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

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ABSTRACT

Since the early 1990s, several emerging economies have initiated a number of globalization measures to integrate with the world economy (Organization for Economic Cooperation and Development [OECD] 2009). For instance, emerging countries have significantly reduced both tariff and non-tariff trade barriers in recent decades. Globalization and economic integration have changed lifestyles, impacting consumption patterns and preferences, which in turn has changed production patterns all over the world, particularly in developing countries. As a result, the demand for the output of modern economic activities has increased over the years, resulting in changed patterns of allocation of production factors. Globalization and economic integration have also facilitated the transfer of technology, increased the efficiency of production, and substantially increased the inflow of Foreign Direct Investment (FDI) and trade. Yet it has been observed that the trajectory of progress has not been uniform, India is grappling with not only restructuring its economy from within but also finding its own niche in this relatively novel international economic arrangement.

INTRODUCTION

Underpinning these structural changes in world accumulation were the multiple organisational, technological, financial and political innovations required for a progressive increase in the scale of production. As raw materials are not evenly distributed across the world, and as producers tend to utilise conveniently located sources first, emerging powers have had to access raw materials from further away and, as the size of transportation technologies evolve, this requires more extensive infrastructures, the harnessing of more energy and the employment of more labour.[1] While this eventually increased economies of scale and reduced unit costs to expand markets and make ever-larger projects lucrative, it has historically required new combinations of state and enterprise partnerships. The Marshallian industrial districts that had transformed England into the 'workshop of the world,' were no match for the multi-unit,

[1] Productivity growth is significantly related to the quality of human capital, that is, the workforce's technological competence. Although different firms can apply the same technology, their output would vary with respect to the skill or human capital of the labor force employed by these firms (Romer 1990)

vertically integrated, large-scale enterprises of the USA. Hence, rising centers became magnets for mobile capital as older centres of production become less competitive.

EFFECTS OF GLOBALIZATION ON INDIAN ECONOMY

Beside the oil crisis and various other factors had created financial emergency in India around 1990 when foreign currency reserves were reduced to only 3 weeks outflow. Major factors for such a situation were stagnant economy, mounting fiscal deficits, current account deficits in international trade and high rate of inflation during the preceding many years. Such a situation demanded some drastic steps including major structural changes in Indian Economic policies.[2] At this point, Indian Government had no option but to accept the precondition of joining the stream of Globalization so as to be able to avail loan/grant facility from the World Bank. It agreed to reduce quantitative restrictions imposed through the licensing system. It also agreed to reduce custom duties in phases to levels acceptable to WTO.[3] Custom tariffs were reduced in phases over the decade 1991-2001 from weighted average of about 70% to about 30%. Realizing that Globalization itself may not help the ailing Indian economy, the then Government of India decided to go for privatization of its economy and to adopt liberalized economic policies. Some steps towards these structural changes were: Firstly, Abolition of Industrial licensing Policy. Secondly, free access to foreign technology. Thirdly, abolition of Government control over capital issues and creation of SEBI to encourage equity culture in India. Fourthly, reduction in industries reserved for the public sector. Fifthly, the decision to go for partial disinvestment in public sector enterprises.

POSITIVE EFFECTS OF GLOBALIZATION

The process of globalization had a dramatic effect on Indian Economy which responded swiftly and positively to these following measures.[4] Firstly, Fiscal deficit immediately came down to 5.9% in 1991-92. Secondly, the real GDP increased at an annual rate of about 6%. Thirdly, many new companies were formed by Indian entrepreneurs across different industrial segments in view of liberalized economic policies announced by the Government. Fourthly, a large number of job opportunities increased in India. Fifthly, Sharp growth in the Middle Income Group which fuelled domestic consumption. Sixthly, it helped in faster developments in telecommunication, roads, ports, airports, Insurance and other major sectors. Seventhly, It Increased FDI and FII. Eighthly, in recent times Indian PM Modi invited foreign companies to help in the "Make in India" mission whose results are good at the initial stage as Japan and

[2] : JAGANNATH MALLICK, Globalization, Structural Change and Productivity Growth in the Emerging Countries, Indian Economic Review , July - December 2015, New Series, Vol. 50, No. 2 (July - December 2015), pp. 181-217

[3] Employment growth was about 17% in 2005 because that was the year in which working 15-year-olds were first counted among employed persons (Lu et al. 2014)

[4] RAVI ARVIND PALAT, World Turned Upside Down? Rise of the global South and the contemporary global financial turbulence, Third World Quarterly, 2010, Vol. 31, No. 3 (2010), pp. 365-384.

China started to find ways for investment in India. Ninthly, Benefits for consumers are lower prices of goods and a wide range of goods available to choose from.

CHALLENGES OF GLOBALIZATION

All above improvements in Indian Economy were largely due to changed Economic policies of Government of India. Globalization had only indirect contribution, if any, in above improvements. However, there are some other developments which could not be happy developments. Such developments are: A. Direct effect of Globalization is intensified interdependence of Indian economy and world economy. As a result, it has become very difficult for the Government of India to insulate its economy from the World Economy. Government is no more the sole driver of Indian Economy which is influenced more and more by international policies and international economic conditions. Direction and depth of all economic activities in India is now governed largely by the global Economy. B. Globalization has been completely eroding the spirit of the 'Swadeshi movement' run by Mahatma Gandhi, father of the Nation. Large scale migrations from India and easy availability of foreign products have increased the exposure of Indian population to high quality and reputed foreign products/brands. Indians now prefer global brands over Indian brands. Globalization has adversely affected many established companies which had failed to face competition from established global players. C. Steep and fast reductions in custom duties have snatched a large part of Indian market from Indian Industry and passed it on to imports from established global players. New opportunities for exports by Indian Industry opened up by globalization are no comparison to the loss it has suffered on account of reduction in demand of its products in the local market of one billion people. D. Process of Capital intensive from labour intensive adopted global technologies and automatic machinery. But this has resulted in a high rate of unemployment in India which is becoming the biggest challenge for Indian Economy and the Government today. E. We may call globalization a double edged weapon who helped Indian consumers to enjoy all high Quality global brands. On the other hand, it helped the Government of India to tide over its serious foreign exchange problem, even though temporarily by getting loan from the World Bank. But, it has been at the cost of decontrol of Indian Government over its economy and at the cost of local Industry.

USA-INDIA-CHINA: INTEGRATION

The movement of labor and other resources from lower productivity activities to higher productivity activities may boost overall productivity and expand income, especially in emerging economies argued that, due to differences in factor returns across various sectors, gains can result from a reallocation of factors or structural change due to the boosting of productivity growth. Hence, the structural change should be seen as a major source of labor productivity growth (LPG) and hence economic growth, especially in emerging economies. This aspect of reallocation is a characteristic of structural change, which the economic development literature emphasizes as necessary for an economy to achieve higher growth. ies. Studies of developing countries mainly use the three broad sectoral economic classifications; however, a few, use the 10-sector classification method. Structural transformation occurs not only across the broad sectors but also within them. The existing studies, which are largely based on broad-sector data, may not reflect the structural change effect seen within certain industries. Hence, a more disaggregated analysis may provide better insights into the process and effect of structural change on LPG.

The relevance of the issues of structural change and productivity growth in emerging economies is largely due to (i) these countries' increasing involvement in world trade due to increased global trade and FDI; (ii) the changing nature of globalization promotes technological advances, which have reduced production costs by decreasing transportation and communication costs; and (iii) the changing nature and patterns of consumption demand due to globalization. The empirical evaluation of the factors of a changing economic structure, which is reflected by heterogeneous employment growth across various activities, suggests reasons for low employment growth or the shrinking of employment in certain sectors. A higher productivity growth rate in a sector also has ambiguous implications for the economy's overall performance. This can be achieved by either actually raising sectoral productivity or by reducing employment to some extent. If the productivity growth is due to a reduction in employment, caution should be exercised with regard to labor reallocation.

There is currently a dearth of studies that compare the issues of structural change and productivity growth in India and the People's Republic of China (PRC). These are the two largest emerging economies in the world and they have been following broadly similar patterns of growth after initiating substantial economic reform measures. The structural changes are expected to play a larger role in the process of economic growth in both India and the PRC, as these countries have significantly opened up their economies and improved their connectedness to world trade networks. Hence, a comparative study of the experiences of these two countries during the period of globalization will help policymakers to frame policies to achieve higher growth and development. The present study attempts to strengthen the existing literature from several points of view. First, this study explores the sources of employment change by using the input-output analysis. Second, it measures the contribution of labor reallocation to the overall growth of labor productivity. Third, it empirically evaluates the effect of structural change on LPG by controlling the broad measures of economic globalization and types of human capital. Finally, the study discusses the effects of structural change in boosting LPG and hence the growth of an economy by taking into account the roles of human and physical capital.

Structural change is associated with economic reform measures taken at various stages of an economy's development, which ultimately boost its growth. India saw a marked acceleration in economic growth after comprehensive economic reforms were implemented in 1991. However, India's economy has grown at a slower rate than that of the PRC, as the PRC introduced economic reforms in 1978, 13 years before India. World Bank data show that the PRC's per capita GDP in terms of purchasing power parity was lower than that of India before 1991. The PRC's accelerated growth rate surpassed that of India in 1992, and the gap between the two countries has widened since then.

Significant structural transformation also occurred within the subsectors of industry and service activities. The industrial sector comprises mining and quarrying, utilities (electricity, water and gas), construction, and 13 manufacturing industries. In India, the employment share of certain industries - such as rubber and plastic products, machinery, electrical and optical equipment, and transport equipment - nearly doubled during this period. The construction sector was the main driver of job growth in India during 1981-2010, when its employment share increased 4.29 times. Construction was also the primary industrial activity in terms of value addition, accounting for 6.6% of the total value added in 1981. Overall, employment growth in the industrial sector has been driven by basically modern activities. The share of total employment of other industrial activities, such as food, beverages, and tobacco, and wood and wood products, registered minimal or negative growth during this period.[5]

Like India, the PRC previously had a predominantly agrarian economy, with agriculture accounting for 58.0% of employment and 32.5% of total value added in 1981. After reform measures were introduced, the situation in the PRC completely changed due to rapid and widespread industrialization and tertiarization. By 2010, agriculture's share of employment had declined to 31.9% and that of value added to 9.3%. In contrast, the industrial sector's employment share 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; and its income share increased 1.07 times from 1991 to 2001 was partly due to changes in ownership in the mid-1990s (OECD 2005: 35). The growth rate of the service sector's employment share was significantly higher than that of value added in 1981-2010; during this period the sector's employment share increased 2.39 times from 16.45% to 39.32%, and the value added share increased 1.9 times from 22.01% to 41.86%. The service sector's share of both employment and value added was initially very low compared to other market economies with the same level of development as India. The PRC, as a planned socialist country, had prioritized agriculture and industry over the tertiary sector. This was gradually changed in subsequent decades in line with the progress of economic reforms in order to provide space for the market economy and to allow private ownership. Further, the PRC's entry into the World Trade Organization in 2001 significantly encouraged a rapid increase in exports and FDI, which also attributed to the growth of income and employment in the 2000s.[6]

The strategic case for India's economic integration with the United States, especially through a free-trade agreement, is based on five policy considerations—national development, regional primacy, the Asian balance of power, global multilateralism, and India's own political values. . There are actually five US–India relationships: the government to government relationship; the military to military relationship; the global integration between Bangalore and Silicon Valley; the link between Indian students and American universities; and the ties between the Indian–American diaspora and India. Of these the first two, which are still influenced by Cold War thinking and suspicions, have faced the most stumbling blocks. The last three, which are

[5] Judith M. Brown, Modern India: The Origins of an Asian Democracy (Delhi: Oxford University Press, 1985), 42.

[6] Shubhrajeet Konwer, INDIA-CHINA RELATIONS: LIMITED COOPERATION AND A CHEQUERED FUTURE, The Indian Journal of Political Science , Jan - March, 2011, Vol. 72, No. 1 (Jan - March, 2011), pp. 283-292

the products of globalization and flourish because of the phenomenon, are the most promising and productive.[7]

CONCLUSIONS AND IMPLICATIONS

India's economic globalization is low at global levels both in terms of internationalization of trade and capital. Its impact on India's urbanization at global level is negligible. Nevertheless, as compared to the pre- 1991 period, India's globalization and urbanization have shown remarkable and selective growth by city sizes, regions and sectors. Higher growth and larger concentration of urban population in metropolitan areas (mainly contributed by expansion of urban agglomeration areas, higher agglomeration economies and better business environment) is an important feature of India's urbanization in the post-globalization period. Thus, both the process and impact of globalization had been selective for metropolitan areas within urban India.[8] This feature coincides with international experience in countries like China.

7 David Scott, "India's 'Extended Neighborhood' Concept: Power Projection for a Rising Power," India Review 8, no. 2 (2009): 107–43.

8 https://www.aspistrategist.org.au/the-usindia-relationship-cold-war-politics-vs-globalisation/

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Globalization is important for India as it brings greater opportunities to exports, inflow of foreign investment and higher economic growth. India's post globalization urban growth is characterized by higher annual growth rates and largely contributed by the rapid growth of the service sector, especially business services that include highly export-oriented and foreign-investment attractive software and related IT services.