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Globalisation and the issue of Inclusive Development

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Abstract

After Independence, state led economic model of growth was incorporated for the inclusive growth of India. In 1980s, Indian economy came under two crisis faced balance of payments and crisis of high rate of inflation. This cause could be drawn in the form of macro-economic mismanagement. It accelerated high fiscal shortfall and revenue deficit. The policy of liberalization of economy was incorporated after 1991. It led to a boom in India's economic growth. This took India to adopt the structural adjustment programme. This paper tries to explore the challenges and inclusive policy thrust in the era of globalization. The democratic and inclusive model of the growth is must to investigate for the inclusive economic development of the state.

The time period between the 1950s and 1980s, the development framework was more dominated by the centralized planning. This Swadesi approach was adopted by the Indian leaders on the basis of self-sufficiency. It emphasized on domestic production and limited international engagement. It was mainly framed to discourage the outsiders (Ogden 2014: 54). At the beginning of the reforms, India's tariffs were the highest in the world. It became the major reason of high barriers to trade. India faced the crisis of balance of payments. Indian Governments got financial support from IMF and promised to reduce the state control and integrate the Indian economy with global economy (Ogden 2014:57).

Rao Government recognized that it is necessary to redesign India's economic policies. This design built a more export oriented economic policies. These policies were earlier framed by South korea and Japan and after that by South East Asian States like Indonesia, Singapore, Thailand, Malaysia to a certain extent. The People's Republic of China adopted this liberal policy under the leadership of Deng Xiaoping. In this situation of regional scape, India adopted new economic policies. It was believed that the openness of economy will speed up the process of modernization. It was hoped that India will be able to access the world market and develop the world standard market skills.

These reforms contributed for the growth of the economy. These reforms tried to reduce the revenue and fiscal deficit. The main reason of this revenue deficit was excessive employment in the government sector, growing interest burden, control over the prices of goods and services by government sector, rising defence expenditure and mounting subsidies. In this situation, budgetary exercise was concentrated by droping rates of direct taxes, tax incentives for export leaning sector, containing special economic zone, simplification of administrative process.

Industrial Policy Reforms and Foreign Direct Investment

The primary objective was acquisition of capital and technology. Earlier policy was very selective and unfavorable to the investors. The statement of industrial policy dates July 24, 1991. It terminated the public sector control in various sector. It started a policy of automatic approval for foreign direct investment up to 51% (Panagaria 2008:104). International collaboration was encouraged. New policy only restricted public sector to eight areas grounded upon the security of the nation. These areas were arms, ammunition, defence equipment, atomic energy, coal and lignite, mining, mineral oil and railway (Panagaria 2008:104). Different kinds of relaxation were given to Company Act. Many critical areas were opened to the private sector. For Example, hydrocarbon sector, electric generation, petroleum explorations have brought under the control of private sector. Telecommunication also came under the domain of private sector (Ahluwalia 1994:4). After new industrial policy the government ended on telecommunication, power generation, oil exploration, hydrocarbons. It abolished the requirement of licencing (Ogden 2014:57-58). There are two types of restrictions on foreign

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direct investment. In 11 sectors foreign direct investments are not allowed and some sectors are subject of the ceiling and needs approval from the government (Rao and Dhar 2011:66). FDI was allowed up to 51 percent and direct and indirect taxation reduced (Ogden 2014: 58). The capital market was opened to foreign institutional investors. Indian companies were allowed to list in stock marets in abroad (Baru 2006:116).

Trade and Economic Policy

India has been following a very strict policy in trade since the independence. Import and export exchange rates were under the direct control of the state. In 1991, import licencing of goods were divided into limited permissible, restricted, banned and subject to open general licencing. Under the category of open general licencing imported goods into India did not require a licence provided that they fall under the open general licencing system. Open general licensing system allowed export and import of all things without licence excluding those specified in a negative list. The ground base for the import of things was: essentiality and indigenous non availability. With this new policy import control ended with tariffs and duties reduced from 200% to 50% (Ogden 2014:58). The export and import programme 1992-97 was perceived as innovative. Its thrust to employment was the major objective of this policy (Handbook on Foreign Trade Policy to Export and Import 2008:2). During this period trade was restricted to 11 categories. It was felt that trade can flourish in a regime of substantial market freedom. Going through such perspectives the negative lists were kept as small as possible.

The five years exim (export and import) policy 2002-2007 was incorporated into new five year trade policy for the time period of 2004-2009. This policy seems to be built on the liberalization process by reducing tariffs, unchaining the control, bringing down the transaction charges, duty reduction, forming export processing zones and bring FDI in infrastructure sector. The growth of foreign trade which was 17% of GDP in 1991 was 44% by the end of 2005 (Dash and Sharma 2011:237). WTO's International Trade Statistics (2010) stated that in merchandise trade India is 20th leading exporter and 13th biggest importer. It can be pointed that India's growth acceleration in its earliest phase was statist. In the later stage, the reforms brought down the prices of capital goods accessible. The share of trade has increased in its total GDP.

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Public Sector Reforms

It was emphasized that the public sector should focus on the sector related with national security. The interaction between private and government sector became the theme of strengthening the economy. In this process, the Federation of Indian Chambers of Commerce and Industry (FICCI), Associated Chambers of Commerce and Industry in India (ASSOCHAM), Confederation of Indian Industry (CII) played a major role in this direction. FICCI efficiently articulated the role of private sectors.

Financial Sector Reforms and Exchange Rate Policy

In financial sector, interest rates were decreased. Credit system was made easier. Banking was encouraged to expand. It was supposed that the discipline of market will make capital market and banking system more organized. The reduction in the statutory liquidity ratio and the cash reserve ratio are destined to remove the limitations. In general, the philosophy of deregulation was adopted by the Reserve Bank of India. Indian government liberalised transactions on the current and capital accounts. During the initial years of liberalization, the current account was fully liberalised and the capital account was liberalized gradually (Baru 2006:116). Indian economy has succeeded to integrate the national economy with global economy.

The Other Side

It is found that the contributions of FDIs in labor intensive industries are not significant. The nature of capital flow is more in infrastructure than manufacturing. FDIs have not shifted to labour intensive industries where India has a comparative advantage. The labour intensity in manufacture reduced substantially. Deepak Nayyar (2017) argues that the crisis in agriculture runs deep. India's share in industrial output and manufactured export has declined steadily. The share of agricultural work force has increased. It showed the sectoral differences in labour productivity. Agriculture has become less profitable profession which has not been compensated by any government policies. The farming community suffers from very low and fluctuating prices, increasing cost of health and education. Sometime the rainfall pattern creates the risk to production and becomes the cause of pushing farmers into debt trap. The growing debt burden, small margin of benefit, stagnation in the livelihood activities and natural

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calamities has resulted for distress among the farmer community. These situations are the reflection of agrarian crisis. It can be considered that overall high growth cannot be maintained over a longer period if it widens the economic inequality without providing the positive structural adjustments.

There is a marked imbalance in the sectoral shares in relation to GDP 2011-12. The share of agriculture in employment was 47.5 percent and the share in GDP was 14 percent. The service sector accounted for 59 percent of GDP and the share in employment was around 28 percent. In the industry sector the share in GDP was 27 percent and the share of employment was 24.5 percent. The slow decline of the employment ratio is the matter of concern. There is an obstruction of shifting agricultural workforce to other sector of the economy. At the same time the manufacturing sector which is more labour intensive is lagging behind.

The Agreement on Agriculture (AOA) was signed in Marrakesh in April 1994 in the Uruguay round of negotiations. It was argued that India will be gainer by integrating its agricultural economy with international agricultural structure. Trade liberalization and greater global integration has increased the frequency and intensity of fluctuations causing the suffering of general mass. This has raised the serious food security concern. Based on the concept of food sovereignty, there are the priorities of sustainable food production. Agriculture remains a relatively protected sector in most developing countries. But the barriers have fallen and the subsidies have been disappearing. Under the regime of WTO, it is required for developed and developing countries to reduce export subsidies. Agriculture trade liberalization has worsened the plight of the farmers of developing countries. Domestic markets are flooded with cheaper subsidized foods for the developing countries. As a result of it, it became unviable livelihood options for many farmers in the developing countries.

Sometimes the prices of several commodities have turned higher then international prices. It has made import more attractive and affected the export adversely. This situation calls for the improvement of competitiveness in agricultural sector. The period from 1950s to mid 1965s was the period of pre green revolution. The major agenda was the expansion of landholding area. After Green revolution the productivity in the agricultural field became the agenda of

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growth. The mechanism can be created for minimum support prize for avoiding the price risk. This could be applied only for limited commodities.

The reduction in subsidy for fertilizer supply has raised the input costs for agriculture. Import liberalization in the form of tariff reductions has increased the imported materials. The major contentious issue in Uruguay round negotiations was the high domestic support given to the agriculture in the developed countries. This support contains the measures such as high minimum support price, export subsidies. The other instruments can be seen in the form of income support under the blue box. The number of major crops has faced the decline in its production. Indian agriculture also faces the problem of unfair competition from cheap imports. It poses the threats to the livelihood of farming communities. Tariff reductions are demanded under the WTO negotiations by the developed countries specially USA. Any changes and reductions at any level may be drastic. International prices may go at its below level because of the weightage of the subsidy. Many developed countries are involved for providing high level of subsidies. These tendencies of subsidies are seen as the signal of controlling the international agricultural market. These types of distortions generated the uncertainties in the global market. India is among the few countries in which bound tariffs are allowed under WTO regime. It was to maintain the food and livelihood security. Two types of Non-tariff measures are the Sanitary and Phytosanitary measures and technical barriers to trade. These measures have been used to ensure the protection of health, plant and animal life.

Food Security

India has always claimed that the pure market driven policy in agriculture could not be appropriate for the country. There is the possibility of unpredictable fluctuations in the international prices. The food security could be achieved by the local means of production rather than exposing poor farmers to international market. The subsidies given by the developed countries for the protection of culture can cause trading of goods in law prices in international market. It can undermine the welfare of the agrarian communities. It is more possibility of dumping the commodities strategically at low prices than the cost of production in order to create the dominance in international market.

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It is appropriate to premise food security upon domestic products. India has achieved a higher rate of production of raisin for food self-sufficiency. The tendency of growing crops for export market could be detrimental for the traditional self-sufficiency goals. Domestic production provides some sort of assurance for the food sufficiency and security. It becomes essential to take into consideration the non-trade issues like agrarian livelihood case. There is the need of maintenance of self-sufficiency strategy to meet the food requirements. The increased reliance on cash crops can make families exposed to food crisis because of the fluctuation of the prices. Food security depends on the stable supply of production.

Green box in WTO puts measures which do not distort the trade. They are excluded from the reduction commitment. It included general agricultural support policies and domestic food security. Amber box contains certain support price measures to be reduced by 13.3 percent in developing countries and 20 percent in developed countries. Least developed countries were exempted. Blue box is exempted from any type of reduction. The developing countries get less and lose much in this discriminative nature of trade agreement. Agriculture is a means of ensuring the food security. Sustainable agricultural practices are must to maintain the ecological balance. It has its strong roots in political and cultural landscape of the region. This sector works as a resource of employment and means of living for the rural India.

Mainly export subsidy has become a most contentious issue in the agreement of agriculture. The issue of food security is not getting the place to be discussed. The issue of SPS and TBT becomes the hurdle in developing countries. It checks their pursuit to access to market. Among the rice importer except India, all south Asian countries are dependent on imported food grain. This is the major reason of concern. There is the need of sustained growth in the production of foodgrains. The decline of the agricultural productivity is the matter of concern. The National food security Act was passed in the Indian Parliament in 2013. It gives the guarantee for the right to food to ensure the food security system in India.

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