INDIA’S EXPERIENCES WITH GLOBALIZATION, INEQUALITY AND STRUCTURAL CHANGES: PROSPECTS AND CHALLENGES IN A MULTI-POLAR WORLD

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ABSTRACT

The decade since the early 1990s saw various rising economies initiating multilateral engagements. (“Organization for Economic Cooperation and Development OECD 2009”). An example of this is the reduction of tariff and non-tariff barriers in trade. “Globalization” and specifically “economic integration” has altered standard of living, had an impact on consumption patterns, which inevitably changed production patterns throughout the globe, notably in the developing world. This has resulted in the requirement for output of more evolved economic activities to increase in due course that have resulted in altered patterns in the allocation of various production factors. This has resulted in flow of technology and more efficient production units and most importantly inflow of “Foreign Direct Investment”. Yet it has to be noted that the trajectory of progress has been unequal, India is dealing with not only restructuring its economy from within but also finding its own niche in this relatively novel international economic arrangement.

INTRODUCTION

Underpinning such structural changes across the world accumulation for multiple technological, organisational, political and financial advancements are needed for increase in production. The distribution of raw materials is uneven across the globe, and producers tend to use easily available sources first, the emerging powers tend to use resources which are available in other parts of the world which requires an extensive infrastructure along with harnessing more energy and more labour employment. ¹ This will eventually increase almost all economies of scale and will result in reduction in cost per unit and expansion of markets and result in larger project productivity, it has traditionally required new associations of state and enterprise partnerships. England has seen transformation at the hands of Marshallian industrial districts into a ‘workshop of the world,’ they simply cannot compete with multi-unit, vertically integrated and the large scale enterprises found in the United States of America. Therefore, rising centers have become attractive avenues for mobile capital since the age-old centres of production become less attractive.

¹ "Productivity growth” is related in a significant manner to the “quality of human capital”. This “quality of human capital” implies the technological competence of the workforce. Same technology can be applied by different firms. However, the output varies depending upon the “skill or human capital of the labor force” that these firms employ (Romer 1990).
EFFECTS OF GLOBALIZATION ON INDIAN ECONOMY

The gulf crisis along with multiple other factors had caused economic emergencies in India around the period 1990s when the foreign currency reserves declined to mere three weeks outflow. Significant factors for such predicament were a failing economy, growing fiscal deficits, current account deficits in the Global economy as well as the soaring rate of inflation in previous years. This situation required drastic steps such as major structural changes in the Indian economy. At this point, the Indian Government had no option but to accept any sanctions to enter the stream of globalization in order to be allowed to access the World Bank's loan/grant facility. It decided to reduce the quantitative limits set by the scheme of licensing. It decided to reduce the quantitative limits set by the scheme of licensing. It agreed to phase-based adjustments in customs duty to standards appropriate to the WTO. Custom tariffs had to be reduced from about 70 percent to about 30 percent over the decades 1991-2001 in stages. Realizing that globalization alone could not support the ailing Indian economy, the Government of India decided to follow liberalized economic policies to foray into privatizing its economy. The steps taken toward these improvements in composition were: Firstly, Abolition of Industrial licensing Policy. Second, open access to technology from overseas. Thirdly, the elimination of government regulation over capital issues and the establishment of SEBI to foster the culture of equity in India. Fourth reduction in industries reserved for the public sector. Fifth, the decision to go for partial disinvestment in public sector enterprises.

POSITIVE EFFECTS OF GLOBALIZATION

Globalization had a dramatic influence on the Indian economy, which altered the following steps rapidly and positively. First, in 1991-92, the fiscal deficit plunged to 5.9 percent. Second, the annual growth of the GDP was around 6 percent. Third, in the light of new economic initiatives announced by the Indian Government, several new companies were established by local businessmen across different industrial segments. Fourthly, India now has a lot of work opportunities. Fifth, the Middle Income Community experienced sharp growth, which then fueled domestic consumption. The sixth point is innovations in telecommunications, highways, ports, airports, insurance and various major sectors have accelerated. Seventh, FDI and FII have increased. Eighth, the Make in India project is in vogue in modern times. Ninth, reduced costs of products and a wide variety of goods available to choose from are advantageous for Indian customers.

CHALLENGES OF GLOBALIZATION

Improvements to the above areas in the Indian economy are primarily due to reforms initiated by the Government of India. Globalization has had few, if any, contributions to the above achievements. There are some negative trends, however. These inventions are: A. Indian Economy's Integration. As a result, it is difficult for the government of India to separate its economy from the world economy. The government's economic decisions are no longer sovereign. The global economy is now driving it. B. Globalization has reduced the potential for self-reliance. Indian goods have been replaced by foreign exports. Global brands are now favoured by Indians over their own brands. Most Indian businesses are finding it hard to compete. C. A large part of the Indian market has been stolen from the Indian industry by steep and rapid reductions in customs duties and passed on to imports from existing global players. The new export prospects opened up by globalization for the Indian industry do not compensate for the losses suffered as a result of a decline in the demand for its goods in the domestic market of one billion people. D. Mass unemployment has resulted from automated machines,

which is the greatest challenge facing India's economy today. Therefore, globalization has had mixed reactions and effects which needs to be accounted for.

USA-INDIA-CHINA: INTEGRATION

Due to the difference in factor returns across multiple sectors, the flow of labor and raw materials from lower output activities to higher output activities could improve overall productivity and increase income, primarily in developed economies, gains would result from reallocation of factors and structural change due to productivity growth. Any structural change must therefore be seen as a major source of growth in labor productivity and, in turn, economic growth, especially in developing economies. This reallocation is an aspect of structural reform that would be stressed by every economic development study as a requirement for the economy to achieve higher growth rates. Three wide sectoral economic classifications are primarily used in studies of emerging economies, but a few use ten methods of sector classification. Structural change takes place throughout and even within large industries. The current literature, which is mainly focused on broad-sector data, does not reflect any impact of structural change noted within those sectors. A more thorough analysis would therefore provide greater insights into the mechanism and impact of systemic change on LPG.

The need to analyze the problems of structural change and productivity growth in emerging economies is largely due to (i) the growing participation of a country in the global economy through trade and FDI (ii) the evolving face of globalization promotes technological developments that have lowered production costs by reducing transport and communication costs; finally (iii) the changing character and consumption habits due to globalization. The objective assessment of the factors involved in any evolving economic system, as demonstrated by the heterogeneous growth in employment across different economic activities, indicates the reasons for lower growth in employment and the decrease in employment in some sectors. In every market, higher productivity growth rates have differing consequences for the overall economy's efficiency. This can be accomplished either by increasing sectoral efficiency or by, to some degree, reducing jobs. In a situation where productivity growth is due to work reductions, caution must be exercised with regard to the reallocation of labor.

Literature that contrasts the issues of systemic transition and productivity growth in India to China is currently scarce. They are the world's two fastest growing economies and, despite implementing radical structural changes, they are adopting almost identical development trends. Structural reforms are projected to play a greater role in both of these countries' global development cycles, as their markets have been greatly liberalized and their multilateral trading networks have been strengthened. A comparative study of India and China's experiences during the economic transition period would also assist policymakers in framing policies to attain faster and higher growth rates. From different vantage points, the present study aims to improve the current literature. First, this research focuses on the employment sources which are altered by using the input-output analysis. Second, it calculates the effect of labor reallocation on total labor productivity growth. Third, by limiting large indices of economic globalization and forms of human resource resources, it critically assesses the impact of structural change on LPG. Finally, the report explores the influence of structural changes on improving liberalization Privatisation and globalization, therefore, by taking into account the positions of different sources of capital, the development of an economy.

As part of broader systemic improvements through the multiple phases of production, policy steps inevitably raise the growth rate. After comprehensive structural reforms which were introduced in 1991, India experienced a new momentum in economic development. However, the pace of growth of the Indian economy is slower than that of the PRC, as economic reforms were implemented in 1978 by the PRC, about 13 years before India. World Bank data highlights that in terms of purchasing power parity, China's per capita Gross Domestic Product was smaller than that of India before 1991. India's growth rate in 1992 was overtaken by the Chinese growth rate, and the difference between the two countries has only become broader.
Note: This text is a snippet from a research paper, discussing the economic development in India and China. The text mentions changes in the sector composition, economic integration, and the impact of globalization.

Noteworthy structural transformations have occurred within various sectors of industries and the service sector. Mining, quarrying, utilities, and construction, and around 13 manufacturing industries are included in the industrial sector. In India, the share of employment of certain industries - like rubber, plastic products, machinery, electrical, transporting equipment - was almost twice as much as what it was before. The construction sector which was the main aspect of job growth in India around 1981-2010, its employment share increased by 4.29 times. Construction was one of the primary industrial sectors in terms of its value addition in the economy, which accounted for 6.6% of the total value added in 1981. Overall, we can conclude that the growth in employment in the industrial sector has been driven by modern activities. The share of total employment of other industrial activities registered negligible, almost amounting to negative growth during this period. Like India, China previously had an agrarian economy, with the agricultural sector accounting for 58.0% of employment, “32.5% of total value added in 1981”. Once the reform measures were initiated, the situation in China completely altered due to fast and extensive industrialization and tertiarization. By 2010, agriculture's share in employment declined to 31.9% and its value added was just 9.3%. On the contrary, the industrial sector's share in employment increased 1.13 times from 45.51% in 1981 to 48.85% in 2010. The rise in the industrial sector's income share 25.42% in 1981 to 28.83% in 2010. The income share increased 1.07 times during 1991-2001. The rise in the industrial sector's income share was definitely due to administrative reshuffle that occurred in the mid-1990s. The growth rate in the service sector's employment was prominently higher than the value added in 1981-2010; during the given period the sector’s “employment share increased 2.39 times- 16.45% to 39.32%”. Also, “the value-added share increased 1.9 times” from 22.01% to 41.86%. The share of the service sector in employment and the added value was very low in comparison to different market economies with similar levels of development compared with India. China, as a centralised and socialised economy, had given priority to agricultural and industrial growth over the tertiary sector. There was a gradual change in the following decades consistent with the progression of economic measures that provide an arena for market economy and to make space for private investment as well as ownership. Further, China joined WTO in 2001, this encouraged an increase in exports and Foreign Direct Investments, which also played a major role in employment and the income growth in this decade.

The case for India’s economic engagement with the United States strategically and especially through a free-trade agreement, is founded on five policy considerations—national development, regional primacy, Balance of Power in Asia, global institutionalism, and India’s political objectives. There are at least five areas of India and United States engagements: government to government engagements; military corporation; Integration between the IT sector in Bangalore, Karnataka and the Silicon Valley; finally, the rapport shared by Indian scholars and US educational institutions; and the Indians that reside in the United States of America. Of these the first and second factors are to this day affected by Cold War biases, and underwent most difficulties. The last three are products of globalization and have flourished because of this phenomenon, and have the brightest futures.

CONCLUSIONS AND IMPLICATIONS

India's level of economic integration is abysmal compared to the rest of the world in terms of internationalization of trade and capital. It has a low impact on India's Urbanization process. However, in comparison to the period before reforms, India’s globalization and urbanization has displayed decent and uneven growth in terms of sizes of the city, regional development and sectors. Significant development in

metropolitans is a distinctive feature of India's urbanization post LPG period. The process of Globalisation in India shows the same trend witnessed in China that is the process is limited to just the Urban areas. Globalization has proved to be a boon to India’s economy ranging from the Foreign Direct Investment to greater technological advancement. The growth in the service sector is notable, this has had a major impact on quality of living in India. Finally, India is emerging as a major IT hub and is growing as an export-oriented economy.

REFERENCES


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