UNIT 12 GLOBALISATION AND LIBERALISATION: IMPLICATIONS FOR STATE POLITICS

Structure

12.1 INTRODUCTION

The 1990s marks a rupture in the evolution of the political economy of India. In 1991 the government of India launched the New Economic Policy that ushered in the phase of liberalisation and globalisation in India. Liberalisation and globalisation are inter-related concepts. Liberalisation has come to mean a policy of industrial delicensing, deregulation and disinvestments and privatisation of the public sector; globalisation means opening the economy for foreign investment, removing restrictions to international trade and becoming part of the World Trade Organisation. The policy of liberalisation and globalisation has become synonymous with policy of economic reforms. Although the general practice is to locate the beginning of the economic reforms from 1991, yet traces of economic reforms can be seen in the economic policies followed by Indira Gandhi's government since 1980.The economic policies followed by the Rajeev Gandhi's government can be seen as a precursor to the economic policies unfolding after 1991.The present Prime Minister Dr. Manmohan Singh and economists like Jagdish Bhagwati have been among the early supporters of economic reforms. While the policy of globalisation and liberalisation is defended in the name of faster economic growth, its critics see it as or anti- poor policy. Some even perceive it as a surrender to the international capital. More than two decades have passed since the country was launched on the path of economic reforms. From 1990s onwards several governments in India have shown their commitment to pursue the policy of reforms. It can be said that now a near consensus exists in favour of economic reforms. Parnab Bardhan believes that this consensus is inexorable and irreversible. The UPA government headed by Dr. Manmohan Singh has also affirmed its commitment to go ahead with the policy of economic reforms with 'human face'. The idea implies that only the better off sections of society should not corner the benefits of reforms but benefit should also reach the common man. Even the left parties are not opposing economic reforms perse. The policy of globalisation and liberalisation has affected the lives of our country men in a big way. Their implications on State Politics have been far reaching. The policy of liberalisation and globalisation has led to the emergence of the regional capitalist class. A symbiotic relationship seems to have developed between the regional capitalists and the regional political parties. Many of the state governments have been vying with each other in attracting foreign capital. The new developments call for a fresh understanding of the centre state relations. The inter-state relations have also assumed significance in the context of New Economic Policy.

12.2 PARADIGM OF ECONOMIC DEVELOPMENT

Before the introduction of the New Economic Policy in1991 by the Congress government led - by P.V. Narasimha Rao, the Indian Economy was control –ridden, inward looking and one of the insulated economies among the Third World countries. In 1991 the country was faced with an unprecedented economic crisis with the balance of payment situation reaching or critical point. The foreign exchange reserve of the country was barely enough to pay for the imports of two months. The country had no option but to approach the World Bank and the IMF for loans to tide over its economic crisis. To procure these loans, the country had to agree to a package of Stabilisation and Structural Adjustment Programme. This package gave the needed boost to the liberalisation process of the Indian economy. To break through the traditional mindset opposing economic reforms, the government used the crisis in the economy to embark on the path of comprehensive economic reforms. Forty years of state-led, centralised and planned economic development was replaced by a market-led, liberalised and globalised model of economic development. In this new paradigm of economic development the state is viewed as a the root cause of all the economic evils and market is seen as panacea for all the economic problems. The ideological opposition to the policy of reforms was very weak around this time. The economic policies of the British Prime Minister, Margaret Thatcher in England and President Ronald Regan in the United States of America represented what came to be known as rolling back the state and giving larger role to market. In a way this indicated the dwindling popularity of Keynesian welfare state or what is also called the state administered socialism .The decline and disintegration of the former Soviet Union and the adoption of the capitalist path of development by its successor countries and the erstwhile communist countries of eastern Europe rendered the ideological props for pervasiveness of state control ineffective. This created a favourable climate for economic reforms worldwide. There has been a tremendous movement of students and job seeks to other countries, following the inflementation of the New Economic Policy. This has also led to a greater interaction and communication with foreign countries to the changes in the attitude about economic reforms. Similarly, closer home, the Communist China had started the policy of economic reforms around a decade earlier than India. The Chinese economy had made noticeable progress after pursuing the policy of economic reforms. In this way it is quite obvious that many national and international developments contributed in diluting the inhibitions against reforms and building a consensus in its favour.

The package of reforms that ensued in 1991 involved the devaluation of the rupee by twenty per cent. This was aimed at linking the rupee realistically to the market. Provisions for freer access to imports were made. The license control system was dismantled with the abolition of the Monopolistic and Restrictive Trade Practices which were taking place in public sectors as well with a shift towards gradual privatisation. These reforms also included the reforms in the capital market and the financial sector. The attitude on multinational companies and foreign investment witnessed a complete turn around. Restrictions gave way to reception.

12.3 ECONOMIC REFORMS AND FOREIGN DIRECT INVESTMENT

India had set out on the path of economic recovery by following the path of economic reforms. The Gross Domestic Product that had fallen to a paltry 0.8 per cent in the year 1991-92, had gone up to 6.2 per cent by 1993-94. During the Eighth Five year Plan period, the economy recorded the growth rate of around seven per cent. This rate of growth was pretty close to that of high performance economies of East Asia. This remarkable feat was achieved in spite of the pangs of crisis and structural adjustment. Other economic indices like Gross Domestic Saving had also witnessed an upward swing. The growth rate of Industrial production registered an increase from a meager 1 per cent in 1991-92 to 6 per cent in1993-94. It further zoomed to 12.8 per cent in 1996.The capital goods sector which showed a negative growth in the beginning registered a 25 per cent growth in 1994-95.This put to rest the fear that liberalising imports would hit domestic capital goods industry.

Exports that had registered a decline of 1.5 per cent in 1991 (term of dollar) started showing signs of a steady growth. Between 1993-96, it registered a growth rate of around 20 per cent. It was in tune with the objective of self- reliant growth. A considerably larger proportion of imports were now paid for by exports. The ratio of export earnings to import payments raised from an average of 60 per cent in the eighties to nearly 90 per cent by the mid 1990s.The foreign exchange reserves in 1991 which were barely enough to pay for the imports of two weeks had now become enough to pay for the imports of seven months by the end of January 1999. The debt situation which had reached a crisis point started showing signs of improvement. The overall external debt/GDP ratio for India that had gone up to 41 per cent in 1991-92 came down to 28.7 per cent in the year 1995-96.The debt service ratio which had touched 35 per cent in 1990-91 came down to 19.5 per cent in 1997-98. It was still higher than the debt service ratio of countries like China, Malaysia and South Korea, which was below 10 per cent around this period.

The opening up of the economy encouraged foreign investment to a great deal. Between1991 to 1996, the foreign direct investment grew at the rate of 100 per cent per year. From $ 129 million in 1991-92, it touched the figure of $ 2.1 billion in 1995 -96. It was a commendable achievement but on this score, the country still lagged behind the East Asian countries. For example, China has been receiving foreign direct investment to the tune of $30 billion annually. An important development was the gradual erosion of hostility against foreign capital. After the 1996, election a coalition government came to power with a left party as its constituent. The Common Minimum Programme of this government aimed at $ 10 billion of annual foreign direct investment. The National Democratic Alliance government, also followed a pro-foreign investments policy. Even the present United Progressive Alliance government, in spite of its dependence on the support of the left parties, is encouraging foreign investment.

After 1995-96, when the growth rate reached a peak of 12.8 per cent, there has been a decline to 5.5 and 6.6 in the next two years. This slowing down of the economy is partly seen as an impact of the recession in Japan, South Korea, Indonesia, Thailand and other nations. Around this time these economies were recording negative growth and even the world trade had slowed down in 1998. It was also blamed that India could not address itself to structural process inhibiting growth. Poor infrastructure [power, transport], archaic labour laws and continuing trade restrictions were to blame for the Indian economy not recording a higher growth rate.

Parnab Bardhan is of the opinion that in general, there has not been much political backlash against the policy of reforms. Many state level leaders supported liberalisation because it has been associated with a more open door policy for foreign investment providing a way out of fiscal bankruptcy to states. As a group, large business houses have not been losers; if they have lost due to increased competition in some areas they have also gained in some other areas, as restrictions to entry in certain areas have been eased.

There has not been much of resistance from the rich farmers. India joined the World Trade Organisation when the Government of India signed the Uruguay Round of the General Agreement on Tariffs and Trade (GATT) at Maracas in 1994. As per the conditions of the GATT, the developing countries including India are under an obligation to introduce subsidies where they were asked to keep subsidies to the farmers up to 10 per cent of their value output. India, with other countries of the Third World, has accused the WTO of following discriminatory practices. The developed countries continue to give subsidies while they pressurise the developing countries to cut subsidies. As is obvious, cutting subsidies would hurt the interests of the farmers. The response of the rich farmers towards the New Economic Policy or India becoming part of the WTO has not been undifferentiated. On the one hand, the leader of the rich farmers Movement in the western part of the country, Sharad Joshi has supported the new developments, Mahendra Singh Tikait in the north and Nanjundaswamy in the south, on the other hand, have been critical of it. These farmers are diversifying their investment from agriculture to agriculture – based industries like sugar, rice mills, food processing etc. The climate provided by the economic reforms seems to be serving their purpose. Some of the new entrepreneurs belong to the families of bureaucrats, army officers and other members of the professional classes. It is obvious that a new link has been forged between bureaucracy and capital. Jetkins is of the view that there has been a great deal of piecemeal reforms through a political process of diffusing resistance on the part of vested interests in many ways without causing massive political confrontations.

12.4 ECONOMIC LIBERALISATION: DIVERGENT VIEWS

One of the major criticisms of the policy of economic reforms has been on the ground that the reforms have been anti-poor. It is argued that these reforms have an inbuilt bias in favour of the upper and middle classes and hurt the interests of the underprivileged in material sense. It is argued that these reforms would further aggravate economic inequality, and this is in conflict with the constitutional goal of creating a just society. Economic equality is an essential component of this conception of a just society. One of the basic objectives of the policy makers since inception of planning has been to achieve growth with justice. The supporters of the reformist agenda refuse to accept the view that economic reforms would aggravate economic inequality. On the contrary they argue that a rapid economic growth, in fact, is associated with a fall in poverty levels.

Another criticism of the liberalisation and globalisation process has been that it would lead to job loss. Privatisation of the public sector has faced resistance from organised labour. Workers have been pushed out under what has come to be known as voluntary retirement scheme. Contract and casual labour have started substituting regular employees. A number of unviable units have been closed through various subterfuges. Under the policy of privatisation several important public sector units in the country have been sold to the private companies. This has opened new challenges for the workers movement. The developments since 1991 in the Indian Economy have created fundamental problems for the working class. The unions are finding it difficult to resist the encroachment of capital on the rights of the workers.

Some critics have also started arguing that the economic reforms have led to a period of jobless growth. Globalisation and liberalisation are creating job opportunities for the highly trained manpower like the graduates from IITs and Indian Institute of Management; similarly the call centres give jobs to those having a good command over English. People coming from upper middle class and urban background have a clear advantage in getting such jobs with astronomical salary. The policy of reservation in government jobs has been based on the idea of social justice, because without reservation, candidates from disadvantaged background were unable to get jobs. The MNCs and the private companies do not partycularly follow any principle of reservation. Therefore, some see the policy of reforms as a ploy to deny them the advantage of reservation. The demand for reservation in private sector has also been gaining ground. The standard of public education that is available to the weaker section is falling. At the same time the private education is becoming more and more expensive and out of reach for people belonging to the disadvantaged sections of the society. Liberalisation has marginalised a large section of the population, as they do not have the skills or education to take advantage of the growth. So we need to invest in them substantially so that the marginalised section becomes partners in the liberalisation process.

The retreat of the state and neo-classical liberal economic ideology of the market led growth has increased economic inequalities and regional disparities. This has in turn led to the emergence of new tension areas between the centre and the states. This has also led to erosion in the power of the central government to promote balanced regional development. Some experts view growth as favourable to the urban India, organised sector, richer states and property owners.

Some economists are of the view that policies like trade liberalisation gives multinational corporations an opportunity to capture the Third World market at the expense of the local producers. Opening up opportunities for foreign investment in the third world countries offers to the MNCs an opportunity to earn huge profit. Likewise the sale of public sector assets to these companies gives MNCs an opportunity to build their business empires in the Third World at a cheaper price. There has been a plethora of accusations against the privatisation deals of the NDA government that they have sold public assets at throwaway prices.

The United Progressive Alliance government that came to power in 2004 pledged itself to carry on with the policy of reforms decided to give reforms with a human face. The Common Minimum Programme of the UPA gave the needed emphasis on the needs of farmers and poor people because the reforms so far are said to have a bias in favour of urban and the rich sections of the Indian society. The new government has done away with Disinvestments Ministry and has decided not to privatise profit making public sectors. There has been a growing perception that reforms have not benefitted the agricultural sector. The new government is focusing on agriculture to correct this imbalance; the first budget of the UPA government has doubled agricultural credit and has pledged to promote agro-business and launch pilot projects to augment water bodies. An emphasis on higher growth rate in agriculture can sustain higher growth rate in industry. Another serious criticism of the reform policy has been that it has aggravated regional imbalance. The special package for Bihar in the Union Budget can be seen as an attempt to address to this issue. The Common Minimum Programme of the UPA government declares that Foreign Direct Investment will continue to be encouraged and actively sought particularly in the areas of infrastructure, high technology and exports. At the same time going ahead with the policy of reform, the Finance Minister has raised Foreign Direct Investment limit in telecommunication, insurance and civil aviation sectors. Sectoral caps in telecom have been hiked from 49 per cent, to74 per cent, in civil aviation from 40 to 49 per cent and in insurance from 26 to 49 per cent. Around 85 items have been taken out from the category of reserved list for small sale industries. The budget 2004-5 marks a change towards Public Sector. It promises a strong prop by way of 14,194 crore as equity and Rs 2132 crore as equity and Rs 2,132 crore as loan. But the support to public sector will not come at the cost of efficiency and competence. It would have to show consistent profit in a competitive environment. The budget also proposes to set up an investment commission with the objective of wooing domestic and foreign investors. There is a clear-cut realisation that India has lagged behind China in attracting foreign investment.

12.5 GLOBALISATION AND ITS IMPACT ON STATE POLITICS

The New Economic Policy has affected state politics in India in such a big way that it has virtually necessitated a fresh understanding of state politics. The policy of globalisation and liberalisation has, in a way, created a situation in which the state governments have emerged as the real focus of power and decision - making. State governments have been engaged in an unbridled competition to attract foreign capital. The foreign investors have to deal with the state governments for establishing their projects. The decade of 1990s has also been described as political refederalisation of India without changing the constitution. It is because in the present phase government formation at the centre has become impossible without the support of important regional parties. The days of one party dominance system seems to have become a thing of the past. The phenomenon of coalition appears to be a new reality redefining the centre-state relation. Granville Austin has observed that the Nehruvian years institutionalised centralisation as well as dedication to democracy and social revolution. Opposition parties and even many scholars have alleged that the Congress Party’s dominance during its forty years of rule led to on centralisation and the state governments were treated as glorified municipalities. The critics of the centralist character of the Indian federation fail to understand that a powerful Centre was supposed to keep a diverse society together. The political power of the central government to arbitrate in the inter-state disputes has got eroded in the era of coalitions.

A centralised political system has been an essential part of the Indian economic planning in which the state governments were led by the central government. Economic reforms demand an effective role from the state governments. The process of liberalisation and globalisation is throwing up new challenges to the Indian federalism and it appears to be restructuring power relations between the centre and the states. Some illustrations can substantiate these points in a better way. While every investor is looking for smooth relationship among states to ensure smooth movement of capital and commodities, every state government is evolving its own agenda of dealing with foreign investors. During the phase of license-permit raj the state governments had created high tariff walls to restrict the movement of goods, commodities and even transport. The central government has been persuading state governments to permit the flow of commodities on the basis of uniform value added tax (VAT) in place of the present competitive state tariff system without any success. It can be said that India is struggling to create an all-India national market. The idea of globalisation is premised on a common global market but we are not a common market even as a country.

Rudolph, L.H.,and Rudolph, S.H., believe that in the 1990s, India moved from a command economy to a federal market economy. They have also observed that in the1990s the Chief Ministers became market players in India's federal market economy. The striking difference about the 1990s is that the state governments emerged as important players in the economic fields. This was a complete contrast to the centralised phase of planning during which the central government could get policies implemented by state governments because it controlled funds. In the 1990s not only the investors started contacting the state governments but also there started a competition among state governments to attract the investors. Even the Left Front state government of West Bengal did not want to be left behind in this race.

The old system of centre-State relations had evolved a system of centrally sponsored schemes implemented by state governments but funded by the central government. In the new trend the central government seems to be unburdening itself and passing on the responsibilities of economic development of states to state governments. In the new scenario state governments have emerged as important economic actors in place of the central governments. But the retreat of the central government from the management of the national economy is likely to aggravate inter –state or inter-regional disparities. India, at the time of independence, had inherited all kinds of regional imbalances. From the beginning one of the major goals of planning in India has been balanced development. It seems that with the launch of the New Economic Policy the commitment to the balanced development of India came to an end. The 1990s has witnessed state governments struggling to fight their own battle. If a state can offer an attractive package to the foreign investor, that state is considered as forward looking, reformist and progressive. In a World Bank survey, Maharashtra and Gujarat have been cited as hottest investment destination. Montek S. Ahulwalia, the present Deputy Chairman of the Planning Commission believes that some states have done exceptionally well, several others show a strong performance, while some are doing very poorly. Some experts apprehend a threat to the central authority in the growing inter-state and regional disparities.

Centralisation, under the license-permit raj, created a rift between those who could effectively lobby the central government, and others whose political and business influence was restricted to a state or a region within that state. Unlike the merchant capitalist and largely metropolitan origins of the national big business groups, the new generation of regional business group have agrarian origin and rural roots. The regional business looked at licensing system of the national government as inequitable benefiting big business. Thus termination of the licensing system as part of the New Economic Policy has benefited the regional business. Regional business houses have set up most of the fast track private power projects.

In states like Punjab, Haryana, Gujarat, Maharashtra, Tamil Nadu, Andhra Pradesh and Karnataka, a dynamic first-generation business class has emerged over the period of last two decades. This class remains distinct from the traditional national business class in a variety of ways. The failure of national political parties and the central government to address the needs of emergent regional business groups encouraged them to seek political and material support from regional parties and the state governments. The link between the emergence of regional capitalism and regional parties is too stark to be ignored.

12.6 SUMMARY

It can be said that the process of reforms seems to have acquired greater acceptance in India now than it had at the time when the reforms were launched. Even the radical economists of the Nehruian era K.N.Raj, and left economists like Sukhmoy Chakravorty, became supporters of the economic reforms. In spite of this overarching consensus in favour of reforms, the degree, direction and speed of reforms often becomes a contentious issue. Economic reforms are said to have a bias in favour of the better off sections of the society, marginalising the poorer sections. Rural India has not kept pace with the urban India. Thus the economic reforms appear to have affected the problem of regional imbalance adversely. The country is faced with the gigantic problem of unemployment. Many public sector units have been closed down and quite a few have been sold out. Employees have been offered voluntary retirement schemes. The jobs that have come up with liberalisation and globalisation are highly paid jobs requiring top class technical and managerial skills. Some people look at the policy of economic reforms as a ploy to deny the disadvantaged section of the society the benefit of reservation. Reforms give greater role to the private sector in the economy and the private sectors do not follow the principles of reservation. Economic reforms have also affected the nature of Indian federation drastically. It has seriously altered the discourse on the center and state relations. The old system of center and state relation had evolved around centrally sponsored schemes being implemented by state governments. In the new system the central government appears to have unburdened itself and passed on the responsibility of development of the states to the state governments, which have emerged as major players in the economic fields. Investors also have a hierarchy of preference on the basis of investment climate available in these states. Economic reforms appear to have further aggravated the problem of regional imbalance. Reforms have played an important role in the growth of regional capitalist class. Both regional parties and the regional capitalist class have become important in an era of globalisation and the phase of coalition politics at the national level.

12.7 EXERCISES

1) What are the factors that led India to follow the path of economic reforms?

2) Discuss the divergent views on India's policy of economic reforms.

3) What are the implications of globalisation on the state politics in India?

4) "The retreat of the central government from the management of the national economy will aggravate inter-state disparities". Substantiate this statement.