Towards an Indian Approach to Globalisation

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1. Quests and Doubts

1.1 Introduction

The Sovereign Democratic Republic of India occupies a small proportion of India's long history – the half century since 1950. Within this short time span however, its economic regime has experienced two radical transformations. First, with the establishment of the Planning Commission in March 1950, India launched upon a unique experiment in state-led 'growth with social justice' within the constitutional framework of parliamentary democracy. However, this policy matrix came under significant pressure in the 1980s, culminating in the unprecedented balance of payments crisis in 1990–91. The Indian government responded to this crisis with an equally forthright policy regime grounded in a reform trinity popularly referred to as 'Liberalisation, Privatisation, and Globalisation' (LPG). These three economic concepts have necessitated a series of (ongoing) policy reforms by the Union and State governments.

Since June 1991, India has been a member of a small club of 24 'globalisers' (Dollar 2001). Internationally, globalisation has yielded impressive growth dividends, including for relatively poor developing countries. The list of 'post-1980 globalisers' includes Argentina, Brazil, China, Hungary, Malaysia, Mexico, the Philippines and Thailand which, as a group, experienced an acceleration in average growth from 1.4 per cent per annum in the 1960s, to 2.9 per cent per annum in the 1970s, 3.5 per cent in the 1980s, and 5 per cent in the 1990s.

1.2 Globalisation in India: basic premises and parameters

In this paper, we attempt to delineate India's national experience with globalisation keeping in mind the following points:

- Hesitant and intermittent initiatives apart, India began liberalising only after 1990–91.
- India's transition to globalisation is from an economic regime of state-led growth. This regime had a strong commitment to a development strategy of 'self-reliance' and import-substitution industrialisation based on massive public investments in long-term capital-intensive projects.

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1. The views reflected therein are personal and do not reflect the opinion or view of the Government of India.

- India's planning strategy was, besides the accumulation of industrial capital in the public sector, also geared towards ideals of distributive justice, balanced regional growth and positive discrimination in favour of weaker sections of society.[2]
- Implicitly since 1947, and explicitly since 1970–71, 'direct attack' on poverty has been a priority on India's development agenda.[3]
- As a constitutionally mandated 'Union of States', virtually all major economic policies in India are cast in a 'federal' mould, with 35 states and Union territories important stakeholders in economic reforms.

1.3 Change and continuity

As India has steered its economic policies towards increased participation in the global economy, a range of political, ideological and economic parameters have been modified, while others are likely to be more drastically revised in the future. However, because India's basic commitment to its Constitution remains paramount, globalisation will continue to be subject to the democratic process.

The economic policies promoting LPG, that were initiated by an incoming minority Union government in 1991, have been continued by the successive coalition governments that were formed after the national elections of 1996 and 1998. This is despite variation in the ideological complexion of the political parties that have formed these coalitions, and considerable turnover in state governments.

1.4 The path to economic liberalisation

The liberalisation process was initiated following a balance of payments crisis in 1990–91. India's economic reform program has emphasised gradualism and evolutionary transition rather than rapid restructuring or shock therapy. Gradualism has been the inevitable approach in India's democratic and highly pluralistic polity, given that reforms can only be implemented if they are supported by a popular consensus. The important reform measures undertaken so far are:

(i) The dismantling of the industrial licensing regime.

(ii) Throwing open industries reserved for the public sector to private participation.

(iii) Abolition of the *Monopolies and Restrictive Trade Policies* (MRTP) *Act*, which necessitated prior approval for capacity expansion or diversification by large industrial houses.

(iv) The switch from a fixed exchange rate regime operating in an environment of restrictive trade policy to a market-determined exchange rate operating in an environment of liberalised trade.

(v) The removal of quantitative restrictions on imports.

(vi) The reduction of the peak customs tariff from over 300 per cent prior to reforms, to the 30 per cent rate that applies now.

2. These included women, scheduled tribes, scheduled castes, and other disadvantaged groups.
3. In particular, policy has attempted to reduce rural poverty.

(vii) Allowing foreign direct investment (FDI) across a wide spectrum of industries and encouraging non-debt flows.

(viii) A cautious and gradual restructuring of the capital account.

(ix) Severe restrictions on short-term debt and allowing external commercial borrowings based on external debt sustainability.

(x) Wide-ranging financial sector reforms in the banking, capital markets, and insurance sectors, including the deregulation of interest rates, strong regulation and supervisory systems, and the introduction of foreign/private sector competition.

These economic reforms have yielded the following significant benefits:

- Gross domestic product (GDP) growth accelerated from 5.2 per cent between 1982/83 and 1991/92, to 6 per cent in the post-reform era (1992/93 to 2001/02).
- Foreign capital inflows increased from around US$100 million in 1990/91 to US$5 billion in 2000/01. FDI soared from less than US$100 million in 1990/91 to US$2.3 billion in 2000/01.
- The current account deficit has hovered at less than 1 per cent of GDP in recent years.
- Foreign exchange reserves currently stand at more than US$54 billion. These were less than US$1 billion during the 1990–91 balance of payments crisis.
- The composition of debt is also favourable. Short-term debt amounts to 3.5 per cent of external debt and concessional debt amounts to 36.5 per cent of total debt.
- The external debt burden looks sustainable according to a range of measures of indebtedness.[4] Both debt service payments as a proportion of current receipts, and the external debt-to-GDP ratio have been falling steadily during the 1990s, and currently stand at around 17 per cent and 22 per cent, respectively.

1.5 The Indian approach to globalisation

The Indian experience with globalisation and liberalisation, although durable and not reversible, has been, during the last decade of reform, somewhat different than most of the other G-20 members.

The authorities in India have revealed a preference for an India-specific brand of globalisation in which the content, sequence, and timing of policy measures are modulated to contain potential adverse shocks, while maximising the benefits of cross-border integration. This cautious approach has been guided by the perceived risk-return trade-off.

In India, the almost imperceptible transformation of the British East India Company from a humble trader into the political successor of an illustrious empire

4. Areas of concern remain, however, including India's continually large fiscal deficits, which have hovered above 5 per cent of GDP during the 1990s, and the disparate growth performance of the states during the 1990s, which has accentuated regional disparities.

continues to haunt the political class. The spectre of the return or a re-run of India's political capitulation to economic players outside the country has been raised at all levels of political activity, and continues to constrain governments' attempts to actively promote openness to external economic forces.[5]

India has, and always has had, an impressive amount of capital – fertile arable land, flourishing market towns and long-distance trade routes, fabulously rich *Nagar Seths* and functional small-scale manufacturing enterprises, palaces and other elite luxuries – but its life and culture were shaped by politics and priests, *not* by economic magnates. Thus, *capitalism* is a relatively new cultural force for the vast majority of Indians, *including* millionaires and billionaires. Indians are still nostalgic about Queen Victoria, Akbar the Great, and Ashoka, but their cultural pantheon does not include any capitalist, even though multinational companies like Liptons were active in Indian markets for several decades prior to 1947.

The impact of globalisation is also not uniform across countries and across different sections of the population within a country. 'Globalization is an uneven process, with unequal distribution of benefits and losses, both across the countries and within a country across different income groups' (Khor 2000, p 7).

In the context of the 'tyranny of the missing alternative', globalisation seems to be an inevitable reality. In India also, there is little objection to globalisation as such. However, it remains important to harness the force of globalisation to benefit human welfare and try to limit some of its adverse effects. Kaushik Basu (Basu 2001) echoed a similar view when he observed that, 'Globalization will bring with it many ills…But on balance, it will open up more windows of opportunity for India than close' (p 3842).

Stern (2001) corroborated these views when he observed that 'globalization has been with us for centuries, and it is here to stay…India has the resources to use globalization as a force for development and poverty reduction, as indeed it has already begun to do'.

Globalisation may have an adverse effect on social rather than economic goals. 'Globalization may be good for economic prosperity but is definitely bad for social goals... Globalization may be economically benign but...it is socially malign' (Bell 2001, p 114). According to Bardhan (Bardhan 2001), 'all around the world today many advocates of social justice are in some state of despair. Some of them fear that social justice is a lost cause in a global economy' (p 479).

1.6 Data constraints

Although India is today, in purchasing power parity (PPP) dollars, the fourth largest economy in the world after the US, China and Japan, it was, until the late 1970s, insular and inward-looking. It accorded highest priority to capital formation

5. India's increasing outward orientation is reflected in its participation in various global fora, including the G-20, the Enhanced Highly Indebted Poor Countries (HIPC) Initiative, and its contribution to the Standard Data Dissemination System (SDDS).

and poverty alleviation, and the Union and State governments dominated the economy, leaving the private sector to play a secondary role. Adoption of the LPG reform trinity, and throwing open the economy to internal and international markets have certainly brought about a great deal of change in India. However, although a lot of quantitative data are available, there are a number of reasons why it remains difficult to make conclusive inferences about the overall effect of globalisation on India:

- Because the scope of globalisation is ill-defined, it is very difficult, if not impossible, to determine whether or how much change is due to globalisation, and what and how much change took place during the globalisation era.
- On account of the large residue of pre-reform economic policies still in operation, it is almost impossible to separate the effect of globalisation from the effect of other, pre-globalisation, structures and processes.
- Because the LPG-related policy reforms were implemented gradually, rather than with a 'big bang', many globalisation initiatives are yet to 'take off'. Further, the requisite monitoring and evaluation mechanisms are not yet in place for even those policies that are a decade old.

Until these barriers are overcome, a detailed analysis and description of the consequences of globalisation on India's economy, and society, will not be possible.

2. Globalisation, Income Inequalities and Regional Disparities

2.1 Introduction

India is a nation in which economic and social inequalities are prevalent. Inequality in the economic realm takes two principal forms: income inequality, and wealth inequality. Income inequality has three further dimensions: inequality between individuals, inequality between regions, and inequality between the residents of rural and urban areas.[6]

Attempts to tackle income inequalities have had a long history in India. The egalitarian thrust of the Republic of India was highlighted within two months of coming into existence when the Union government headed by Nehru established the Planning Commission. With the establishment of Five Year Plans, egalitarian policies became especially prominent. However, the efficacy of these policies was called into question when the socialist opposition leader, Ram Manohar Lohiya, claimed that the massive planned expenditures had in fact had no discernable effect on economic inequality in India at all.

The question of whether economic inequality was rising or falling gained prominence once again towards the end of the 1960s when Hazari published a study

6. This third dimension of inequality is actually a special case of the second, but because of the high proportion of people that continue to live in urban areas, and the magnitude of inequality between urban and rural areas, we identify it separately.

about the concentration of industrial capital amongst the leading business houses of India. The resultant furore led to the establishment of the Monopolies and Restrictive Trade Prevention (MRTP) Commission, which was charged with preventing the growth of inequality in the industrial sector of the Indian economy.

Public interest in inequality was, however, diverted towards poverty when Dandekar and Rath (1971a, 1971b) published a study entitled *Poverty in India*, which showed that over 40 per cent of the population lived below their designated 'poverty line'. Although this pioneering study included data outlining trends in inequality as well as poverty, this dimension of the study was forgotten amidst the public excitement about 'poverty'. Indeed, this was so much the case that Indira Gandhi's 'Quit Poverty' slogan enabled her to sweep to power in the 1970/71 Lok Sabha polls.

Of course, poverty in India is massive and pervasive. World Bank data indicate that 44.2 per cent of the population was living below the poverty line (BPL) in 1994–1998.[7] However, although nearly 450 million Indians can be described as 'poor', just over the same number of Indians do *not* live below the poverty line. Further, the distribution of income in the segment of the population above the poverty line is much wider than the distribution of income in the segment below. Thus, preoccupation with the alleviation of poverty has obscured the massive income inequality amongst people with incomes above the prevailing poverty line.

Scarcity of income distribution data makes it very difficult to arrive at a precise assessment of the impact of globalisation on income inequality, but it is clear that a vast gulf exists between different income earners. Table 1 shows that after seven to eight years of intensive pursuit of globalisation, the top 20 per cent of income earners had a total income of US$165.6 billion, a sum slightly higher than the total income (US$164.4 billion) of the poorest 60 per cent of the population. Hence, the key question before India is: does globalisation reduce the 'poverty gap' or accentuate and even aggravate existing income inequalities?

Table 1: Income Distribution in India
1999

	Population Million	**Size of income** US$ billion	**Per capita income** US$
Bottom 20%	196	38.8	187.8
Second 20%	196	54.8	279.4
Third 20%	196	70.8	381.1
Fourth 20%	196	91.4	466.4
Highest 20%	196	165.6	844.7

Source: World Bank (1999)

7. Using the familiar measure of US$1 per day.

2.2 Indicators of inequality

The spectrum of income inequalities can be viewed more vividly through the lens of either life-related data, or data pertaining to access to basic services such as water and electricity. While detailed data are hard to come by, there are, however, some firm indications that both these forms of inequalities have fallen in India during the last decade.

The literacy rate is one of the most potent indicators of individual inequalities. Literacy in India increased from 48.54 per cent in 1991 to 54.16 in 2001, making the majority of Indian people literate for the first time in recent history.

Another sign of falling inequality in India is the increase in the percentage of rural households with access to improved water sources from 73 in 1990 to 86 in 2000 (GOI 2002a). This shows, at a minimum, that globalisation is not choking off the development delivery systems in rural India, and that universal access to potable water is fast becoming a reality.

Finally, data showing that life expectancy in India increased from 54 in 1980 to 63 in 1998, and that the infant mortality rate fell to 70 per 1000 in 1999 from 115 in 1980, suggest that globalisation is a force improving living standards in India.

2.3 The development radar of well-being in India

The *National Human Development Report 2001* released by the Planning Commission recently (GOI 2002a) has utilised a new tool for scanning 'well-being' in India.[8] The 'Development Radar' is a composite octagonal socio-economic indicator that summarises changes over time in the following eight parameters:

(i) Per capita expenditure

(ii) Poverty

(iii) Safe water

(iv) Pucca house

(v) Literacy

(vi) Formal education

(vii) Life expectancy

(viii) Infant mortality ratio

Since the 1980s there has been an improvement in every development indicator, with particularly strong improvements in the proportion of the population with access to safe water, life expectancy, and education.

8. Amartya Sen's concept of well-being includes not only income-related dimensions such as education and health, but also vulnerability and exposure to risks.

2.4 Regional inequality in India

One of the earliest attempts to measure inter-state economic disparities was made by Dholakia (1985). Covering the period from 1960/61 to 1980/81, and restricting himself only to those states whose population exceeded 1 per cent of the total population of the country, he found that ‘State Product inequalities have increased in India over the period of twenty years from 1960/61 to 1979/80’ (p 62).

A major policy implication of the study was that although increasing government expenditure and providing incentives to boost private investment does lead to increases in the capital-labour ratio, such measures also invariably result in raising the capital-output ratio, thereby offsetting most of the advantages from a higher capital-labour ratio. Dholakia therefore suggested that India’s development strategy should concentrate on technological improvement, especially in the primary sectors of the backward states.

In the post-1980 period there has been a proliferation of studies of inter-state inequality using better data and more sophisticated analytical tools. However, most of these studies have been inconclusive about whether ‘conditional’ or ‘unconditional’ convergence has taken place, and have failed to determine why inter-state differences in living standards have been so persistent. In any case, studies analysing the effect of globalisation on inter-state inequalities are scarce.

One major study of inter-state differences in net state domestic product (NSDP) growth rates found that Madhya Pradesh and Rajasthan had performed well during the 1980s, while some states with otherwise positive scores on various development indicators lagged behind (Ahluwalia 2002).

Constructing time-series data for the Gini Coefficient in the years 1979 to 1981 and 1997 to 1998, Ahluwalia concluded that inter-state inequalities had ‘clearly increased’, but also noted that the perception that ‘The rich states got richer and the poor states got poorer’ was not ‘entirely accurate’.[9]

Drawing on Dutta, the United Nations Development Programme (UNDP) has also concluded that between 1980–84 and 1990–1994, ‘there has been an increase in this (inter-state) disparity’ (UNDP 1999, p 2). The ratio of per capita NSDP of the richest state (Punjab) and the poorest state (Bihar) rose from 3.30 in 1980–1984 to 3.78 in 1990–1994.

The following quantitative indicators of regional growth variations also underline the growing chasm between states’ economic fortunes:

- Gross state domestic product (GSDP) growth during the 1980s varied from 3.6 per cent per annum in Kerala to 6.6 per cent in Rajasthan, a ratio of highest to lowest of less than 2. The ratio increased in the 1990s to more than 3.5, with Bihar’s growing at 2.7 per cent per annum and Gujarat growing at 9.6 per cent.

9. In this study, Ahluwalia did not study the effect of globalisation on inter-state differences in NSDP growth rates.

- In the 1980s, average per capita growth varied from 2.1 per cent per annum in Madhya Pradesh to 4.0 per cent in Rajasthan. The spread widened in the 1990s from 1.1 per cent per annum in Bihar to 7.6 per cent in Gujarat.
- In 1991, Maharashtra had a credit/deposit (C/D) ratio of 72.3 while Bihar's C/D ratio was 38.3. By 2001, the ratio in Maharashtra had shot up to 85.4 while in Bihar it had fallen to 21.3.
- Across states, and between rural and urban areas, the 'digital divide' in India is disconcerting. Rural tele-density (telephones per 100 people) in Bihar in 2001 was a quarter of that in Rajasthan, which in turn was less than a third of that in Punjab (Table 2).

Table 2: Tele-density by State
As at 31 March 2001

State	Tele-density	Rural tele-density
Bihar	0.80	0.20
Assam	1.26	0.25
Orissa	1.42	0.48
Uttar Pradesh	1.45	0.29
Madhya Pradesh	1.51	0.42
West Bengal	2.30	0.44
Rajasthan	2.35	0.81
Andhra Pradesh	3.45	1.33
Haryana	3.80	1.34
Karnataka	4.00	1.60
Gujarat	4.67	1.42
Tamil Nadu	5.04	0.45
Maharashtra	5.43	1.24
Punjab	6.06	2.49
All India	**3.04**	**0.85**

Source: Company information of Bharat Sanchar Nigam Ltd, 2002, available at <http://www.bsnl.co.in>.

A more detailed scrutiny of inter-state growth variations reveals that the two states with the highest average per capita income between 1980 and 1991, Punjab and Haryana, lost momentum in the 1990s, so much so that Maharashtra and Gujarat overshot them. This indicates that the Green Revolution lost momentum during the globalisation era, while industry, the growth base of Maharashtra and Gujarat, was gathering speed.[10] If current relative economic growth rates continue, inter-state inequality will continue to increase.

10. Punjab and Haryana are primarily agricultural economies.

Thus, even though overall growth has been higher during the globalisation era, inter-state disparities are widening, thereby posing a challenge to policy-makers who must ensure that the benefits of globalisation extend to *all* states.

2.5 Globalisation, planning and poverty reduction

In 2001, Sachs, Bajpai and Ramiah (2002) observed that following the Green Revolution, high growth occurred in Punjab and Haryana and, to a lesser extent, in the adjacent states of Rajasthan, Gujarat and Maharashtra. The populous eastern states like Uttar Pradesh and Bihar, however, failed to take advantage of the Green Revolution. The authors thus regarded the differential effect of the Green Revolution as a cause of 'divergence' in inter-state living standards.

In another detailed analysis, Kurian (2000), used data relating to: (i) private investment; (ii) bank branches, deposits and credit; and (iii) trends in infrastructure development, to clearly establish that there are considerable disparities in socio-economic development across the states.

In particular:

- efforts through the planning process during the first decades of the Indian Republic had *only partially succeeded in reducing regional disparities*;
- the acceleration of economic growth since the early 1960s, with the increased participation of the private sector, appears to have *aggravated regional disparities*; and
- ongoing economic reform since 1991, and in particular stabilisation and deregulation, appears to have *further aggravated inter-state disparities.*

2.6 Unequal sharing of external aid

Although the studies cited above are rich in data analysis, they are, generally speaking, short on identifying the 'causes' of widening inter-state inequalities in India.[11] Recent data released by the government do, however, highlight the potential for globalisation to exacerbate existing disparities.

The data released by the Controller of Aid Accounts in the Ministry of Finance (GOI 2001) show that a very high proportion (between 60 per cent and 75 per cent) of total external assistance received by India between 1990/91 and 1998/99 was concentrated in only 7 of the 35 states and Union territories (Table 3).[12]

An even more worrying aspect of the above data is that aid may be accentuating regional income disparities in some cases. For example, Uttar Pradesh (a relatively poor state) saw its share of external assistance decline from 24.5 per cent (in 1990/91) to 7.7 per cent (in 1998/99) in only eight years, while the wealthier states of West Bengal and Andhra Pradesh saw their shares of external assistance increase.

11. Let alone isolating the effect of globalisation on these inter-state disparities.

12. Although these states' shares did decline by almost 15 percentage points over this period.

Table 3: External Assistance – Relative Shares of States

	1990/91	1991/92	1992/93	1993/94	1994/95	1995/96	1996/97	1997/98	1998/99
All states (Rs million)	18 870	33 260	37 410	34 470	38 320	38 720	52 520	50 960	63 560
Share of total (%):									
Andhra Pradesh	9.0	11.1	19.0	17.1	11.9	11.8	10.0	16.3	16.2
Gujarat	12.2	8.6	12.0	3.0	1.7	2.2	7.8	3.9	4.6
Karnataka	5.9	7.7	6.5	7.7	6.8	3.3	3.6	3.4	4.8
Maharashtra	11.2	10.2	13.0	15.3	16.4	21.4	19.2	12.7	9.2
Tamil Nadu	9.3	8.7	10.3	11.6	15.8	10.6	7.8	6.0	5.1
Uttar Pradesh	24.5	23.1	10.1	12.8	5.5	7.9	11.4	10.6	7.7
West Bengal	3.4	3.4	2.4	2.1	1.9	1.4	4.6	11.0	15.1
Total share of seven states	75.5	72.8	73.3	69.6	60.0	68.6	64.4	63.9	62.7

Source: GOI (2001)

2.7 The distribution of FDI among the states

Maharashtra (3 716 rupees per capita) and Tamil Nadu (3 587) received the first and third largest FDI injections per capita, respectively, between 1991 and 2001, while Uttar Pradesh (253) and Bihar (89) lagged behind. Indeed, even Rajasthan, which recorded rapid growth over the 1990s, received only just over 10 per cent of the FDI per capita that Maharashta received during this period (GOI 2002b). Further, the relatively small FDI flows into Punjab and Haryana suggest that FDI tends not to flow to agricultural regions.

2.8 Globalisation and the emergent geo-economic divide

According to a new measure of inter-state inequality, GSDP per capita as a proportion of India's GDP per capita, the 15 major states fall into two economic clusters or groups (Table 4).

Table 4: Per Capita GSDP as a Percentage of All India per Capita GDP

		Three-year average of incomes at current prices centred on:			
State No	**State**	1981/82	1985/86	1990/91	1997/98
Group I (G1)					
1	Andra Pradesh	87.4	82.4	92.5	92.9
2	Gujarat	125.3	124.4	118.8	137.4
3	Haryana	146.5	139.9	146.6	139.4
4	Karnataka	92.8	93.7	95.4	107.2
5	Kerala	90.5	90.9	87.8	116.4
6	Maharashtra	143.0	134.7	144.7	167.5
7	Punjab	168.6	165.0	169.7	146.5
8	Tamil Nadu	92.8	97.0	100.0	119.5
Group II (G2)					
9	Assam	83.6	92.1	83.1	62.2
10	Bihar	58.8	60.6	53.5	44.2
11	Madhya Pradesh	80.8	74.8	78.1	73.5
12	Orissa	75.0	74.7	66.9	61.8
13	Rajasthan	76.6	74.0	79.3	81.1
14	Uttar Pradesh	75.8	71.9	70.6	64.4
15	West Bengal	103.0	102.9	91.7	85.1
All India		**100.0**	**100.0**	**100.0**	**100.0**

Source: Kurian and Bagchi (2002)

A distressing feature of the data is not only that there is an economic clustering of states, but that the states are also spatially clustered. For example, G1 states tend to be coastal, and it is striking that the two poorest performing G1 states since 1981/82 were located in India's interior. Thus, the data point to a dangerous trend whereby non-coastal regions are consistently outperformed by coastal regions, a trend that must be addressed by Indian policy-makers in the near future.

2.9 Per capita income versus the Human Development Index

Inter-state differences in per capita income (PCI) are highly correlated with inter-state differences in other areas such as electricity consumption, literacy, health, and other indicators. But how highly correlated are states' relative PCI with their relative score on the Human Development Index (HDI)? Table 5 helps us to answer this question by allowing us to compare the rank order of 15 major states' PCI with their ranking in terms of life expectancy of females at birth, a proxy for a state's HDI score.

Table 5: Relationship between PCI and HDI in Major Indian States

State	Per capita or SDP rank 1990–1994	Female life expectancy at birth /years 1990–1992
Andhra Pradesh	8	8
Assam	13	na
Bihar	15	10
Gujarat	4	9
Haryana	2	4
Karnataka	6	4
Kerala	12	1
Madhya Pradesh	10	14
Maharashtra	3	3
Orissa	14	12
Punjab	1	2
Rajasthan	9	11
Tamil Nadu	5	6
Uttar Pradesh	11	13
West Bengal	7	7

Source: UNDP (1999, pp 2 and 7)

Although, in general, there is a high correlation between a state's PCI ranking and its HDI ranking, there are circumstances in which a state with a low (high) PCI ranking has a significantly higher (lower) HDI ranking. For example, Gujarat ranks fourth in PCI, but only ninth on the HDI. A similar story applies in reverse to Bihar.

This suggests that more research is required to better understand the relationship between living standards measured by per capita income and the HDI (Table 6). There is a further lesson for policy-makers. The experience of the states of Maharashta and Tamil Nadu shows that improvements in relative PCI and HDI can occur without corresponding improvements in the other. For example, although Maharashta became the state with the highest PCI between 1991/92 and 1999/00, there was no improvement in its HDI rank during this period. Thus, policy-makers may not be able to rely on growth to automatically improve broader measures of human welfare in India.

2.10 State policy in the globalisation era

Because Union and State governments played the dominant role in the economy until 1990/91, after which reforms to reduce the role of the state in the economy were introduced, there is considerable interest in how government policy has affected interstate income inequality since this time.

Drawing upon Planning Commission data, Kurian (2000) has produced a comprehensive data set covering developmental and non-developmental expenditure per capita in 15 major states between 1980/1981 and 1995/96. The data show that developmental expenditure as a proportion of non-developmental expenditure has fallen in all states except Maharashtra. Indeed the average ratio fell from 3.2 to 2.1, suggesting that, 'In 1995-96 as compared to 1980-81, the relative importance of development expenditure vis-à-vis non-development expenditure has come down as far as the state governments are concerned' (Kurian 2000).[13]

Interestingly, if we split the states into the same two groups as before (G1 and G2), and compare states' per capita incomes with per capita government expenditure, we find, unsurprisingly, that states with higher per capita incomes (G1) tended to have higher expenditures per capita. Thus, state governments' developmental expenditure appears to reinforce existing differences in per capita incomes.

Another indicator of the widening gulf between the G1 and G2 states is their share of India's population living BPL. G1 states' share of the total Indian population BPL fell from 36 per cent in 1983/84 to 28 per cent in 1999/2000. In contrast, the share of the Indian population living below the poverty line in G2 states increased from 62 per cent to 70 per cent over the same period (Table 7).

Thus, it is evident that during the post 1990/91 globalisation era, the coastal, more urbanised, and more industrialised G1 states have been more successful in reducing poverty than the G2 states. This outcome suggests that corrective policy may be required, especially as developmental expenditure has fallen in G2 states over the same period.

13. However, Kurian also reveals that the reason for the proportionate fall in developmental expenditure is the very rapid increase in non-developmental expenditure, rather than falls in developmental expenditure.

Table 6: Per Capita Net State Domestic Product (PCNSDP) and State Human Development Index (HDI) Ranking

State	PCNSDP 1981/82		HDI 1981		PCNSDP 1991/92		HDI 1991		PCNSDP 1999/00		HDI 2001	
	Rupees	Rank	Value	Rank	Rupees	Rank	Value	Rank	Rupees	Rank	Value	Rank
Andhra Pradesh	5 235	7	0.298	9	7 120	7	0.377	9	9 318	9	0.416	10
Assam	5 062	10	0.272	10	5 686	12	0.348	10	9 170	10	0.386	14
Bihar	3 541	15	0.237	15	4 132	15	0.308	15	4 475	15	0.367	15
Gujarat	6 934	4	0.360	4	7 923	5	0.431	6	13 022	4	0.479	6
Haryana	7 606	2	0.360	5	11 093	2	0.443	5	13 709	3	0.509	5
Karnataka	5 146	8	0.346	6	7 354	6	0.412	7	10 928	6	0.478	7
Kerala	5 545	6	0.500	1	6 892	9	0.591	1	10 107	7	0.638	1
Madhya Pradesh	5 069	9	0.245	14	5 732	11	0.328	13	7 564	12	0.394	12
Maharashtra	7 182	3	0.363	3	10 001	3	0.452	4	15 410	1	0.523	4
Orissa	4 010	14	0.267	11	4 757	14	0.345	12	5 411	14	0.404	11
Punjab	9 079	1	0.411	2	12 079	1	0.475	2	14 678	2	0.537	2
Rajasthan	4 480	12	0.256	12	6 119	10	0.347	11	8 272	11	0.424	9
Tamil Nadu	5 771	5	0.343	7	7 988	4	0.466	3	12 504	5	0.531	3
Uttar Pradesh	4 126	13	0.255	13	5 261	13	0.314	14	6 373	13	0.388	13
West Bengal	4 735	11	0.305	8	6 355	9	0.404	8	9 425	8	0.472	8
All India	**5 555**		**0.302**		**7 212**		**0.381**		**10 067**		**0.472**	

Sources: PCNSDP – Directorates of Economics & Statistics of respective State Governments; HDI data – Planning Commission, Government of India

Table 7: Share of BPL Population by State and Group of States

	State	1983/84	1987/88	1993/94	1999/00
Group I (G1)					
1	Andra Pradesh	5.10	5.22	4.81	4.57
2	Gujarat	3.65	3.98	3.28	2.61
3	Haryana	0.92	1.83	1.37	0.67
4	Karnataka	4.64	5.17	4.88	4.01
5	Kerala	3.31	2.58	2.39	1.58
6	Maharashtra	9.01	9.55	9.53	8.76
7	Punjab	0.89	0.82	0.73	0.56
8	Tamil Nadu	8.05	7.53	6.31	5.01
Sub-total G1		**35.57**	**35.38**	**33.35**	**27.77**
Group II (G2)					
9	Assam	2.41	2.40	3.01	3.63
10	Bihar	14.31	13.71	15.40	16.36
11	Madhya Pradesh	8.61	8.61	9.32	11.47
12	Orissa	5.62	5.00	5.01	6.50
13	Rajasthan	3.93	4.60	4.01	3.14
14	Uttar Pradesh	17.24	17.47	18.87	20.36
15	West Bengal	9.87	9.35	7.95	8.20
Sub-total G2		**61.99**	**61.55**	**63.57**	**69.66**
All India		**100.00**	**100.00**	**100.00**	**100.00**

Source: Kurian and Bagchi (2002)

2.11 Urban-rural differentials

India’s large population is divided into two distinct socio-economic groups, the almost one-quarter of the population that lives in urban areas, and the three-quarters that live in rural areas. That there is an economic chasm between the two groups can be seen in Table 8.

The data show that although there was a similar proportional decline in poverty in rural and urban areas between 1985/86 and 1990/91, rural poverty remained much higher than in urban areas.

Table 8: Poverty (HPI) Differentials in Urban and Rural India
Per cent

	Urban poverty	Rural poverty
1985/86	38.33	49.02
1990/91	30.65	39.65

Source: Devaki, Prabhu and Iyer (2001)

3. Foreign Trade

3.1 Introduction

Through the ages, the Indian subcontinent has been a hub of oceanic as well as overland trade routes, especially between 1750–1830 when India was an important global manufacturer and was relatively highly industrialised (Table 9).[14]

Table 9: Indian Subcontinent's Relative Shares/Position
Per cent, including present-day Pakistan and Bangladesh

	1750	1800	1830	1860	1880	1900
Share of world manufacturing output	24.5	19.7	17.6	8.6	2.8	1.7
Per capita level of industrialisation	7	6	6	3	2	1

Source: NCRWC (2002)

In more recent times, however, India's share in world trade and world exports has fallen drastically, with the proportion of exports of goods and services to GDP remaining in single digits for most of the last 20 years (Table 10). However, since India's pro-globalisation reforms, its trade to GDP ratio has grown from 14.5 per cent (the average between 1981 and 1989) to 21.9 per cent (the average between 1990 and 1998). Indeed the acceleration in the growth rate of exports from 5.3 per cent per annum between 1980 and 1989, to 11.1 per cent per annum between 1990 and 1998, is a signal of the nation's intention to participate more fully in the global economy.

14. India's share of world manufacturing output ranged between 24.5 per cent and 17.6 per cent, and its per capita levels of industrialisation (relative to the UK, 1900 = 100) were as high as 7 (in 1750) and 6 (in 1830), compared with 4 and 14 in the US; 7 and 7 in Japan; and 10 and 25 in the UK.

Table 10: Exports of Goods and Services
Per cent of GDP

	1980–84	1985–89	1990–94	1995–98
East Asia and Pacific	21.5	24.0	27.6	34.1
Latin America and Caribbean	13.5	14.7	13.4	15.1
Middle East and North Africa	36.0	23.4	31.8	30.1
South Asia	7.4	7.6	10.6	12.4
Bangladesh	4.9	5.5	7.9	12.1
Bhutan	13.9	23.8	31.0	34.3
India	5.9	6.0	8.9	10.8
Maldives	20.8	31.8	na	na
Nepal	11.4	11.5	16.0	24.0
Pakistan	11.5	12.6	16.2	15.8
Sri Lanka	29.0	25.7	31.7	25.8
Sub-Saharan Africa	26.9	27.5	26.5	29. 3
Low income	11.7	13.0	18.7	21.8
World	19.5	18.7	20.0	22.1

Source: World Bank (2000)

3.2 Importance of becoming a 'globaliser'

India's emergence as an export-led economy during the era of economic reforms must, however, be juxtaposed against the 40 years of high import levels of high-value merchandise (e.g., petroleum), when imports of most consumer goods were prohibited either through quantitative restrictions or high tariff rates. Most of these physical and economic import controls have been dismantled since 1990/91, while tariff and non-tariff barriers to imports have been reduced. However, the question remains: is what is good for the 'globalisers', as a group, also good for India? Watkins (2002), of Oxfam, has already locked horns with the Dollar-Kraay case (Dollar and Kraay 2001) over the benefits of openness, while India-specific studies itemising the trade liberalisation measures adopted since 1990/91 have proceeded without a rigorous analysis of their social and/or economic impact. Specifically, more rigorous analysis of the effect of trade liberalisation on the Indian economy is needed.

4. Aspects of Globalisation of the Indian Economy

4.1 Foreign direct investment (FDI)

For almost three decades following the establishment of the Republic of India, foreign inflows of funds were not allowed. In any case, India's industry-led import-substitution policy of 'self-reliant' growth repelled foreign firms which saw it as incompatible with the free enterprise ideology reigning in the major industrially advanced countries of the world.

Thus, until the early 1980s the inflow of foreign funds for investment was very small. However, in the last two decades the average value of FDI increased from an average of US$110 million (between 1980 and 1989) to US$1 898 million (between 1990 and 1998). While FDI has increased rapidly, it is reasonable to conclude that until now FDI inflows have mostly targeted India's domestic markets, and have therefore made a negligible contribution to export-led growth. FDI is now growing rapidly as a result of transparent economic policies, social and political stability, and equal treatment of all Indian registered companies. The important challenge for India is to steer FDI towards the export sector and to ensure that FDI does not go entirely to the already successful coastal states.

4.2 Portfolio investment

Apart from FDI, portfolio investment has also been growing since 1990/91. Indeed, portfolio investment is almost as important as FDI to the Indian economy (Table 11).

Table 11: Relative Size of FDI and Portfolio Investments in India
US$ million

	Direct investment	Portfolio investment
1991	143.62	6.0
1992	258.00	4.0
1993	582.94	827.2
1994	1 048.54	2 164.8
1995	2 171.98	1 191.4
1996	3 020.99	3 058.2
1997	4 579.13	1 746.7
1998	3 377.17	–338.0
1999	4 016.10	1 559.9
2000	4 498.07	1 492.2
2001	4 281.10	2 843.3

Source: Securities Exchange Board of India

The acceleration of portfolio investment inflows into India, especially through the institutional route that has been encouraged, is a direct result of reforms undertaken to create a new financial architecture for regulating the financial markets. The deepening and indexing of equity markets, and stability in the foreign exchange market, are direct outcomes of these financial sector reforms. Indications are that the maturity of the corporate sector, stock markets and financial services sector has led to this rapid growth. Nevertheless, concerns about the volatility of such portfolio flows remain. With the degree of openness achieved in these sectors there is a perception that international companies have gained control of many parts of the economy, without developing a significant stake in the economy.

4.3 Globalisation and information technology

Contemporary India exists in several centuries at once and hence, bullock carts and postcards continue to vie for economic presence with new information and communication technologies emanating from Silicon Valley. Yet, Indian software professionals have established a major presence not only in the US but also in remote ‘processing’ centres in India. Indeed, the information technology (IT) industry in India grossed annual revenue of US$6.7 billion, and recorded a 53 per cent growth rate in 1999/2000. Because the globalisation of information in India in the last two decades has been driven by liberalisation, the Indian IT industry is forecast to grow substantially over the coming years.

5. Globalisation and Poverty

One of the most familiar maxims in India’s school textbooks in the 20th century used to be that India was a rich country inhabited by poor people. While accurate historical estimates are difficult to come by, it seems that this statement is most accurate when describing the last 150 years. The rapid rise in the rural population, the slow growth of off-farm economic enterprises, and the negligible infusion of new technology into the agriculture sector, combined to push the bulk of India’s rural population into a vicious circle of under-employment and poverty during this period.

The incidence of poverty, expressed as percentage of people below the poverty line, has, however, declined over the last 25 years, from 54.9 per cent in 1973/74 to 36 per cent in 1993/94. According to the latest (55th round) large sample survey data on household consumer expenditure made available by the National Sample Survey Organisation (NSSO), the poverty rate has continued to fall in the period to 1999/00, and is now 26.10 per cent (Table 12).[15]

The acceleration in the decline of poverty during the globalisation era is most welcome, and if the post 1993/1994 trend continues, the end of rural poverty may be in sight by 2015. This testifies to the positive pay-offs of globalisation, even though there are difficulties in comparing poverty estimates across time in India.

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15. This is the estimate when a 30-day recall period is used. The poverty rate is lower when the shorter period of 7 days is used.

Table 12: Estimates of Poverty

	All India		**Rural**		**Urban**	
	Number Million	Poverty ratio Per cent	Number Million	Poverty ratio Per cent	Number Million	Poverty ratio Per cent
1973/74	321	54.90	261	56.40	60	49.00
1977/78	329	51.30	264	53.10	65	45.20
1983	323	44.50	252	45.70	71	40.80
1987/88	307	38.90	232	39.10	75	38.20
1993/94	320	36.00	244	37.30	76	32.40
1999/00						
30-day recall	260	26.10	193	27.09	67	23.62
7-day recall	233	23.33	171	24.02	61	21.59

Source: Planning Commission, Government of India

Prior to 1993/94 the impressive poverty decline rates recorded were insufficient to reduce the absolute number of poor, which remained almost unchanged at around 320 million. However, the absolute decline in the number of poor in the post-reform period to 260 million in 1999/2000 suggests, perhaps, that India will not be the world's largest contributor to the global poverty headcount for much longer.

State poverty rates have also declined since 1973/74, although rural/urban and inter-state disparities are still visible. For example, poverty rates are higher in Orissa, Bihar, and the north eastern states, than in states such as Madhya Pradesh, Kerala and Gujarat. States have employed a number of methods to reduce poverty. Punjab and Haryana reduced poverty by achieving high growth in the agricultural sector; West Bengal implemented land reform; while the government of Andhra Pradesh took responsibility for the distribution of food grains.

Evidence presented by the World Bank (1997) suggests that declining poverty in India has been associated with the acceleration of GDP growth. The poverty rate declined, on average, by just over 0.9 per cent per annum between 1951 and 1975, at a time when per capita incomes grew by a modest 1.7 per cent per annum. When, between the mid 70s and late 80s, per capita growth increased to about 2.5 per cent per annum, the poverty rate declined by 2.4 per cent per annum.

However, the relationship between economic growth and poverty remains complex. For example, Ravallion and Datt (1999) found that there was only a weak positive correlation between a headcount index of poverty and trend growth in non-farm output per capita across India's 15 major states between 1960/61 and 1993/94. Thus, they concluded that, 'There is…enormous heterogeneity in the impact of non-farm economic growth on poverty' (Ravallion and Datt 1999). Their finding that, 'higher average farm yields, higher state development spending, higher (urban and rural) non-farm output and lower inflation were poverty reducing', does, however, give policy-makers some guidance as to the policy mix most likely to generate poverty reductions. In particular, it suggests that there is a role for the State in ensuring that growth reduces poverty, particularly in rural areas.[16]

6. Globalisation and Employment

6.1 Introduction

According to the latest data (Table 13), work participation rates in rural India for both men and women have declined since the early 1970s, although the decline has been more pronounced for women (Mahbub ul Haq 2002). If this decline can be attributed to globalisation, it seems clear that policy-makers will need to work hard to develop policies to reverse the trend.

Table 13: Work Participation Rates for Men and Women in Rural India
Per cent

	Men	Women
1972/73	54.5	31.8
1977/78	55.2	33.1
1987/88	53.9	32.3
1989/90	54.8	31.9
1990/91	55.3	29.2
1993/94	55.3	32.8
1994/95	56.0	31.7
1995/96	55.1	29.5
1997	55.0	29.1
1998	53.9	26.3

Source: Mahbub ul Haq (2002)

By looking at Tables 14, 15 and 16, we can make the following observations about the Indian labour market since the early 1980s:

- Total employment increased from 308 million in 1983 to 397 million in 2000.
- The rate of employment growth fell from 2 per cent per annum between 1983 and 1994, to 1 per cent per annum between 1994 and 2000.
- The labour force participation rate fell across all age cohorts between 1994 and 2000, a trend reflected in the deceleration of labour force growth from 2.3 per cent

16. For example, in those states with low literacy in 1960, subsequent growth was not poverty reducing because the poor were unable to take up the new opportunities. See Ravallion and Datt (1999) for further discussion.

per annum between 1988 and 1994, to 1 per cent per annum between 1994 and 2000.

- In 2000, organised sector employment represented 7 per cent of total employment. This had fallen from 8 per cent in 1988, largely because of the lack of public sector employment growth.
- In contrast, organised private sector employment growth accelerated from 0.45 per cent per annum between 1983 and 1994, to 1.9 per cent per annum between 1994 and 2000.

Table 14: Population, Labour Force and Employment Growth
Per cent per annum

	Rate of growth of population	**Rate of growth of labour force[(a)]**	**Rate of growth of employment[(a)]**
1972/73 to 1977/78	2.27	2.94	2.73
1977/78 to 1983	2.19	2.04	2.17
1983 to 1987/88	2.14	1.74	1.54
1987/88 to 1993/94	2.10	2.29	2.43
[1983 to 1993/94]	[2.12]	[2.05]	[2.04]
1993/94 to 1999/00	1.93	1.03	0.98

(a) Usual Principal and Subsidiary Status (UPSS)
Source: Planning Commission, Government of India

Table 15: Total Unemployment Scenario in India

Total number of open unemployment 1999/00			9 million
Unemployment rate (% of labour force):			
	Rural	Urban	All India
1987/88	1.98	5.32	2.62
1993/94	1.20	4.52	1.90
1999/00	1.43	4.63	2.23

Source: Ministry of Finance, Government of India

Table 16: Employment and Organised Sector Employment

	Employment Million				Growth rate Per cent per annum	
	1983	**1988**	**1994**	**1999/00**	**1983–94**	**1994–2000**
Total population	718.21	790.00	895.05	1 004.10	2.12	1.93
Total labour force	308.64	333.49	381.94	406.05	2.05	1.03
Total employment[(a)]	302.75	324.29	374.45	397.00[(c)]	2.04	0.98
Organised sector employment[(b)]	**24.01**	**25.71**	**27.37**	**28.11**	**1.20**	**0.53**
– Public sector	16.46	18.32	19.44	19.41	1.52	–0.03
– Private sector	7.55	7.39	7.93	8.70	0.45	1.87

(a) The total employment figures are on UPSS basis.

(b) The organised sector employment figures are as reported in the Employment Market Information System of the Ministry of Labour and pertain to 1st March 1983, 1988, 1994, 1999 and 2000.

(c) The rate of growth of total employment and organised sector employment are compounded rates of growth.

Sources: Ministry of Finance and Ministry of Labour, Government of India

6.2 Prospects for employment growth

In the unorganised sector, although agricultural employment fell from 76 per cent of the total in 1961 to 65 per cent in 1993/94, the relatively slow rate of decline means that even in the era of globalisation the agriculture sector will continue to be the main source of employment for years to come.

Of particular concern is the pressure on firms to reduce costs to maintain competitiveness. Indeed, there is some concern that India is heading toward jobless growth, as evidenced by the steady growth in the number of people registered at employment exchanges since 1990/91 (Table 17).

Finally, as revealed in Table 18, there have been, and will to continue to be, sharp differences in employment growth rates across industries. For example, employment growth in agriculture has been consistently lower than the national average over the last 20 years, while growth in the finance, insurance and real estate (FIRE) industries has been consistently higher.[17] Also of interest is that manufacturing employment growth, which was weak between 1980 and 1994, has been stronger than any other industry since 1994.

17. This may be of concern because the FIRE sector employs mainly high-skilled professionals, while the agriculture sector employs mainly the unskilled. Thus, if this sectoral imbalance in employment growth rates is related to globalisation, it may be a force for widening inequalities in India.

Table 17: Employment Exchange Registrations
1992–2001

	Number of registered job seekers (live registers)	
	No of persons	Annual growth %
1992	36.76	1.3
1996	37.43	1.9
1997	39.14	4.6
1998	40.10	2.4
1999	40.37	0.7
2000	41.34	2.6
2001	41.99	1.6

Source: Ministry of Labour, Government of India

Table 18: Annual Compound Growth in Employment – by Industry
Per cent

	1980–91	**1990–94**	**1994–98**
Agriculture, forestry, fishing and hunting	0.9	–0.4	0.1
Mining and quarrying	1.5	0.5	–2.8
Manufacturing	0.3	0.4	2.0
Electricity, gas and water supply	2.8	1.1	0.7
Construction	0.5	–0.1	–0.9
Trades, hotels and restaurants	1.3	0.9	1.1
Transport, storage, communications	1.1	0.7	–0.2
Financing, insurance, real estate	4.4	2.4	1.1
Community, social, personal services	2.2	1.1	0.9
National average	1.6	0.8	0.8

Source: Jha (2000)

Because the periods 1988–1994 and 1994–2000 roughly coincide with the pre-reform era, and the post-reform era in which the Indian economy became more integrated with the global economy, we can make some inferences about the effect of globalisation on the Indian labour market.

First, the globalisation era coincided with a decline in the rate of employment growth. This seems related, in part, to a decline in the elasticity of employment growth with respect to GDP growth, which stems from globalisation's effect on labour productivity and capital intensity. Second, because the agricultural sector still employs the bulk of Indian workers, Indian policy-makers need to pay special attention to the impact of globalisation on this sector.

Finally, in the post-reform era, there has been a divergence in employment growth rates across industries, which has, in part, been related to the growth of FDI in specific sectors such as manufacturing, FIRE and communications. This makes it increasingly important for policy-makers to ensure that workers are equipped with the skills to move from low-growth industries to high-growth industries.

7. Conclusion

Globalisation is a complex process that is having a massive impact on living standards across both the developed and developing world. In general, the balance of evidence suggests that globalisation is helping to reduce poverty and raise living standards. There is also, however, evidence that globalisation has deleterious consequences as well. For example, in India, inter-regional inequality appears to have widened during the globalisation era.

The challenge before India is in many ways unique. It is a country rich in knowledge and the production of technology. Historically, it has not, however, seen this knowledge as a commodity. In recent decades this has changed somewhat, and India has rapidly increased its integration with the global economy. Indeed the World Bank recently judged India to be one of the world's 'fast globalisers'. Despite the large steps taken by India recently, the rest of the world must recognise that India's democratic tradition, and its history of diverse views, mean that the reforms will continue to be implemented unevenly, and slowly. India will, however, get there in the end.

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