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A revisit of globalization and aftermath socio-economic development in India

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Abstract
New economic policy (NEP), defined by liberalization, privatization and globalization (LPG), introduced in the early 1990s in India, had an enormous and long lasting impacts on all the major sectors of the Indian economy making it more market and service oriented and expanding the role of private and foreign investment. This paper revisits the historical events of NEP and aftermath development in India.

Keywords: globalization India, international monetary fund, new economic policy, world bank

Introduction

After the independence of India the managers of the Indian economy took very cautious steps. They found the world sharply divided into two blocks: the one led by the capitalist economies (the US in particular) and other led by the communist economies, primary the then USSR. There was a cold war between these two blocs. Less developed economies is had no option than to join either of the two and invite the ire of the opposite bloc. Especially those economies that were under the British Empire and won freedom in the near past faced a difficult choice. India chose to keep a safe distance from both the blocs by inventing the idea of a mixed economy. In doing so, India invited at favour and suspicion from both the blocs. Some economies hold the opinion that the Indian economy was pro-capitalism in its core that wore the facade of a socialist economy. The state managed economic endeavours facilitated capital formation in the private sector, often at the cost of the public sector and resources, preparing for a smooth transition to open capitalism in future when the conditions were ripe such a transition. Bardhan (1984) has given a vivid picture of this possibility. Nevertheless, the officially proclaimed management policy of the national economy of India was modelled on the socialistic pattern primary that of the USSR.

It is relevant to note that since 1970's, the growth rate of the USSR economy had slowed down substantially. Extensive economic development based on vast inputs of materials and labour, was no longer possible; yet the productivity of Soviet assets remained low compared with other major industrial industrialized countries. Product quality needed improvement. Soviet leader faced a fundamental dilemma; the strong central controls of the increasingly conservative bureaucracy that had traditionally guided economic development had failed to respond to the complex demands of industry of a highly developed modern economy.

Conceding the weaknesses of their past approaches in solving new problems, the Russian leaders of the late 1980s were seeking to mold a program of economic reform to galvanize the economy. Mikhail Gorbachev was experimenting with solutions to economic problems with an openness never before seen in the history of the USSR economy. One method for improving productivity appeared to be a strengthening of the role of market forces. Yet reforms in which market forces assumed a greater role would signify a lessening of authority and control by the planning hierarchy, as well as a significant diminution of social services.

India was watching these developments closely. At home, the Indian economy also was facing a difficult time. The efficacy of economic management and socialistic pattern had led to serious malaise. Although we observe high growth rates of the Indian economy during the 1980's, much of this owes a very large amount of foreign borrowing. Joshi and Little (1994) attribute the high growth during 1980's period to the fiscal expansion financed by external and internal barrowings.

This is also the view expressed indirectly by Ahluwalia (2002) that growth in the 1980's was unsustainable, "fuelled by a build-up of external debt" (Panagaria, 2004). Hence, India had no much alternative than to opening of its economy to the international market forces.

The official pronouncement of the New Economic Policy (NEP) on stabilization and structural adjustment programs could have possibly taken longer if the events in the dusk of the said decade and dawn of the subsequent one would have allowed its postponement any further. The dawn of 1990's came with the great debacle of the USSR. This was an ideological disaster to the principles of economic management in India and one of the decisive events that brought India under the gravitational force of the capitalist bloc.

The agriculture sector performed miserably in 1987-89. Following the assassination of Rajiv Gandhi, PV Narsinmha Rao came to power in June 1991. At that time, India's condition on foreign exchange reserves was poor in June, 1991. At that time, India's condition on foreign exchange reserves was poor and precarious. India made a proposal for a loan of US$ dollar 2.26 billion from the IMF. In view of the destitution that the country was in, it had no alternative than to succumb to the World Bank-IMF prescriptions in embarking on the so-called stabilization and structural adjustment programs as a precondition to loan. The World Bank was ready with its proposed 'strategy for Trade Reform'. As a result, thus, India introduced the new economic policy (NEP) in 1991.

The NEP can be divided into two parts: the *stabilization programs* and the *structural adjustment and reform programmes*. While the former part basically aims at reducing macroeconomic imbalance (such as fiscal and current account deficit) by restraining aggregate demand, the later essentially aims at increasing growth, by eliminating supply bottlenecks that hinder competitiveness, efficiency and dynamism to the economic system.

Effects of Globalization on Macroeconomic Balances

Analysing the data of preglobalization and post-globalization periods, it has been concluded that Indian government revenue and expenditure data had adhered to the intertemporal budget constraints. This notion provides support for the moves towards fiscal consolidation, which occurred since the early 1990s. However, it is important to note that the reforms are unlikely to have led to a sustainable path for the debt stock. This is despite the fact that the size of the budget deficit as a proportion of GDP has fallen since 1991. Following the reforms, deficits have been financed through borrowings in a relatively less regulated financial market. As domestic markets have been liberalised, the cost of domestic borrowings has increased and concessional external financing has become a smaller proportion of total borrowing. This has led to a major increase in interest liabilities and to an increase in the debt-to-GDP ratio. Further, fiscal consolidation may well be required if Indian public finances are to be consistent with debt sustainability.

Effects of Globalization on Some Macroeconomic Indicators in the Domestic Sector

The foreign sector is yet a tiny part (about 5-6%) of the national income of India. The growth of gross domestic product, although impressive, did not take up any significant acceleration. If we measure the logarithm of GDP against time, we observe a linear growth. Thus, the impact of pre-globalization on structural changes so as to accelerate the growth rate of GDP has been meagre. Contribution of agriculture to the GDP continued falling at the pre-globalization rate and thus we find a linear trend in the fall of the percentage contribution of agriculture the percentage contribution of agriculture. The percentage contribution of the secondary sector to the total GDP continued increasing at more or less constant rate, indicating that the post-global globalization era did not bring any structural change.

The statistical trends in gross saving and capital formation indicate that the traditional long-linear growth, set in the early sixties of the last century, continued. However, indications are there to structural changes as to the sources of savings. Rate of savings (as percentage to GDP) in the household sector accelerated, while the said rate of savings (as percentage of GDP) in the public sector decreased. Saving in the Private corporate sector has shown an increase. Gross fixed capital formation has lagged behind the gross domestic savings.

Agriculture after Globalization

The statistics of area under 12 major crops in India covers about 95% of area under cultivation. The data indicate that after globalization, the area under cultivation has increased. However, the area under food crops as per cent to the total area under cultivation has decreased. More so the area under coarse (food) crops as percentage to total area under cultivation (as well as the total area under food crops) has decreased. This trend indicates a shift of the Indian agriculture to cash crops and in the food grain sector to the finer crops. As pointed out by Swaminathan (2002), such changes have affected the poorer section of the society adversely.

Components of Agricultural growth

We use Minhas-Vaidyanathan decomposition scheme with 1991-92 prices (WI) of major crops for decomposition analysis of agricultural growth. Among the percentage contributions of different components of Agricultural growth, the contribution of area under cultivation after globalization remains prominent as before globalization.

Agricultural policy and its impacts

With India's membership in the WTO, Indian agricultural policies underwent significant changes. Agriculture became more integrated into the world commodity market and conformal to the liberal policy regime advocated by the IMF. The gradual abolition of input subsidies on fertilizers, irrigation, electricity and credit, removal of trade restrictions on agricultural commodities so that the domestic prices are not out of tune with world prices, unification of prices so that the current system of dual markets in food grains and other agricultural commodities disappears, drastic curtailment of food subsidy confining the Public Distribution System only to the deserving poor, removal of all restrictions on the choice of we what to produce, where to sell etc., freedom of operations for agribusiness and so on, the Indian agriculture began assuming a new structure, markedly in contrast with the pre-1990-91. The structural changes have been observed in the land-use pattern for raising different crops. But fragmented small landholdings and poverty among the farmers severely limit the cultivation of crops for the market. The infrastructure for storage, transport, processing, grading and rating quality-standards are underdeveloped. Farmers are ignorant of the sophistication of global markets, as their experience is limited to primitive operations. The demand for most of the Indian farm products is very low on account of poor quality and quality control system. Therefore, with the poor prospects and scope for the export of Indian agricultural produce, the exporters face difficulties both in the domestic and foreign markets. For instance, Indian tea is a high-cost product. When cheaper tea comes into the market, the country’s high cost tea producers lose out. Yet, export oriented agriculture is gradually reducing the area of food cultivation, as more and more land is being used for cash crop production. The growing costs of agricultural inputs and shrinkage of the market for agricultural product are not only causing problems for farmers, but are also affecting rural employment severely. There is widespread migration of agricultural workers to other states and to cities. With the changes, the agro-based industries have not been able to pick up momentum so as to provide a thrust to the industrialisation process.

The Rural Economy and the Common Man after Globalization

The Indian agriculture has two main roles to play in the overall economy; first of providing food to the mass within the economy, and the second, to provide the commodities-food grains, fibres, oilseeds and other cash crops that make the inputs to the industries in the economy as well as this stuff that would earn the foreign exchange. In an economy, where no less than the one third of the population is below poverty line, the first role of the Indian agriculture is not to be brushed aside in the dazzle of the flourishing multinationals-led industries and the drizzle of the foreign lucre.

It is estimated that nearly 40% Indians do not have access to regular and adequate quantities of food. Hunger, malnutrition and under-nourishment are widespread. In some parts of the country many persons are stalked by death due to starvation, although the quantum of food grains in the stores or even produced annually does not warrant that. Such unusual hunger amidst plenty can be attributed to a host of reasons, many of which are direct or indirect consequences of the structural adjustment and stabilization programs India adopted at the start of the nineties. The government set out to reduce subsidies and fiscal deficit by cutting state expenditure on rural development, cutting food subsidies, reducing priority credit to agriculture and allowing Indian agricultural prices to move closer to world prices, which led to increased food prices. All of these, however meant falling rural employment and real wages for the landless, and more insecure and volatile incomes from cultivation for small farmers. Simultaneously, food prices in the Public Distribution System (PDS) went up because of the reduction in food subsidies. Very few could purchase food grains at high prices. The government was left with huge stocks and it ran up in enormous storage costs. Structural adjustment and stabilization programs failed to reduce subsidies and fiscal deficits. The only effect has been on poverty and its consequences- hunger, malnutrition, infant and neonatal mortality and deaths due to starvation. India now has 360 million people below the poverty line, of which 50 million are the poorest of the poor those living in conditions of extreme deprivation.

In the 1990s, food grain output in India fell below the population growth rates. The last time such a situation occurred was in the 1960s. The opening up of Indian agriculture to trade boosted the demand for non-food crops for export. Although total agricultural output still rose during the 1990s, liberalisation reversed the recovery the country was making in per capita food availability, undermining the food security.

Within the first half of the 1990s, growth of food output had decelerated to 1.7 % compound every year. During the same period population grew at 1.9 % compound every year. The thrust on exports of agricultural products has resulted in a significant change in cropping patterns. Indian producers have been diverting more and more cultivable land from food grains and pulses to the production of oilseeds, cotton horticultural crops, prawn culture animal husbandry etc.

In addition the land on which no well-defined property rights exist (for example, the village commons) are being fenced off and export crops are being sown either directly by the agri-business or by farmers they contract. A rapid increase in prawn culture has made many nearby plots saline and inuitable for cultivation, forcing their owners into the ranks of the landless labour. Rapid growth of exports of animal products implies that a greater proportion of the declining grain output is being used as fodder. Area under food grain cultivation in 1999- 2000 was 4.6 million hectares less than in 1990-91. The most severe decline has been in coarse grains and pulses, which are the main food grains of the poor. Gross area under coarse grains fell by almost 6.8 million hectare between 1990-91 and 1999-2000. For pulses the area fell by 2.4 million hectares. However, area under rice in 1999-2000 was 1.9 million hectares higher than in 1999-91 and area under wheat went up by 4.4 million hectares during the same period.

Table 1: Area and Production of Basic Food Crops in the Post-Globalization Decade

	Coarse Cereal		Pulses		Total	
Year	**Area (million hectares)**	**Production (million tonnes)**	**Area (million hectares)**	**Production (million tonnes)**	**Area (million hectares)**	**Production (million tonnes)**
1990-91	36.3	32.7	24.7	14.3	61.0	47.0
1991-92	33.4	30.0	22.5	12.0	55.9	42.0
1992-93	34.4	36.6	22.4	12.8	56.8	49.4
1993-94	32.8	30.8	22.3	13.3	55.1	44.1
1994-95	32.2	29.9	23.0	14.0	55.2	43.9
1995-96	30.9	29.0	22.3	12.3	53.2	41.3
1996-97	31.8	34.1	22.3	14.2	54.2	48.3
1997-98	30.8	30.4	22.9	13.0	53.7	43.4
1998-99	29.5	31.5	23.8	14.8	53.3	46.3
1999-2000	29.5	29.4	22.3	13.6	51.8	43.0

Table 2: Per Capita Annual Availability of Food Grains (in kg)

Item	1989-92	1992-95	1995-98	1998-2001
Cereals	159.3	156.5	156.6	149.1
Pulses	14.2	13.6	12.7	11.8
Food grains	173.5	170.1	169.3	159.9

Per capita availability of food grains decreased drastically during the 1990s. Rising population, decline in output of coarse cereals, stagnation in pulses production, rising use of cereals for animal feed purposes, rising stocks in FCI storage etc. are some of the most prominent reasons that led to the said decline. Besides, poverty it became more widespread and intensified. During 1989-90 to 1991-92, the annual average adjusted per capita food grains availability was 173.5 kg. It fell to 159.9 kg during the period 1998-99 to 2000-01 while cereals availability fell 11.2 kg per head, pulses fell by 2.4 kg (Swaminathan, 2002).

In India food security for the poor is closely linked with the PDS. After globalization, the issue prices for the PDS have risen very sharply. In 1997, while the targeted PDS (TPDS) was introduced, the government reduced the off-take from the PDS, quite substantially. Consumers were divided into *below poverty line* (BPL) and *above poverty line* (APL). The government calculated the economic cost as the sum of the procurement cast (Minimum Support Price or MSP) and storage, transportation and administrative costs. The economic cost thus calculated worked out to be more than the market prices in most areas. The MSP has been rising continuously and since 1998 it has exceeded the prices recommended by the CACP. The government has also to protect the interest of the farmers as well as respond to the pressure generated by the farmers and their sympathizers in the political circles. This compulsion on the part of the government led to a rise in the economic cost of the public stocks. Under the 1997 policy APL consumers were to purchase grain from the PDS at a price equal to the economic cost, while the BPL consumers were expected to pay half the APL price. No wonder if the prices that fully cover the said economic cost are higher than the free market prices. This led to the total withdrawal of the APL consumers from the PDS, while for the BPL consumers the issue prices too high, making the purchase from the PDS beyond their means. The off-take of rice and wheat taken together fell by about 10 million tonnes in 2000-2001, adding further to the already burgeoning grains stockpiled with the Food Corporation of India (FCI). We witness this paradox in our country- about 70 million tonnes of wheat and rice in Government stocks and over 200 millions children, women and men chronically undernourished (Dev, 1996).

Under the prevailing circumstances one cannot suggest to scrap the Public Distribution System (PDS), it should rather be further extended to the rural areas. It requires creating more employment opportunities for the rural people. There is a need to ensure that the cultivators get stable prices. More Strategies for water harvesting should be involved for cultivation in rain-fed areas and agricultural research should be directed towards providing food for the messes, and not towards generating profits for the agrimultinationals. To survive, India has to look at agriculture differently as it is the very backbone of livelihood and ecological security systems, as well as our national sovereignty (Patnaik, 2001).

Globalization of the Indian economy in general and the rural economy in particular will necessarily be modified in view of the forces and structures mentioned above. It is true that the globalization forces will also modify these structures in due course, but it is unlikely that it will occur in the short run. What is most likely in the short run is the reinforcement and streamlining of the dualistic structure and further deepening of the hiatus between the rich and the poor and between the rural and the urban. Today, in the post globalization era, one is not surprised if an employee (in the top rung) of a private concern (or a privatized organisation) in which the government has 51% stake) gets rupees 3 lakh per month or more as salary plus hefty perks, but the agricultural labourers' minimum wage rates fixed by the government lie in the range of rupees 50-100 per day, well below three subsistence wages as per the ILO criteria (ILO, 1996).

Impacts of Globalization on the Urban Sector:

Mathur (2003) was of the: Reviews of the post-1991 city-level changes show interesting results.

One: expansion in trade, capital flows, and consistently high economic growth as embodied in GDP, has not led to any acceleration in the overall urban growth or large cities.

Two: globalization has not resulted in any expansion of overall employment opportunities. It has selectively led to expansion of opportunities in retail trade, communications, and financial, banking, and real estate services.

Third: globalization has meant an increased demand for residential, office and commercial space. On a limited scale, residential space has been converted into commercial malls; new shopping plazas have sprung up, and townships with quality infrastructure have been developed around major cities to accommodate the branch offices of multinational and domestic companies.

Four: globalization has influenced city-level policies wherein new institutional and financial arrangements are being forged to improve service delivery and management and enhance city-level productivity. An overall assessment of city-level change is that these are few and limited. City transformation has not occurred. With the exception of new physical development and some special restructuring, no landmark shifts have occurred in urban form. Moreover, the changes appear to be isolated and 'add on' rather than signalling a structural shift in the economy of cities. The basic postulate that major improvements in infrastructure services can occur only if they are undertaken within the context of city economies is still in an infant stage.' Business process outsourcing and Call Centres that flourished in Indian Metro policies in Hindi last few years run in the nights to one side with the daytime office hours in the West. This working at nights requires adjusting the biological clock and social practices to a different time, which is turning out to be a major cause for health related and social problems.

Noticeable changes are occurring in family structure, especially in the urban centres, and fertility is falling due to a weakening of additional family controls and declining value given to procreation. Marriage is being considered as economic transaction, leading to serious threat to young women. The declining value of their procreative power puts women at the mercy of impersonal, market-driven economic forces with which they are ill-equipped to deal.

Conclusion

Globalization means the opening of local markets for the world and vice versa without any restrictions. This has created more opportunities for Indian industries to tap into more and larger markets worldwide. Thus, India has greater access to capital flows, technology, human capital, cheaper imports, and larger export markets. India needs to adapt its production capacity, prices and the quality of products to compete internationally.

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