinvestment in India, Policies, Procedures, Practices*, Sage Publication, New Delhi

* While comparing the amount of privatization in the developing countries, cost of living index should be used to get comparative figures. It may be noted that the cost of living in the advanced industrial countries are about 8-10 times that of cost of living in the developing countries. Hence the figures given for amount of privatization in the developing countries can be multiplied by 8-10 times to assess the comparative amounts of privatization.

Liberalization-Privatization-Globalization in India:

Although India has been a founding member of the WTO, 1995 by being a member of GATT, 1948, India tried to follow its own regulatory policies after it was free from the colonial control of Britain in 1947. Within twenty years, enough constraints and public pressure was created to ensure that India opens up its economy to firms from the industrially developed economies. In 1977, with the Janata Party in power at the centre and under Subramanium Swamy as the Finance Minister, the first wave of liberalization came in. As a first step of liberalization, many items for exports and imports that used to be under the State Trading Houses of the Government of India were shifted under the category of items under the 'Open General License' in order to allow private traders to be able to trade on these items.

The industrial and regulatory policies since 1977 have had some bearings of economic liberalization in India. The Industrial Policy 1985 and the Industrial Policy 1991 under the Congress Government has lead India towards a free market. One of the key constraining Act on the multinational enterprises, FERA 1973 was replaced with FEMA, 1999. Within the next 28 years of its first liberalization step in 1977, India was signed into follow the laissez faire policies of WTO in 2005. See **Table 1** for the driving forces including the major policy changes adopted since 1977 toward liberalizing the Indian economy.

Once an economy is liberalization, using the lens of firm efficiency and not the social efficiency makes the public enterprises apparently look inefficient. The notion of efficiency of a firm is within a closed framework; whereas the notion of efficiency for a public enterprise is an open social framework. The inability to appreciate the efficiency of public ownership or community ownership (Ostrom, 1990) blinds the advisors and the policy makers to sell of valuable assets to private capital, usually at very low prices.

The other technique that has been successfully used as in the case of India has been the partial divestment of public enterprises. With a mere 26% of the state enterprise, the private owners get full control of the management to put to use the capital reserves and assets of the public enterprise. The cases of Reliance Industries acquiring Indian Petrochemical Industries Limited (IPCL) and Tata Sons acquiring Videsh Sanchar

Nigam Limited (VSNL) highlight how the private firms have exploited the reserves and valuable assets of the public enterprises through the disinvestment mechanisms. By getting the management control of these above public enterprises, Reliance and Tata Sons have also controlled and raised the market prices of polymers and international call services, raising the cost of these products and services to the society. The private firms also gain significantly from the customer networks and other institutional network s of the public enterprises.

Through the legislation of the PSE disinvestment bill, a large number of public sector enterprises (PSEs) have been either partially divested or fully divested. Some of the profit making public enterprises has also been sold off strategically to the advantage of private firms and at the cost of the public. See **Table 3** for the percentage divested in different PSE. See **Table 4** for the strategic buyer, the percentage of share and the amount at which the PSE was acquired. Disinvestment of public enterprises has also been carried out at the state level. Across the different states, India has divested a large number of public assets held by public enterprises through the divestment bill. See **Table 5** for details on the number of companies divested and being considered for divestment in different states.

The process of liberalization-privatization-globalization argument has also approved the collusion of businessmen and the policy makers to decide on what is good for the country. For the first time in 1995, the Indian Government under the Bharatiya Janata Party (BJP) formally invited businessmen form the leading business houses to be part of key committees of the Government. With this move of the BJP, The Bombay Plan or The Tata-Birla Plan of 1944-45 that was rejected by M K Gandhi and J L Nehru because of its pro-rich focus came to the forefront and the private businessmen began to shape the development and welfare policies of the country.

Table 3: Details of PSEs Divested by 2001-02

	Name of the Enterprise	Present Govt. holding (%)	% of disinvestment
1	Andrew Yule (AY)	62.84**	9.6
2	BALCO	49	51
3	Bharat Earth Movers ltd. (BEML)	60.81	39.19*
4	Bharat Electonics ltd. (BEL)	75.86	24.14
5	Bharat Heavy Electricals Ltd. (BHEL)	67.72	32.28
6	Bharat Petroleum Corporation Ltd. (BPCL)	66.2	33.8
7	Bonagigaon Refinery & Petrochemicals ltd. (BRPL)	74.46	25.54
8	Cochin Refineries Ltd. (CRL)	55.04**	6.12
9	Computer Maintainance Corporation (CMC)	49	51
10	Container Corp. of India ltd. (CONCOR)	63.08	36.92
11	Dredging Corporation of India ltd. (DCI)	98.56	1.44
12	Engineers India ltd. (EIL)	94.02	5.98
13	Fertilizers and Chemicals (Travancore) ltd. (FACT)	97.3**	1.7
14	Gas Authority of India ltd. (GAIL)	67.34	32.66
15	Hindustan Cables ltd. (HCabL)	98.96	1.04
16	Hindustan Coppers ltd. (HCL)	98.76	1.24
17	Hindustan Machine Tools Ltd. (HMT)	91.56	8.44
18	Hindustan Organic Chemicals ltd. (HOCL)	58.61	41.39*
19	Hindustan Petroleum Corporation ltd. (HPCL)	51.06	48.94
20	Hindustan Photo Films Mfg. Co. ltd. (HPF)	90.13	9.87
21	HTL	26	74
22	Hindustan Zinc ltd. (HZL)	49.92	50.08
23	IBP	26	74
24	IOCL	59.95	40.05*
25	Indian Photochemical Corp. ltd. (IPCL)	82.15**	17.85
26	Indian Railway construction co. ltd. (IRCON)	99.73	0.27
27	Indian Telephone Industries ltd. (ITI)	76.67**	22.98
28	ITDC	89.97	10.03
29	Kudremukh Iron & Ore co. ltd. (KIOCL)	99	1
30	Madras Refinery ltd. (MRL)	53.8**	16.92
31	Mahanagar Telephone Nigam ltd. (MTNL)	56.2	43.8*
32	Minerals & Metals Trading corp. (MMTC)	99.33	0.67
33	National Food Industries ltd. (NFIL)	26	74
34	National Aluminum co. ltd. (NALCO)	87.15	12.85
35	National Fertilizers ltd. (NFL)	97.65	2.35
36	National Mineral Dev. Corp. (NMDC)	96.36**	1.62
37	Neyvelli Lignite Corp. ltd. (NLC)	93.99	6.01
38	ONGC	83.64	16.36
39	PPL	26	74
40	Rastriya Chemicals and Fertilizers ltd. (RCFL)	92.5	7.5
41	Shipping corp. of India ltd. (SCI)	80.12	19.88
42	State Trading corp. of India ltd. (STC)	91.03	8.97
43	Steel Authority of India ltd. (SAIL)	85.82	14.18*
44	Videsh Sanchar Nigam ltd. (VSNL)	26	74
45	BRPL		
46	Kochi Refinery		
47	Nine (9) Properties of ITDC		100
	Total Amount	**23188.63 cr.**	

Source: Source: Naib, Sudhir. 2004. *Disinvestment in India, Policies, Procedures, Practices*, Sage Publication, New Delhi

Table 4: Details of Privatized Enterprises

Sl. No.	Enterprise	Buyer	Equity sold (%)	Amount (INR Cr)
1	Modern Food Industries ltd.	HLL	74	94.51
		HLL	26	44.07
2	Lagan Jute Machinery Co.	Muralidhar Ratanlal Exports ltd.	74	2.53
3	BALCO	Sterlite Industries	51	551.5
4	CMC	Tata Sons ltd.	51	152
5	Hindustan Teleprinters ltd.	Himachal Futuristics	74	55
6	Hotel Airport, Mumbai*	A.L. Batra	100	83
7	Hotel Juhau, Mumbai	Tulip Hospitality	100	153
8	Hotel Rajgir*	Inpec Travel	100	6.51
9	Hotel Ashok, Bangalore	Bharat Hotels	On lease	39.41
10	Hotel Bodhgaya, Ashok	Lotus Nikko Hotels	100	2.01
11	Hotel Hassan Ashok	Malnad Hotels	100	2.51
12	Hotel Madurai, Ashok	Sangu Chakra Hotels	100	5.48
13	VSNL	Tata Group	25	1439
14	IBP	IOCL	33.58	1153.68
15	Paradeep Phosphates ltd.	Zuari Group	74	151.7
16	Jessop & Co. ltd #	Ruia Kotex	72	18.18
17	Hindustan Zinc ltd.	Sterlite Industries	26	445
18	Mamallapuram Ashok Beach Resort	GR Thanga Maligai	100	6.8
19	Hotel Agra, Ashok	Mohan Singh	100	3.93
20	Qutub Hotel, Delhi	Susil Gupta & Consortium	100	35.67
21	Lodhi Hotel, Delhi	Silverlink Holdings	100	76.22
22	Laxmi Vilas Hotel, Udaipur	Bharat Hotels	100	7.52
23	IPCL	Reliance Industries	26	1490.84
24	Maruti Udyog	Suzuki Motor corp.	49.74	2424
25	Kovalam Ashok Beach Resort	M Far Hotels ltd.	100	43.68
26	Hotel Airport Ashok, Kolkata	Bright Enterprises ltd.	100	20.01
27	Hotel Aurangabad Ashok	Loksangam Hotels ltd.	100	17.4
28	Hotel Manali, Ashok	Auto Impex ltd.	100	4
29	Hotel Kaniska, Delhi	Nehru Place Hotels	100	95.95
30	Hotel Indraprastha, Delhi	Moral Trading & Investment (Mittal Group)	100	45.03
31	Hotel Varanasi, Ashok	Ramnath Hotels ltd.	100	9.11
32	Hotel Khajuraho Ashok	Bharat Hotels	100	2.21
33	ITDC, Chandigarh (incomplete project	M/s TAJGVK Hotels & Resorts ltd.	100	17.27
34	Hotel Ranjit	Consortium of Formax Commercial pvt. Ltd. & Unison Hotels ltd.	100	29.28

Source: Source: Naib, Sudhir. 2004. *Disinvestment in India, Policies, Procedures, Practices*, Sage Publication, New Delhi

*Being subsidiary of Hotel Corp. of India, disinvestment amount went to th e holding company
#Being a sick company, approval sought from BIFR. As it is a subsidiary of Bharat Bharti Udyog ltd., disinvestments amount will go to the holding company.
@ Based on minimum price the government will get from sale of its remaining equity in Maruti Udyog.

Table 5: Number of Disinvestment in different States

	Approx. No. Of SLEPs	SLEPs identified for Disinvestment/Winding Up/Restructuring	No. of SLEPs in which Process initiated	No. of SLEPs privatized	No. of SLEPs closed down
Andhra Pradesh	40	21	21	8	11
Assam	42	NA*	NA	0	0
Delhi	N.A.	NA	1	1**	
Goa	12	2	2	2	
Gujarat	54	24	24	1	
Haryana	45	22	13	1	12
Himachal Pradesh	21	15	5	3	2
Jammu & Kashmir	N.A.	7	2		2
Karnataka	76	19	6	2	6
Kerala	109	12			
Madhya Pradesh	26	14	14	1	
Maharastra	65	6	N.A		
Manipur	14	10	N.A		
Orissa	68	27	27	8	11
Punjab	53	9	5		5
Rajasthan	24	10	6	1	1
Tamil Nadu	59	13	3		12
Uttar Pradesh	41	9	9		
West Bengal	82	2	2	1	
Total	**831**	**222**	**140**	**29**	**68**

Source: Source: Naib, Sudhir. 2004. *Disinvestment in India, Policies, Procedures, Practices*, Sage Publication, New Delhi

*N.A- Not Available

** Delhi Vidyut Board

Perpetuation of Asymmetric Positions of Firms under LPG

Liberalization-Privatization-Globalization (LPG) is effectively a process of legalizing corporate control of society. It is a special case to let corporation control the externality. The high growth of multinationals in the large developing countries like India, China, Russia and Brazil can be explained from the context of LPG. The performance of these large domestic from emerging countries appears to be a function of their increased control of assets and valuable resources through the various policies of LPG. Firms that have better resources and access to the regulatory machinery and industry network further their asymmetric advantages over others with the LPG policies advances and these firms appear to increase in size, gain greater advantages of asymmetries, and increase their own efficiencies that fuel their subsequent growth. Subsequently, the firms become powerful enough to take charge of the policies of the nations leading to further perpetuation of asymmetries between the firms and the society at large.

The dynamics of globalization in a developing country therefore needs to be understood from the point of: (a) Characteristics of a developing country in terms of institutional deficiencies, lack of awareness on the issues and forces of globalization among people, lack of good political leadership, etc. (b) Relation among the different forces of fast Liberalization, Privatization & Globalization that lead to major changes in policies in different industries, weakening of public enterprises and creating space for private companies, incentives to private companies in the form of subsidies, tax holidays, easy industrial and labour laws, etc. and (c) Advantages of asymmetries among different players on socio-political-business networks, information, power of influence in country policies, resource & capital base, managerial competence, and resource reconfiguration processes of large firms in a free market environment.

The logic, politics and the dynamics of liberalization and privatization leading to globalization has been explained from different perspectives. However, the most compelling arguments around the liberalization-privatization-globalization policies for seeking efficiency and welfare of the society seem to be fallacious as has been observed by Hobsbawn and Baumol.

Hobsbawm (1969) observed that there are always agents who gain from unfavorable institutional arrangements. He said: "*It is often assumed that an economy of private enterprise has an automatic bias towards innovation, but it is not so. It has a bias only towards profit.*"

Baumol (1990) argued that "*While the transition into a new institutional arrangement presents opportunities for entrepreneurs of all types, only the skills of a few get the price. When the 'profit' or 'payoff to unproductive or destructive skills is high enough, institutional transition can be wealth destroying on a grand scale*".

While the liberalization-privatization-globalization is supposed to bring prosperity and welfare to the society, there is rising inequity (rising gini coefficient) across the nations of the world, especially after the fastening the globalization process in the last two decade. How do we explain this paradox between theory and reality?

In my analysis, globalization has been written in terms of trends, observations, and dilemmas. The agents for this phenomenon have been clearly captured. However, the basis or the logic for the agent or engine for this phenomenon has not been fully explained. The role of the firm, its key owner the capitalist and his/her means of engagement, capital that work in manner to create asymmetries in the capitalistic system and the globalizing environment has not been captured. Indeed, the capitalistic institutional frameworks that are designed with a top-down approach is a key factor that facilitates the faster generation of asymmetries between the larger firms and smaller firms and between firms and the common public and society at large.

Globalization: 'The War' between the Firm and the Marginalized

The global economic transaction was the key focus of the three global institutions, viz., World Bank, IMF and WTO. However, economic globalization is not free from the social, cultural, political and environmental issues. Hence, what began to be a trade engagement in 1950s, has become a complex phenomena of globalization today impacting the socio-economic-cultural-political and environmental aspects of people around the world.

Globalization during the second half of the twentieth century has indeed been a one way process for most of the developing countries. This is indicative from the empirical evidences of concentration of production in some geography of the world (Krugman, 2008). With the freer movements of goods, services, capital, labour across the world, the production function has moved towards the peripheral economies and the capital and technology seem to be concentrated in the industrially advanced economies.

The process of globalization and the rapidly changing regulatory environment creates several asymmetries in a developing country context; a situation that favors a few with access to critical resource base, competence, information and socio-political network to crystallize their resource bases and competences to reap the benefits of freer markets. The individuals and firms with greater asymmetric advantages make use of the institutional deficiencies[1] in the fast changing environment to gain further advantages that reinforces their existing asymmetric advantages. The greater asymmetric advantages of size, product specialization, technology, capital, management, and ownership give the power to control the market, industry and subsequently the society.

In retrospect, the dynamics of Globalization since the nineties resemble a war like situation where the large firms through a complex web of government and institutional mechanism have led to the disruption of the normal order in the developing country economies and let a new order emerge where the firms and the capitalists take control of the society. The socio-economic-cultural-psychological turmoil and pains experienced by the majority of the population across the developing countries and industrially advanced countries during the last two decades is probably more than what were experienced in the previous two World Wars. The destruction of lives and wealth, the amount of fear, anxiety and hopelessness among the marginal producers and consumers is far more than ever before.

[1] Khanna, Tarun and Krishan Palepu (2004), Emerging Giants: Building World Class Companies from Emerging Markets, Harvard Business School, discuss how the emerging multinational enterprises from the emerging economies have the advantage and are able to exploit the institutional voids existing in these economies. These institutional voids/deficiencies in Khanna and Palepu's explanation are however, seen from the perspective of institutional arrangement in advanced capitalistic economies.

Globalization is indeed a slow, progressive, violent and one sided war by the Firms on the ordinary marginal producers and consumers (The Marginalized) of the society and their common resources. The seeds of this current phase of the 'Global War' were indeed sown in the Bretton Woods Conference in 1944, at a time when the World War II was coming to an end.

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