UNIT 4 GLOBALIZATION AND DEVELOPMENT IN INDIA

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4.1 INTRODUCTION

Globalization is one of the defining features of the contemporary world, shaping in a major way the economic trajectories of all nations. Many of these nations including India are at the same time confronted with a massive challenge of development and improvement of the general standards of living of their people. How does the globalization process enable or constrain the meeting of this challenge is therefore one of the very important questions of our time.

After reading this unit you will be able to:

- Understand what is meant by the term economic globalization.
- Develop a sense of its impact on the world and specifically on developing countries.
- Become familiar with some of the key issues arising out of the Indian experience with Globalization.

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4.2 GLOBALIZATION – MEANING AND PERSPECTIVES

Globalization, or more precisely economic globalization, is an expression used both to describe a process as well as any phase of the world economy characterized by that process. Broadly speaking in the former sense Globalization is usually used to depict a process of increased integration between the economies of different countries that make up the world. This integration is said to involve the increasing movement of products, capital and labour, and of technology, across the political borders of countries. The extensive development of such integration is seen to be a characteristic feature of world history since the mid-1970s. The period since 1973 is therefore considered the age of Globalization. While this is the most common view, some consider the entire post-World War II period to be included under Globalization. It has also however been argued that contemporary Globalization is the second coming of that process, and the half-century or more preceding the outbreak of the First World War (1914) was also characterized by an increased economic integration in the world. In this unit however we shall refer to the process unfolding in the world since the 1970s, and particularly from the early 1990s, as Globalization.

The facilitating factor of the globalization process has been the increasing openness of the economies of the world to cross-border flows, meaning the replacement of controls and regulation by governments of such flows by their *liberalization*. The degrees to which goods and services produced in any country are allowed to be sold in another depend on the extent to which these are permitted by the governments of the two concerned countries. Similarly the extents to which nationals of either country are allowed to move the capital owned by them to the other or to work in them depend on what is permitted by their respective governments. Based on economic, political and other considerations, States can and do restrict or permit such cross-border economic interaction. The greater is the extent of restriction the more closed an economy would be. Correspondingly it becomes a more open economy the freer is cross-border economic interaction from government control and regulation.

Completely closed and completely open economies are at two extremes and in reality it is impossible to find instances of either of them. Cross border flows of products, capital, labour, and technology, do not necessarily require complete openness of the economies between whom such flows occur. International transactions of these kinds took place even before the advent of the era of Globalization. The scales of these transactions also depend on a host of other factors and not merely on the degree of openness of the participating economies. Thus for instance, under the impact of the current global crisis, world trade has contracted in the last year without any change in the degree of openness of economies. On the other hand, the high growth of the world economy in the post-Second World War period generated an expansion of the volume of world merchandise trade at a faster rate than has been the case subsequently under globalization and more open economies. Between 1950 and 1973, the rate of growth of world trade was 8.2 per cent per annum while from 1974 to 2007 it was 5 per cent per annum.

From the viewpoint of any individual country, the degree of its closeness or openness is not without significance. Changes in this degree are accompanied by

qualitative changes in the nature of mutual interaction between that economy and the rest of the world. When economies are relatively more closed, they tend to have more of an autonomous dynamic of their own. In such circumstances many of the more important rocesses related to the movement of any country's economy over time are national in nature – taking place within the boundaries of that country. As the economy however becomes more open, the influence of external factors in shaping its course tends to increase and its autonomy tends to decline.

Increasing integration of the world's economies however means more than simply the increasing influence of external factors on all economies. When a single country unilaterally becomes more open, it changes its situation significantly but that change does not have an equally significant impact on the *global* context confronting individual countries. But when all or most countries simultaneously become more open, they also through that transform this global context. If increasing openness is generalized, that is all or most countries lower barriers to cross-border flows, then the different national economies that constitute the world economy become bound more closely together as the field for processes that take place at the *international* plane - that is, the world economy *as a whole* is their arena. This kind of integration is the distinctive feature associated with globalization which therefore represents more than the mere existence of international economic transactions on a large scale. Apart from the increasing openness of the world's economies, improvements in transport and communication technology are usually highlighted as important facilitators of this integration.

4.3 DIMENSIONS OF GLOBALIZATION

Globalization is an adjective attached to many things and encompasses more than mere economic globalization. Even however the increasing economic integration of the world's economies under Globalization has many layers and dimensions to it. In each of these powerful subsets of economic actors whose activities have a global reach, transnational or multinational firms play a central role. Three such important 'globalizations' can be said to be contained within contemporary globalization.

4.3.1 Globalization of Financial Markets

The first is the *globalization of financial markets*, which has become more marked since the early 1990s and is considered by many to be *the* distinctive feature of contemporary globalization. The capital flows taking place in the world are of two kinds which are distinguished by their purpose and economic significance. One kind of capital is portfolio capital which seeks profit through investments in financial assets. Financial assets – like loans, equity shares of companies, or government bonds - represent claims on the entities that use them for the purposes of raising funds. Such assets can be acquired from the issuing entity at the time they are issued (primary) or in many cases also through purchase from an existing holder (secondary), both of which involve transactions in financial markets. Profits from holding financial assets can take either the form of receiving from their issuers payments (like interest, dividend) against the temporary transfer of funds, or by their sale at a higher price than that at which they are acquired (capital gains). The era of globalization has been associated with extremely large volumes of portfolio capital, running into billions of dollars, moving freely across the world in search of profitable investments in the financial markets of different

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countries. The conduits for this movement are financial firms – banks and other institutions, with a global reach. Capital account and financial sector liberalization have created the conditions for this globalization which involves primarily the cross-border movement of speculative short-term capital seeking quick and large profits. Increasingly, portfolio investments have taken the forms of holding marketable financial assets which can be quickly bought and sold, thereby enabling such capital to enter and exit from countries very quickly. They are therefore referred to as 'hot money' and their flows are characterized by a high degree of volatility.

Portfolio capital flows are distinct from the other component of international capital flows, namely foreign direct investment (FDI), and are also are not strongly linked to the latter. FDI essentially involves investment in real assets where profits are earned by producing goods and services for sale. Its conduits are non-financial transnational or multinational firms. FDI may take the form of companies located in some country holding equity shares in their affiliates in other countries. The purpose of such holding however is to control and manage the real assets of that affiliate and not to profit from the sale of these shares at a higher price. FDI is therefore typically guided by long-term considerations and therefore does not move in and out of countries as rapidly as portfolio capital. There is however one kind of capital which shares the features of both portfolio capital and FDI, and is generally included in the latter. This is private equity capital where investments are associated with the exercise of control over the real assets of companies but with the relatively short-term objective of increasing the value of their shares before they are sold. Under globalization, the volumes of cross border portfolio capital flows have been considerably greater than FDI flows. In addition, an increasingly larger part of FDI flows consist of private equity flows which are more akin to speculative flows than regular FDI flows.

4.3.2 Globalization of Goods and Services

The second component of Globalization is the *globalization of markets* for goods and services - the tendency of moving in the direction of a single worldwide market supplied by a common set of firms. Transnational firms of course play a leading role in this, but trade and FDI play different roles in different categories of products. In the case of products that cannot be traded across countries (non-tradables) which include a large segment of services, FDI drives the process of market integration. Through such FDI, transnational firms have spread themselves across the world as sellers of products. Thus Vodafone is a provider of telecom services in Europe as well as in India. However, in case of tradables the location of production and sale of a product can be different, and the lowering of trade barriers only makes this more possible. Sony can therefore sell televisions in the Indian market which are produced by its plants say in China. Cross-border trade flows thus have a much greater role to play in the market integration process of tradables, in which are included most manufactured products. The FDI associated with this integration is somewhat different from that of non-tradables, and primarily takes place in the quest for the lowest-cost locations of production. A US transnational firm may therefore invest in building plants in China because it finds that relocating from the US to China would lower the cost of the products it can sell in the US itself, and also because it can use the same facility to competitively cater to the Chinese and Indian markets.

4.3.3 Globalization of Production

Complementing and overlapping with the globalization of markets is the third important dimension of globalization, the *globalization of production*. The entire process through which any product is produced is divisible into a number of stages or parts which are or can be physically separated. These may be vertically or horizontally linked to each other. The production of its engine and the assembly of a car are vertically linked to each other, the former having to necessarily precede the latter. The cleaning of the factory where these activities are being undertaken is not similarly vertically linked, but nevertheless is an essential but separable activity. Many of these different stages or parts may be undertaken within one firm – thus for instance an automobile company could produce its own engines and also have its own cleaners. Others may be undertaken by other firms thereby involving transactions between firms. Thus the automobile company may purchase the glass used in its automobiles from another firm and it could also hire a cleaning firm to clean the factory. Such transactions between firms may be of an arm's length variety – where the purchasing and selling firms have no stable relationship with each other and do not coordinate their activities. Such arms length transactions are possible in cases where the products being purchased are of some standard readily available kind of which there are many buyers. Thus, the automobile company may simply purchase the bulbs used in its factory from the market without having to coordinate matters with the bulb-producing firms. But when it needs engines made to its particular specifications, it cannot hope to similarly purchase them from the market – either it has to produce them itself or has to contract some other specific firm (s) to supply these in the requisite quantity. In the latter case, no supply will be forthcoming without prior coordination between the transacting firms. Around the automobile firm of our example therefore can emerge a coordinated network of activities and firms involved in one or the other way in the production of automobiles. The automobile firm may not be producing everything, but its position is nevertheless crucial in the entire process of coordination so that it stands at the apex of the network. The globalization of production refers to the emergence of such networks straddling a number of different countries.

Globalization of production can involve the spread of different activities undertaken within the same firm amongst different countries, giving rise to cross-border but *intra-firm* transactions. A television company therefore could produce picture tubes in one country, other components in another, cabinets in a third, and assemble the final product in a fourth country. Alternatively, it could procure the production of tubes, components, and cabinets from firms producing in three different countries, and assemble the final product in the fourth. These would result in *inter-firm* cross-border transactions. In either case, because of the different locations of these stages, a certain volume of trade –exports and imports- would occur independent of the export and import of the final product. The tubes, components, and cabinets would all have to cross borders before the final product can be assembled. In this way, global production networks have contributed to the increase in the ratio of world trade to world production. Not all intra-firm or inter-firm transactions within a network may however necessarily involve cross-border movement.

The twin tendencies of "outsourcing" and "off shoring" by transnational firms associated with globalization have been important mediums through which global

networks of production have emerged. Outsourcing refers to the transfer of activities originally undertaken within the firm to other firms in exchange for a payment. Off shoring on the other hand refers to the transfer of activities from an original location to another country. Often the two can go together – for example when a US firm transfers its self-operated call centre services catering to its US customers to an Indian firm operating in India. However, off shoring and outsourcing can happen independently too. The motivating factors behind both for the firm concerned are risk and cost reduction.

The increasing openness of the world's economies under globalization has clearly facilitated the globalization of production. Transnational firms which have been the key drivers of this process and occupy the apex positions in such networks were both pushed and pulled, by the heightened competitive pressures and the greater freedom of operation across the world respectively, to refashion their strategies in this direction.

4.4 THE INCOMPLETENESS AND IMPERFECTIONS IN GLOBALIZATION

Globalization, as described above, does involve increased integration within the world economy such that one can talk of the global economy as being much more than a sum of the individual economies constituting it. Yet one must not make the mistake of assuming that globalization is the conversion of the world into a single economy whereby political borders between nations become entirely irrelevant. The world economy is a fundamentally different entity from national economies and is not equivalent to a gigantic closed national economy even if the movement of capital and commodities within it is completely open. As it happens, even the degree of restrictions on cross-border flows is uneven across different kinds of flows. The movement of people and labour across countries is for instance far more restricted than it is within countries. Even between business firms there are variations in their ability to operate globally. Similarly, each national economy has its own currency, which along with other assets denominated in that currency, serve as money or the means of payment within the sphere of the national economy. Flows across countries however involve the exchange of one nation's money for another in foreign exchange markets. Further, even though there is no world money deriving its sanction as a means of payment from a world government, international transactions do require an international means of payment. This is particularly because the flows between any two countries, and even between one country and the rest of the world, do not always balance. This means that one or a few of the world's money, those that have a general acceptability as a means of payment, have to serve the function of international money.

No matter what the levels of flows within a country, one unit of that country's currency always remains equal to every other unit. But such stability does not characterize the ratios at which currencies exchange for each other (exchange-rates). The levels of cross-border flows themselves influence these values, and at the same time are influenced by them. If in the normal course, the inflows into any country of foreign currency from exports and capital imports exceed the outflows related to imports and capital exports, the value of the country's currency would tend to appreciate – because of the surplus in the supply of foreign currency its price would fall. If the inflows are less than outflows, the opposite would

happen and the country's currency would tend to depreciate. However, these changes in the exchange rate would firstly alter the foreign currency price of the country's exports and the domestic currency price of its imports – depreciation would reduce the export prices and increase the import prices while an appreciation would have the opposite effect. These changes then could impact on the levels of exports and imports by influencing the demand for them. In addition, changes in the exchange rate also alter the relative values of assets whose values are denominated in different currencies. Actual or *expected* changes in a country's exchange rate could thus induce portfolio capital inflows or outflows. Because of these, the very process which draws the different national economies together, namely the freeing of cross-border flows, simultaneously emphasizes their division through its inevitable impact on the ratios in which different national currencies exchange for each other. Indeed, because of the existence of large 'hot money' flows which can flow in and out of countries very quickly, exchange-rate instability has been a recurrent phenomenon associated with Globalization which has resulted in serious economic crises in many a country – the East Asian crisis of 1997 being a prime example.

Underlying many of the differences between national economies and the global economy is one very important difference – associated with a single national economy is a single State whereas the global economy is spread across territories under the jurisdiction of many different nation states. When increased integration of the global economy accompanies the division of the world into different nation states, it also produces a peculiar consequence for the relationship between the State and the economy. Normally, the more closed an individual economy is the greater is the relative ability of its state to control, regulate, and direct economic activity. This is because most of the economic activity and their associated processes, and the individuals and entities involved within them, fall within the area of direct jurisdiction of the State. This proposition would also hold for an integrated global economy if there was a single world state since the global economy does not transact with anyone or anything outside it. But with an integrated global economy and multiple states, the ability of each State to intervene in the economy in fact gets circumscribed by virtue of the fact that each has only a limited jurisdiction. These different nation states could, by coordinating between themselves, try to approximate a single world government but that is never easy given that their individual imperatives may not always coincide and they could even have conflicting interests.

4.5 GLOBALIZATION AND THE ROLE OF THE STATE IN THE ECONOMY

The implication of the above is that once a State chooses to open up its economy it necessarily accepts some limitations on its ability to intervene in the economy, a shrinking of its policy space. More precisely, the State is compelled to act in certain ways and constrained to do so in other ways. Under contemporary Globalization, these restrictions or imperatives manifest themselves in a number of specific ways that are related to the mobility of capital and economic activity within the global economy. Participation in the process of globalization necessarily requires adherence to certain rules of the game. A country for example cannot maintain its tax rates at levels much higher than those prevailing elsewhere in the world because then economic activity would tend to migrate out of that country.

Competition between countries in attracting economic activities to their economies therefore tends to generalize low tax rates (often coupled with tax concessions) across the world, constraining the ability of States to generate resources for financing their expenditures. Similar imperatives also operate in other areas like for instance labour regulations.

The problem of exchange rate instability associated with volatile portfolio capital flows also tends to make state economic policy prisoner to maintaining the "state of confidence". If those who bring in this capital into any country feel insecure about the returns on the assets held by them and suddenly withdraw their capital from that country, the consequent sharp depreciation of the country's currency can have crippling effects on its economy. States therefore become disinclined to take any policy measures that make financial investors nervous and tend towards policy measures that inspire confidence in them. In general this works in the direction of conservatism in policy - curbing the State's ability to regulate and discipline private capital and pushing it towards measures that would promote private profit. To give some examples of how this process works – any significant increase in the corporate income-tax rate in a country is likely to produce an adverse reaction in its stock-market and with falling share prices foreign portfolio investors would be likely to withdraw their capital from that country and its stock-market. This would reinforce the tendency for decline in the stock-market and give rise to depreciation in the country's currency. The latter in turn would on its own induce flight of capital. The net result would be a self-reinforcing or cumulative process of falling value of shares and currency depreciation. In order to avoid these eventualities, the Government would tend to avoid any such increases in corporate income tax rates. But it might be inclined to do the opposite - reduce corporate tax rates - when stock-markets are down for other reasons.

One of the important general implications of exposure of countries to volatile capital flows is that it makes the maintenance of a low taxes and low public expenditure policy framework the norm adhered to by most governments. If governments cannot mobilize significant resources through taxes then the only way they can sustain large expenditures is by incurring deficits in their budgets. An excess of public expenditures over revenues, what goes by the name of the fiscal deficit, however makes financial investors nervous. In particular it generates expectations that prices of products in that economy will rise rapidly (inflation) and the exchange rate would depreciate. A rise in prices in any economy at a faster rate than in the rest of the world means that the prices of products produced in that country would rise even relative to the prices of the same products produced elsewhere. This could induce buyers in that country to switch to foreign currency using imports and for foreign currency earning exports to fall. The important thing however is not whether this would eventually happen or not. The *expectation* that this will happen is sufficient to make it actually happen much before the effects of a fiscal deficit show up. In order to avoid generation of such expectations governments become committed to a conservative fiscal policy which would limit the fiscal deficit.

Public expenditure however plays an important role in any economy and its development process. A significant part of the necessary development of a country's physical infrastructure is dependent on public investment because such development does not provide profitable opportunities for private investment. Similarly, there are many important social services like health and education

which need to be publicly provided if all segments of the population are to have reasonable access to them. Such general access of the population to these services is also important from the purely economic point of view because their health and education status also impacts significantly on the productivity of a country's workforce. Fiscal policy, involving both taxation and expenditure, is an important instrument of redistribution of incomes whose importance arises from the fact that the spontaneous operation of the economic system may generate excessive inequalities in society. Fiscal policy and public expenditure are also the means through which governments can influence the aggregate level of demand in an economy, which can often fall below levels necessary to sustain the maximum feasible output or employment in a capitalist economy. Under globalization however, the government's use of fiscal policy for all such purposes tends to get tempered or limited by the commitment to a low taxes and low fiscal deficit policy.

4.6 UNEVENNESS IN DEVELOPMENT AND GLOBALIZATION

The description of globalization as a process of increased global integration facilitated by the increasing openness of economies could fit any kind of world because it does not bring into the picture the differences between the countries participating in that process. The fact however is that the world over which the globalization process has unfolded is one that was and remains divided between advances or developed countries and poorer developing countries. The former constitute the dominant component of the world economy - they produce the major chunk of the world's output; they dominate world trade being both the major exporters as well as importers; the bulk of the capital flows across countries originate in these countries and they are also the principal destination for such flows; a large proportion of the dominant transnational firms belong to these countries; most technological developments take place in these countries; and their currencies are the dominant international currencies. The majority of the world's population on the other hand lives in developing countries.

The inequalities between the world's countries are however not merely economic, but also political and military, and these too have had their impact on the nature and course of the globalization process. Thus for instance, even though in principle bodies like the World Trade Organization (WTO) and the rules enforced by them are the result of multi-lateral agreements, these agreements are a result of a *political* process within which developed countries command a disproportionate influence. In other international institutions like the International Monetary Fund (IMF) and World Bank, which have been active in promoting openness in developing countries and in regulating the global economy, even formal equality between countries does not exist and developed countries command the major share of the voting rights in them. In other words, to whatever extent there is a global structure of governance, it can scarcely be described as a democratic one and is inherently biased against developing countries.

One important aspect of international inequality in a globalized world is that this places countries whose moneys serve as international money and whose do not at different levels within the structure of international transactions. A country like India whose currency is not an international currency, when confronted with a

large deficit in its transactions with the rest of the world, experienced a balance of payments or foreign exchange crisis in 1991 as international borrowings became increasingly difficult and costly. On the other hand, the USA has in recent times been able to live with a very large external deficit because the dollar is the number one international currency. Countries with the surpluses in their external transactions have been willing to finance the US deficit by lending to it, including in the form of investing their foreign exchange reserves in low-yield US government securities. A comparison of the direction of capital flows during the East Asian financial crisis and after the sub-prime crisis in the US would also show up a similar asymmetry between countries. The East Asian countries in 1997 saw a massive outflow of portfolio capital from their economies resulting in a sharp and precipitous decline in the value of their currencies. But the global financial crisis induced the flow of capital towards the US, the very place where the crisis originated, and a strengthening of the dollar. The implication of such iniquities is that the constraining of the policy space for developing country governments as a result of exposure to volatile capital flows is of a higher order than for developed countries.

In this session you read about the globalization and its impact on development and now answer the questions given in the Check Your Progress-1.

Check Your Progress 1

Note: a) Answer the following questions in about 50 words.

b) Check your answer with possible answers given at the end of the unit.

1) What is meant by the increasing oppness of an economy?

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2) What are the major components of contemporary Globalization?

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3) Why does globalization restrict the scope for state intervention in the economy?

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4) Does Globalization mean that nationality of individuals becomes irrelevant to the degree of economic success they achieve?

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4.7 GLOBALIZATION AND DEVELOPMENT: THE INTERNATIONAL EXPERIENCE

The process of Globalization has been accompanied by a major shift in the theory underlying development policy in the Third World. In the period after the Second World War, as many developing countries gained their independence from colonial rule, the dominant conception shaping economic policy in the newly liberated countries was that their development required both a high degree of autonomy as well as a key role to be played by the state. Typically, import-substituting industrialization strategies were pursued with varying degrees of emphasis on domestic and export markets. However, from the debt crisis of the early 1980s, institutions like the IMF and the World Bank have pushed Third world governments to open up and liberalize their economies and soon the old view on development came to be decisively replaced by what came to be known as the Washington Consensus. This name is derived from the fact that three institutions which have together played a key role in the making of Globalization – the IMF, the World Bank, and the US Treasury Department - are all headquartered in Washington.

The theory of development promoted by the Washington consensus, also called *neo-liberalism*, argued globalization would promote both rapid growth as well as *convergence* in the world economy. Convergence refers to the process of the per capita incomes of different countries becoming similar to each other, which would happen if developing country per capita incomes were to rise significantly faster than in developed countries. The Washington Concensus was based on the premises that:

a) the spontaneous working of the market mechanism promoted efficiency and therefore should be interfered with to the minimum;

b) there are only benefits and no costs to all participating countries from freely transacting with each other and therefore barriers to trade and capital flows are undesirable;

c) taxes create disincentives for effort and risk-taking, and strong incentives for tax-evasion, and therefore should be maintained at low levels;

d) fiscal deficits always produce adverse consequences like inflation and exchange-rate instability and therefore should be avoided by maintaining expenditures at levels commensurate with tax revenues;

e) developing countries would benefit tremendously from adopting the economic policies following from the above premises. It was argued that by opening

themselves to capital inflows, labour surplus developing economies would gain from the flow of capital to them from the capital rich developed countries which also would have various spillover effects. In addition, free trade would also promote the growth of labour-intensive exports from these developing countries, which would in turn induce further growth through the linkages between the exporting sectors and other sectors in the economy. The gains from efficiency and productivity improvement, capital inflows and trade would combine to generate higher growth of both output and employment and also promote greater equality in the distribution of income.

The problem of development, or economic backwardness, is the problem of not all the countries in the world but of the developing countries within them. These countries, as mentioned earlier, were unequally positioned within the global economy. The implicit meaning of the Washington Consensus was that these initial conditions were entirely irrelevant and all countries could follow more or less the same liberal economic policies. In other words there were no grounds for specifically a development policy because the spontaneous operation of the global economic system would be towards leveling out and eliminating the differences between and within countries. The premises underlying the Washington Consensus have never been universally accepted within the economics profession. Many have challenged these on theoretical as well as empirical grounds. However, it has ruled for a long time in the world of policy-making with results, as we shall see, that have not been in conformity with the predictions of the Washington Consensus.

Table 1: Rates of Growth of World Real GDP and per Capita GDP (% per annum)

Item Period	**1950-73**	**1973-2007**
Real GDP	5.1	2.9
Per Capita Real GDP	3.1	1.2

Source: *WTO, World Trade Report 2008*

Aggregate world output growth since the mid-1970s has actually taken place at a significantly slower pace than was the case earlier, and the same is true of even per capita output growth (Table 1). These are not necessarily true for every individual country, India being one of the exceptions, but are generally the case for both developed and developing countries. The principal reason to which this slowing down has usually been attributed is the withdrawal of States after the 1970s from the earlier post-War practice of using fiscal policy for sustaining adequate levels of demand in the economy.

Table 2: Per Capita GDP of Selected Country Groups and their Rates of Growth

	Per Capita GDP in 2005	**Annual Growth Rate 1975-2005**
Country group	**2005 PPP US$**	**Percentage Per Annum**
Developing countries	**5,282**	**2.5**
Least developed countries	1,499	0.9
Arab States	6,716	0.7

East Asia and the Pacific	6,604	6.1
Latin America and the Caribbean	8,417	0.7
South Asia	3,416	2.6
Sub-Saharan Africa	1,998	-0.5
High income Countries	**33,082**	**2.1**

Source: *UNDP, Human Development Report 2008*

Not only has world output growth been slower, inequalities between countries have also increased during Globalization. Many developing countries except those in East and South Asia, including the least developed countries, have been the worst victims of the growth slowdown. Per capita GDPs of many have virtually stagnated and fallen way below the rates of growth in the developed countries (Table 2). The gap between the per capita GDP of these developing countries and those of developed ones has therefore clearly *increased* during the period of Globalization. In the case of the few developing countries showing a faster rate of growth, the base or starting levels of their per capita GDPs were significantly lower than those of developed countries and even many other developing countries. Consequently, even a higher *rate* of growth of the former cannot always prevent the absolute gap between the two increasing. Thus, the per capita GDP in East Asia and South Asia are still only a fifth and a tenth respectively of the levels in high-income countries. Indeed, if we compare the differences between the per capita GDP at constant prices of the US, advanced Western Europe, and Japan on the one hand and individual developing countries on the other, they were almost without exception *greater* in 2006 than was the case in 1973. Convergence therefore clearly has not happened.

The promise of export-led growth has proved elusive for developing economies. As Table 3 shows, though at first sight it might appear that the share of developing countries in world exports has increased particularly since 1990, this is basically a result of the rising share of East and South-East Asia rather than being representative of the general experience of developing countries. In other words, the distribution of developing country exports has become increasingly concentrated in East Asia with China alone exporting more than any developing country region other than East Asia. A similar story characterizes the exports of services, which have been increasing their relative importance in world exports during Globalization, the only difference being that in this case India too is amongst the developing countries emerging as a major exporter. Developing countries have increased their share in world services exports from 18.34 % in 1980 to 25.41 % in 2007. This was however accompanied by East, South-East and South Asia increasing their combined share in developing country services exports from 38.5% to 67%. Indeed, one of the apparent paradoxes of globalization is that both in terms of growth as well as export performance, the developing countries of Asia which have traditionally had greater state involvement in the economy have fared better than developing countries in Latin America and Africa who liberalized earlier and to a greater extent.

Table 3: Share of Developing Countries in World Merchandise Exports (Percentage)

Country Group	1980	1990	2000	2007
All Developing Countries	**29.40**	**24.25**	**31.85**	**37.52**
Africa	5.86	3.08	2.37	2.87
Americas	5.48	4.13	5.65	5.53
West Asia	9.29	3.38	3.64	5.08
South Asia	1.29	1.35	1.44	1.90
East Asia	3.75	8.06	12.00	15.81
China	*0.89*	*1.78*	*3.86*	*8.81*
South-East Asia	3.64	4.18	6.69	6.26
Developing Countries Excluding East and S-E Asia	**22.01**	**12.01**	**13.16**	**15.45**

Source: *UNCTAD, Handbook of Statistics, 2008*

Globalization has also been accompanied by a more or less across the board sharp rise in inequalities within countries, both developed and developing. The richer sections in most countries have experienced an enormous increase in wealth and income while those at the bottom have been bypassed. Consequently, even in the few developing countries with relatively faster rates of growth of per capita GDP, the positive impacts of that growth on the lives and standards of living of the poorer sections of their societies has been less spectacular and at times this impact has even been adverse. A large part of the world's population therefore continues to live in poverty. 40% of people in the world (2.6 billion) have incomes below two dollars a day and they account for barely 5% of global income. On the other hand, the richest 20% of people in the world have a share of 75% in world income.

The opening up of developing countries to volatile capital flows has been accompanied by several episodes of currency crises in these countries. Paradoxically, such problems have been a price paid without any corresponding gain because at least in the last decade or so, the perverse phenomenon observed is that the direction of capital flows has been from developing countries towards developed countries rather than the other way around. Of course not all developed countries are net importers of capital and nor are all developing ones capital exporters. But together developing countries have been exporting more capital to the developed countries than they have been importing from them. Moreover, much of the former flow takes the form of developing countries holding their foreign exchange reserves in the form of liquid assets like US Government securities with extremely low returns, while developed country capital invested in developing countries earn significantly higher rates of return.

In this session you read about the globalization and its impact on economic growth and development and now answer the questions given in the Check Your Progress-2.

Check Your Progress 2

Note: a) Answer the following questions in about 50 words.

b) Check your answer with possible answers given at the end of the unit.

1) Has Globalization been accompanied by convergence between countries?

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2) What is the unevenness in the growth and trade performance of developing countries under Globalization?

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4.8 GLOBALIZATION AND INDIAN DEVELOPMENT

India's entry into the globalization process was somewhat later than that of most developing countries. It was only with the liberalization measures initiated from 1991 onwards. Though there was some liberalization in the 1980s too it was relatively limited and was accompanied by other policy measures that were uncharacteristic of the globalization era. Trade and FDI liberalization in the 1980s was fairly selective and much of the extensive system of Government controls survived till 1991. The opening up to volatile capital flows in (Foreign Institutional Investment) happened only in the 1990s. So did the restraint on public expenditure, the rapid growth of which was a characteristic feature of the decade of the 1980s.

India's development experience prior to 1991 had not been one of spectacular successes but rather of extremely slow progress. Conditions had improved somewhat compared to the state of affairs during the colonial era but the vast mass of India's populace had remained deprived of even the most basic needs. GDP and per capita GDP growth rates after independence had been significantly higher than in the first 50 years of the 20th century. But the incomes, food and nutrition intake, health status, levels of education, housing conditions, etc. of the average Indian were still exceptionally poor in 1991. The majority of Indians still lived in rural areas and the majority of the workforce was dependent on agriculture for its livelihood. Did participation in the globalization process bring about significant changes in this picture, and if so, of what kind?

According to Goldman's "Sach Economic Research Report on Global Economies" released in 2007, India has the following advantages compared with other economies.

i) India will challenge the Global Economic Order in the next 15 years.

ii) By 2050 it will be the second largest economy after China overtaking USA.

iii) India is the fourth largest GDP in the world in terms of purchasing power.

iv) India is the third fastest growing economy in the world after China and Vietnam.

v) Received 4.5 billion as FDI.

vi) Service sector contributes around 55 percent of GDP. The share of agriculture is around if percent and manufacture in 16 percent in 2005-06. This is a character of a development.

vii) Expected GDP growth rate is 10 percent shortly.

viii) India has $262 billion as Foreign Exchange Reserve as on today. India had just $1 billion as foreign exchange reserve when it opened its economy in the year 1991.

4.8.1 Export and Import

As regards its level of integration into the global economy, the standard indicators of this have clearly exhibited an upward trend since 1991, even if the heights attained by them so far are not as high as in other countries. The levels of India's imports and exports of goods and services as a ratio of its GDP has increased sharply implying that a much larger part of the economy is involved in cross-border transactions.

Table 4: India's External Trade as a Percentage of GDP

Year	Merchandise Exports			Merchandise Imports			Services	
	Oil	Non-oil	Total	Oil	Non-oil	Total	Exports	Imports
1990-91	0.16	5.55	5.72	1.90	5.68	7.58	1.43	1.12
1997-98	0.09	8.43	8.52	1.99	8.11	10.10	2.30	1.97
2002-03	0.51	9.89	10.39	3.48	8.63	12.11	4.09	3.37
2007-08	2.42	11.47	13.89	6.79	14.64	21.43	7.66	4.46

Source: *RBI, Handbook of Statistics on the Indian Economy*

In goods trade, import levels have tended to increase more than exports and India's share in world exports still remains very low. Despite the growth of newer exports different from the items like textiles and garments, leather products, and diamonds which traditionally dominated Indian exports, India's merchandise trade deficit has ballooned in periods of relatively higher growth and in 2008-09 stood at nearly 10% of India's GDP. Not all of this has been on account of oil imports, since the non-oil deficit alone in 2007-08 was 3.17% of GDP, larger than the aggregate deficit to GDP ratio at the time of the 1991 foreign exchange crisis. The trend in India's merchandise trade essentially reflects the fact that the manufacturing sector in the country in general has not been very competitive in the world market. Poor infrastructure and low productivity have meant that costs of industrial production in India tend to be high even with extremely low wages. India has however done relatively better in services exports, primarily in IT and IT-enabled services in which India has become the most important exporter amongst

developing countries. The ratio of services exports to total merchandise and service exports in the Indian case (36%) is significantly higher than the world average of around 20%.

Capital flows into India have also increased significantly after liberalization, though even here it has been a relatively more attractive developing country destination for portfolio flows than for FDI. It is because of these capital inflows that India managed to accumulate large foreign exchange reserves even though in most years its foreign currency expenditures have exceeded its earnings. While India has escaped any major currency crisis, exchange rate instability has been a problem. There have been periods of both sharp appreciation as well as depreciation of the rupee. Of late, there is also an increasing trend of Indian private capital being investing abroad mainly by companies but also by mutual funds.

4.8.2 Growth and its Composition

As regards the growth of aggregate output, as indicated earlier, Indian growth after 1975 was faster than in the two and a half decades before that. This transition of India to a higher growth path actually happened around 1980, which was however at least a decade before its own real participation in globalization began. Between 1950 and 1980, India's GDP growth rate averaged around 3-3.5% while after 1980 it was around 5.5-6%. In other words, the acceleration in growth pre-dates the extensive liberalization of the 1990s subsequent to which the trend was simply maintained with no significant further acceleration. A spurt in growth since 2002-03 from when GDP growth rates reached the 8-9% level has been presumed to mark a further upward shift in India's growth trend. However, the recent slowing down after the global economic crisis has put a question mark on this. From the viewpoint of development however, more important than the rates of growth has been the nature of growth under globalization.

Macro Economic Performance in Post 1990 Years

Year	Real GDP Growth	Year	Real GDP Growth
1991	.96	1999	6.5
1992	2.3	2000	6.1
1993	1.5	2001	4.0
1994	5.9	2002	6.2
1995	7.3	2003	5.5
1996	7.3	2004	8.0
1997	7.8		
1998	6.5		

Source: *Kulkarni,KG "Effect of Globalization on India's economic Growth", www.reser chindia.org/effectsofglobalizationon india.doc.*

India's growth in recent times has been dominated by the services sector, which has been the fastest growing sector and contributed the major part of the increase in output. This reflects the facts that in both domestic and external demand, the proportion of services has been increasing. Industrial growth has tended to fluctuate

as it used to in the past too and the industrial sector's share in output has tended to stagnate at a level far below that indicating complete industrialization of a country. The agricultural sector on the other hand has been the worst affected with agricultural growth rates being on an average lower than in the pre-liberalization era. In fact it is now officially acknowledged that India experienced an agrarian crisis since the mid-1990s. The main factors behind this have been the relative compression of rural development expenditures, the squeezing out of the agricultural sector in bank credit, and the increased exposure of the agricultural sector to volatility in global prices. These are the factors behind the spate of farmer suicides in India which continues unabated. This growth pattern marked by a robust growth of services at one end, a distressed agriculture on the other, and unstable industry in between, both produces as well as reflects what has come to be called "non-inclusive" growth.

4.8.3 Employment

The rapidly growing services sector in India has proved incapable of generating significant employment. In fact, just about a quarter of India's workforce is employed in this sector which accounts for over 55% of India's Net Domestic Product. Agriculture, whose share in Net Domestic Product has fallen below 20% still employs 57% of the workforce but simply cannot absorb any more. Industrial employment too has grown slowly. Within the industrial sector, employment in the organized sector has been falling and it is in unorganized industry that the incremental industrial workforce has been absorbed.

One implication of all of these has been that employment growth in India has been extremely slow in the post-liberalization period, which is a matter of concern particularly since there was already an existing backlog of unemployment. Employment growth has been particularly poor in the more rapidly growing segments of the economy. Thus while the organized sector has steadily increased its share in output from about 36% in 1991 to 43% by 2007-08, employment in that sector after initially increasing slowly fell after the late 1990s (Table 5) so that in 2006 it was the same as in 1991 even though the total labour-force had grown in between. In 1993-94, when the labour-force in India was 334 million, only 27.4 million or 8.1% were employed in the organized sector. By 2004-05, the labour-force in India had increased by another 85 million to reach a level of nearly 420 million. Organized sector employment over the same period however fell by nearly a million to 26.5 million which was just 6.4% of the labour-force. A large part of the decline in organized sector employment has been on account of the fall in public sector employment, but even private sector employment growth has been very insignificant.

Table 5: Organized Sector Employment (in Lakhs)

Sector	**1991**	**1998**	**2006**
Public Sector	190.58	194.18	181.88
Private Sector	76.77	87.48	88.05
Total	**267.35**	**281.66**	**269.93**

Source: *Economic Survey*

The implication of this is that the large majority of Indians either cannot find work or have to find low-income employment in the less dynamic segments of the economy. In 2004-05, nearly 34.74 million or 8.28% of the labour force was unemployed (on a Current Daily Status Basis), up from 20.27 million or 6.06% in 1993-94. However, in the absence of any social security mechanism, people in India cannot afford to remain unemployed for long and the sheer requirement of survival forces them into a variety of extremely low-paying work in the unorganized sector. But even the fortunate few entering the organized sector are not necessarily finding high-wage work. While some segments of the white-collar organized sector workforce have come to enjoy extremely high salaries after liberalization, this is not the case for everybody employed in that sector. In fact real wages of even the organized sector industrial workers have tended to stagnate after liberalization.

4.8.4 Poverty and Inequality

As per official estimates by the Planning Commission, poverty in India has come down after liberalization. What this means is that the *proportion* of the population with income levels below a stipulated poverty line has come down. This statement however needs to be further qualified in a number of ways.

Firstly, the pace of poverty reduction in the post-liberalization period has been slower than before. Thus, in the fourteen year period between 1973-74 and 1987-88, the proportion of those below the poverty line in the total population came down by 16 percentage points from 54.9% to 38.9%. In the longer seventeen year period since then, the reduction was to a smaller extent of 12.4 percentage points.

Table 6: Poverty Ratios and Number of Poor in India

	1973-74	**1977-78**	**1983**	**1987-88**	**1993-94**	**2004-05**
Rural (%)	56.4	53.1	45.7	39.1	37.3	28.3
Urban (%)	49	45.2	40.8	38.2	32.4	25.7
All India	**54.9**	**51.3**	**44.5**	**38.9**	**36**	**27.5**
Number (Million)	321	329	323	307	320	302

Source: *Economic Survey*

Secondly, the poverty line is a fixed one that does not change with the level of the per capita income. The only adjustment that is made over time is for the increase in prices. The poverty line today is therefore no different than it was in 1973-74, when real per capita income in India was a third of its current level, and the poverty ratio is therefore only a measure of the population below some absolute level of income. A reduction of poverty therefore can be accompanied by an increasing gap between the top and the bottom sections of the population.

Thirdly, the poverty line in India is pegged at a very low level and some consider destitution line to be a more appropriate description for it. In 2004-05, the all-India poverty line for rural areas was Rs. 356.30 per capita per month and Rs. 538.60 for urban areas. The significance of this lies in the fact that there may be very large variations in the income levels of even those above this line and one cannot treat them all as non-poor. Indeed, the National Commission on Enterprises in the Unorganized Sector (NCEUS) estimated that while 27% of the Indian

population in 2004-05 was below the official poverty line, as many as 77% of people lived on less than Rs. 20 a day.

Fourthly, the poverty line was first arrived at using a minimum nutrition norm – it was fixed at the minimum income-level at which the consumption of food was found to be adequate for meeting that norm. Since then however, consumption patterns have changed and the nutrition-intake associated with the same level of real income (income adjusted for price changes) is lower. It has therefore been argued by some that if a poverty line for today was to be constructed on the basis of the same nutritional norm, it would be higher than the official poverty line and more than 70% of the population would be below it. In fact, the average expenditure by Indians on foodgrains in the recent past, when the economy was growing at its fastest ever rates, was not only lower than it was at the begininning of the 1990s and way back in the early 1960s in some years it was at a level comparable to what it was during the two successive droughts in the mid-1960s (Figure 1). The expenditure story is also supported by the data on per capita availability of foodgrains which averaged 461.08 grams per day in 1961-65, 480.26 in 1987-91, and just 442.16 grams in 2003-07. These would be amongst the lowest levels of food consumption in the world.

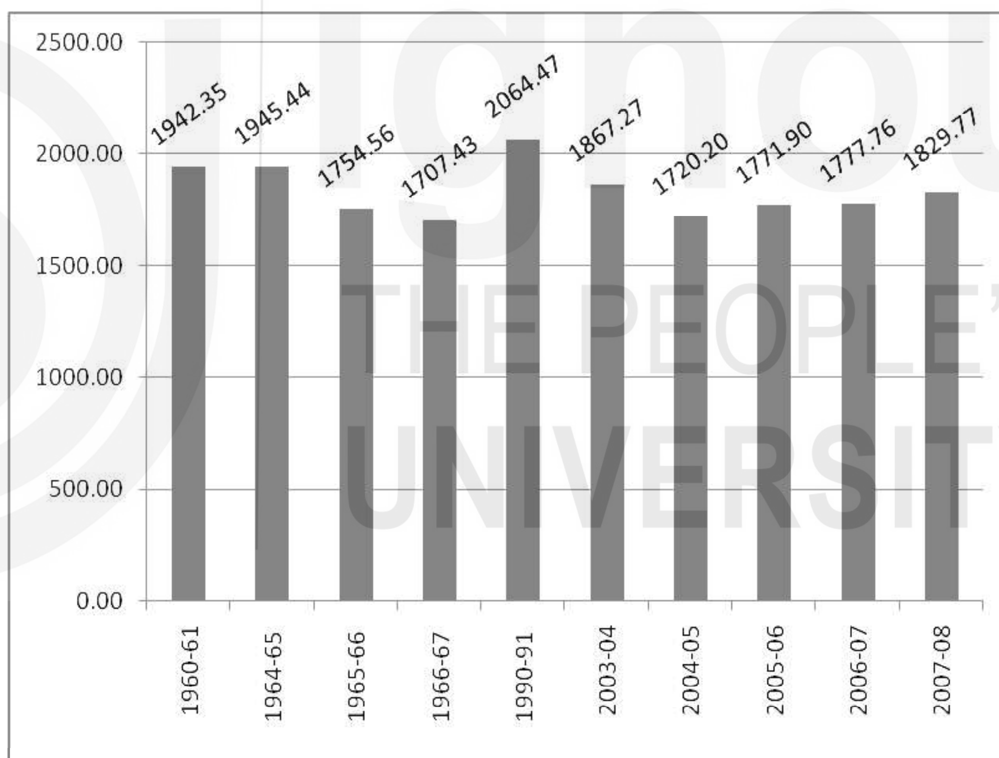

Figure 1: Per Capita Expenditure on Foodgrains at 1999-00 prices (Values in Rupees)

Source: *Computed from CSO, National Accounts Statistics, 2009 and Back Series*

All the above point towards the undisputed fact that income inequalities in India have grown sharply after 1991. Inequalities can however increase even when everyone experiences rising incomes but the pace of increase of the richer sections is greater. The nature of non-inclusive Indian growth under liberalization has however been one where the large majority which in any case had low incomes has experienced stagnating incomes while a small well-off minority has moved ahead rapidly by cornering the bulk of the benefits of growth. It is this pattern of distribution of the benefits of growth that explains the pattern of demand growth

in India. In a country where food intake levels and the penetration of manufactured consumer goods are very low, with a general increase in incomes one should see an absolute rise in expenditure on food and also a rise in the share of expenditure on manufactured goods before the consumption pattern shifts towards services. That we are witnessing instead not the first two but only a rising share of services in Indian consumption demand has to reflect the fact that income increases are concentrated at the upper end of the income distribution spectrum, where the demand for food and manufactured consumption goods are relatively saturated.

4.8.5 Growth of Private Sector

Moreover, the problem is not merely one of increasing inter-personal inequality. A significant part of the recent high growth of the Indian economy has been based on the rapid growth of the private corporate sector. This is indicated by the rapid rise in its share in GDP of the savings of the private corporate sector – that part of the profits of companies which is not paid out either as taxes or as dividends (Figure 2). It has grown many times faster than aggregate GDP – as compared to a 71% rise in the nominal value of the latter between 2003-04 and 2007-08, corporate savings increased by over 250%!Consequently, the share of corporate savings in GDP has more than doubled, from just above 4% in 2003-04 to 8.4% in 2007-08. Income-tax data on the other hand indicate that total private corporate taxable profits in 2007-08 touched nearly 14% of GDP, and over 50% of this was accounted for by less than 200 companies.

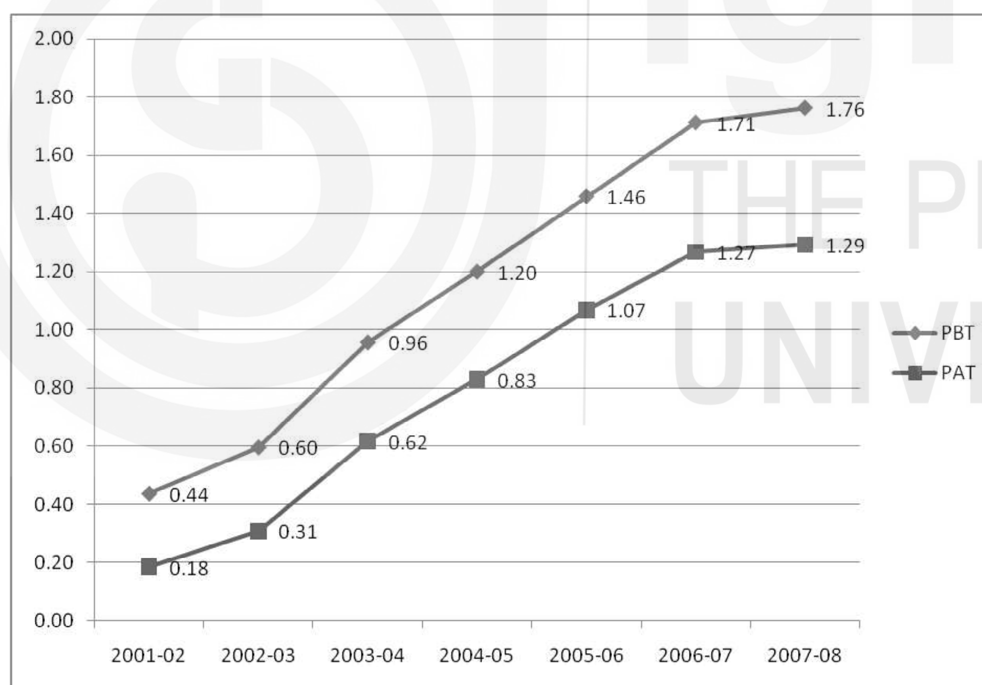

Figure 2: Gross Savings of the Private Corporate Sector (Joint-Stock Companies) as a Percentage of GDP at Market Prices

Source: *Central Statistical Organisation, National Accounts Statistics, 2009 and Back Series*

Not only are the incomes of very few linked to corporate growth, this period also witnessed unbalanced growth of incomes *within* the corporate sector. As Figure 3 starkly brings out the profits of private corporate sector companies have been growing much more rapidly than the wages and salaries being paid by them to their employees (the figure is based on a sample of companies which account for 70-80% of the corporate sector). From a level where profits before taxes were less than half the value of wages and salaries 2001-02, they have climbed in the

short space of a few years to become nearly double. Underlying this is the combination of the corporate sector holding employment at relatively low levels even while expanding output and the low wages and salaries of many employees even in the corporate sector.

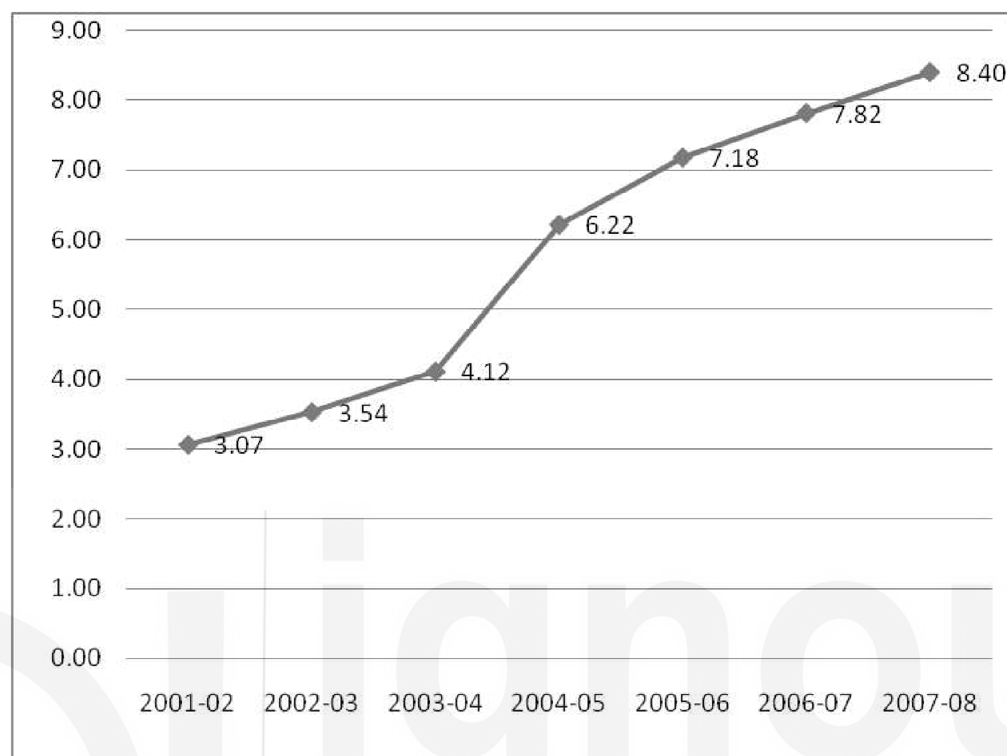

Figure 3: Ratio of Profit Before Tax (PAT) and Profit After Tax (PAT) to Wages and Salaries in Private Sector Companies

4.8.6 Growing Rural-Urban Divide

Another dimension of growing inequality in India has been the growing divide between urban and rural India. Per capita incomes in rural India, where more than 70% of the population still resides, have always been significantly lower than in urban India. But a very sharp decline in this ratio happened immediately after liberalization.

Table 7: Share of Rural India in Population and Net Domestic Product and Rural/Urban Per Capita NDP

Year	Share (%) of Rural India in:		Rural Per Capita NDP as % of Urban
	Population	NDP	
1970-71	80.22	62.35	40.88
1980-81	76.88	58.91	43.11
1993-94	73.51	54.27	42.76
1999-00	72.53	48.3	35.39

Source: *CSO, National Accounts Statistics*

The relative decline of the rural sector also exhibits itself in the sharp decline in the ratio of per capita consumption expenditure in rural India relative to urban levels (Figure 4). The average Indian living in the countryside now consumes

just about half of what his/her urban counterpart consumes, as compared to over 70% in 1977-78.

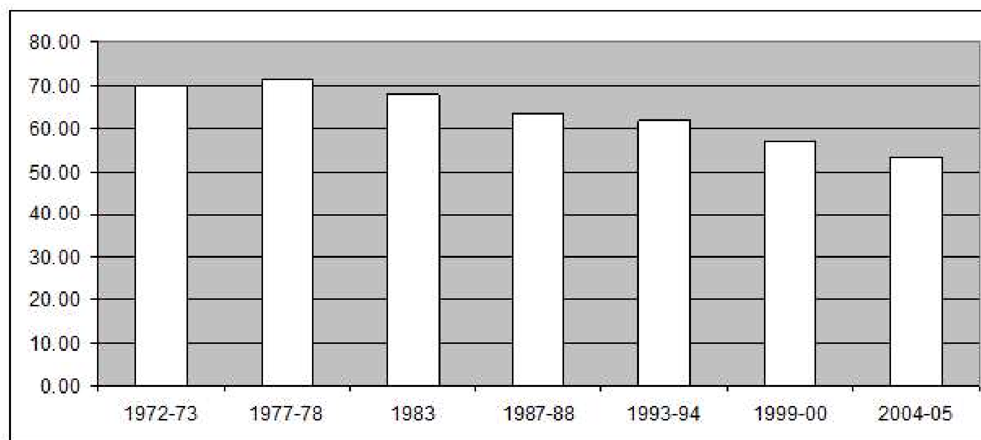

Figure 4: Average Per Capita Expenditure: Rural India as a Percentage of Urban India.

Source: *NSSO Report No. 508: Levels and Patterns of Consumer Expenditure, 2004-05*

4.8.7 Public Expenditure Stagnation

At the root of many of the problems confronting Indian development has been the inability to increase public expenditure levels, a direct consequence of the globalization of the Indian economy. As shown in Table 8, the ratio of public expenditure to GDP, which was in any case amongst the lowest in the world, has stagnated at levels attained before liberalization. In fact even during the recent period of very high growth, the period in which tax receipts to GDP ratios were the best, rather than an expansion of expenditure what one saw was a reduction of the fiscal deficit – to which the Government had committed itself through the FRBM Act.

Table 8: Receipts and Expenditure of Central and State Governments as a Percentage of GDP

Year	Total Revenue Receipts	Tax Receipts	Expenditure
1990-91	18.6	15.4	28.7
1997-98	17.8	14.3	25.8
2002-03	18.8	15	28.9
2007-08	22.3	18.5	27.9

Source: *Economic Survey*

One implication of the restraint on public expenditure has been that investment in the development of the country's infrastructure, including rural infrastructure, has suffered. This in turn has had adverse consequences for agriculture and rural development, industrial growth, the competitiveness of the Indian economy, and employment. Social sectors like health and education have also been badly hit. Even as public expenditure on these has stagnated, people have to spend more out of their own pockets for health and education services (Table 9).

Table 9: Government and Private Expenditure on Health and Education as a Percentage of GDP

Year	Government Expenditure (Central & State Governments)			Private Final Consumption Expenditure		
	Health	Education	Total	Health	Education	Total
1990-91	1.2	3.1	4.30	1.68	1.11	2.79
1997-98	1.1	2.8	3.90	1.95	1.11	3.06
2002-03	1.24	2.74	3.98	3.31	1.39	4.69
2007-08	1.41	2.87	4.28	3.22	1.33	4.55

Source: *Economic Survey and CSO, National Accounts Statistics*

4.8.8 The Indian Experience with Globalization: Growth sans Development?

How should then one describe India's experience with Globalization? India does not appear to belong to that group of developing countries where the pace of aggregate growth has been adversely affected by globalization. Yet, even with its significantly higher growth performance it has like other developing countries found it difficult to address its formidable development challenge as this growth has not positively touched the lives of the majority of Indians. It is this duality that underlies the controversy about the impact of globalization on India. Those who emphasize that growth is a necessary and condition for eliminating backwardness and believe growth has automatic trickle-down effects highlight the growth performance of India under liberalization. Others point out the limited impact of this growth on general well-being. This divide is deeper than might first appear. That Indian growth under liberalization has not been inclusive in nature is now officially accepted and transforming that is often highlighted as a major policy objective. The question however is, can the growth that has happened and its lack of inclusiveness be separated from each other? If the government has to keep taxes very low and restrict its spending, then it may be able to do precious little to change the economic outcomes spontaneously emerging except by enticing private capital. But if it is to depend on profit oriented domestic and foreign private capital to deliver growth by enticing it to invest, and keep Indian financial markets attractive to foreign portfolio investors, then it has to keep its taxes and expenditure low, and instead offer further concessions. This is a vicious circle from which escape is very difficult unless the policy space is enlarged and used to alter the pattern of growth. That however may not be possible without some restraints on the extent of integration with the global economy.

In this session you read about the globalization and its impact on various indicators of development and now answer the questions given in the Check Your Progress-3.

Check Your Progress 3

Note: a) Answer the following questions in about 50 words.

b) Check your answer with possible answers given at the end of the unit.

1) What is the asymmetry between the shares of India's organized sector in output and employment?

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2) Is poverty in India disappearing?

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3) In what sense has Indian growth after liberalization been non-inclusive growth?

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4.9 LET US SUM UP

The period since the mid-1970s is what is usually called the period of Globalization or increasing integration between the world's economies. Developing countries also become a part of this process though they entered it with levels of economic attainment significantly lower than those of developed countries. Global economic performance under Globalization, measured in terms of both aggregate output growth as well in terms of meeting the challenge of development, has however proved to be much less impressive than the promise accompanying its rise as the dominant official ideology in the world. The central factor responsible for this has been the fact that both the ideology and the reality of Globalization have hamstrung governments from taking measures necessary for improved performance. India, which has been a late entrant into the globalization process, is an example of the fact that even if a developing country may be lucky to escape the fate of depressed growth it still cannot easily deliver development to its people. As the world ponders over the future of Globalization in the wake of the worst crisis since the Great Depression, which is itself a fall-out of the nature of contemporary Globalization, the development dimension of this question also needs to be focused on.

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4.11 CHECK YOUR PROGRESS-POSSIBLE ANSWERS

Check Your Progress 1

1) What is meant by the increasing openness of an economy?

   An economy becomes more open when barriers to transactions across its borders are reduced. Specifically, increasing openness signifies the freeing

of inflows of products and capital into the economy from government controls and restraints.

2) What are the major components of contemporary Globalization?

The globalization of finance, markets, and production are the three main components of contemporary Globalization. The first refers to the integration of the financial markets of countries and the large movements of portfolio capital between them, the second to the integration of their product markets, and the third to the emergence of internally integrated and coordinated networks of production spread across countries.

3) Why does Globalization restrict the scope for State intervention in the economy?

In general, open economies are less autonomous and therefore less amenable to direction by their respective States. In contemporary Globalization specifically, the possibility of the migration of economic activity and capital to other countries restraints governments from intervening in ways disliked by private capital.

4) Does Globalization mean that nationality of individuals becomes irrelevant to the degree of economic success they achieve?

Since conditions obtaining in different countries are not the same, and the movement of people across borders remains highly restricted, it cannot be said that in the competition for economic success everyone starts with equally favourable or unfavourable initial circumstances irrespective of nationality.

Check Your Progress 2

1) Has Globalization been accompanied by convergence between countries?

Globalization has not been accompanied by convergence between countries. Per capita incomes of many developing countries have grown slower than those of developed countries in the last three decades. Even in the case of developing countries with higher rates of growth, the gap between them and the developed countries continues to be immense.

2) What is the unevenness in the growth and trade performance of developing countries under Globalization?

Most developing countries in Latin America and Africa, and also West Asia, have relatively lost out in growth and trade during the era of Globalization. Some developing countries in East and South Asia have however done better, not only growing relatively faster than the rest of the world but also increasing their share in world exports.

Check Your Progress 3

1) What is the asymmetry between the shares of India's organized sector in output and employment?

The asymmetry between the shares of India's organized sector in output and employment is that while its output growth is above average and its share in output is increasing, its share in employment is falling with as a result of stagnating levels of employment in that sector.

2) Is poverty in India disappearing?

   Poverty in India cannot be said to be disappearing because the number of people below the poverty line are large and not declining rapidly and also because poverty understood in even a slightly broader sense continues to plague the overwhelming majority of Indians.

3) In what sense has Indian growth after liberalization been non-inclusive growth?

   Indian growth after liberalization has been non-inclusive because the benefits of that growth have been heavily concentrated in a narrow spectrum of the population. For the rest, this growth has failed to provide adequate opportunities for employment and rising incomes so that the economic conditions of the majority have stagnated or worsened and not merely grown more slowly.

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