Policy Studies 22

India's Globalization: Evaluating the Economic Consequences

Baldev Raj Nayar

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Contents

List of Acronyms v

Executive Summary vii

Introduction 1

India's Reintegration with the World Economy:
Its Limited Nature 8

Assessing the Consequences of Globalization 24

- Economic Stagnation or Accelerated Economic Growth 24
- Deindustrialization or Industrial Advance 32
- Denationalization or Regeneration 37
- Economic Destabilization or Stability 45
- Impoverishment or Welfare Enhancement 62

Conclusion 78

Endnotes 85

Bibliography 89

Policy Studies: List of Reviewers 2005–06 98

Policy Studies: Previous Publications 99

List of Acronyms

ADB	Asian Development Bank
BPO	business process outsourcing
CAC	capital account convertibility
CE	consumer expenditure
CFD	combined fiscal deficit
EOU	export oriented unit
EUS	Employment-Unemployment Survey
FD	fiscal deficit
FDI	foreign direct investment
FII	foreign institutional investor
GoI	Government of India
GDP	gross domestic product
IMF	International Monetary Fund
ISI	import substitution industrialization
IT	information technology
M&A	mergers and acquisitions
MNC	multinational corporation

NCAER	National Council of Applied Economic Research
NRI	non-resident Indian
NSS	National Sample Survey
NSSO	National Sample Survey Organization
OECD	Organization for Economic Cooperation and Development
OPEC	Organization of the Petroleum Exporting Countries
PFI	portfolio foreign investment
RBI	Reserve Bank of India
RIS	Research and Information System for the Non-Aligned and Other Developing Countries
SGDP	state domestic gross product
UNCTAD	United Nations Conference on Trade and Development

Executive Summary

Despite its status as a "master concept" in the world today, globalization has attracted critics with powerful attacks against it. This study takes seriously these critiques by developing a hypothesis on the economic impact of globalization for the purposes of systematic examination. Globalization is taken here to mean the sharper and continuing integration of the world economy, while economic liberalization refers to deregulation and decontrol in a national economy––an economic process inextricably linked with globalization.

On almost every point, the critics make the opposite case to that of the supporters of globalization. Thus, rather than higher economic growth, the critics see economic *stagnation.* Rather than economic advance and industrialization, they see *deindustrialization.* Rather than local entrepreneurship, they see *denationalization.* Rather than economic stability, they see economic *destabilization.* And rather than the enhancement of human welfare, they see *impoverishment* and growing *inequality.*

This study evaluates the competing claims through a systematic investigation using an intensive case study. The country chosen is India, which contains about a fifth of the population of the developing world; indeed, some of its constituent states have larger populations than most developing countries. The study brings to bear abundant quantitative and qualitative data on the analysis.

The study first examines the nature and extent of India's integration into the world economy along three dimensions––flows of goods and services, capital flows, and migration of people. While India has made substantial strides, it still represents a case of *limited integration* compared with such dynamic economies as China, Korea, and Mexico. However, even this limited integration has had enormous consequences for India.

The study delineates three broad periods in India's recent economic history: (1) the period prior to liberalization (1956–57 through 1974–75), characterized as one of autarky and "command and control" economy; (2) the period of intermittent incremental liberalization (1975–76 through 1990–91); and (3) the period after the paradigm shift to an outward-oriented economic policy in 1991.

The study finds that, whatever the consequences of globalization elsewhere in the developing world, the case of the critics has little merit when examined in relation to the Indian experience. The Indian case does not bear out the predictions of the critics.

1. Instead of economic stagnation, India has seen acceleration in its average annual rate of economic growth, from 3.4 percent in the pre-globalization period to about 6 percent. That figure may soon reach 7 percent.
2. Instead of deindustrialization, there has been industrial growth and, indeed, acceleration in the industrial growth rate. The average annual rate of industrial growth has jumped from 5.2 percent during the period of autarky to 7.0 percent after 1991. At the last rate, the value of manufacturing doubles about every ten years––not exactly deindustrialization.
3. Instead of denationalization, business in India is now more competitive and is venturing forth into the global market. Increased imports and the entry of foreign multinationals have not swamped it. Essentially, India is master of its own economy.
4. Instead of economic destabilization, the globalization of India's economy has led to fewer economic crises. The period of economic autarky before globalization was essentially one long, enduring crisis. Since the paradigm shift to economic liberalization in 1991, there has been a marked absence of economic crisis in India.

5. Instead of impoverishment, India has seen a long and unprecedented period of welfare enhancement. The period before globalization featured high levels of poverty. There has been a secular decline in poverty since 1975––and inequality has not increased much. Of more concern is the matter of growing regional disparities in India.

The study shows that India has been a significant beneficiary of the globalization process. Rather than support the case of the critics, India's experience strongly repudiates those critics. The policy conclusion that flows from the experience is that India should, in general, be more open to globalization in the interest of sustaining the acceleration in growth and, therefore, the welfare of its people. The agenda for reform to this end is well-established in the reform community. What is required is more energetic action to implement it, but there are, of course, constraints in doing so that are built into the larger political system.

India's Globalization: Evaluating the Economic Consequences

Economic globalization has achieved the status of a master concept—albeit an ambiguous one—in the social sciences since the turn of the century. Its importance derives from the profound consequences it has for all countries, and those consequences are multifaceted, bearing on literally every aspect of social life. It would be a daunting task indeed to examine them all in a single paper. The focus here is therefore limited to investigating the aspect that is affected most directly by globalization—the economy—and that, too, for a single country, India. Accordingly, even though it is hugely important, the impact of globalization on culture, society, and polity is not addressed here.

In its essence, economic globalization represents the sharp and continuing integration of the world economy. Because of its profound consequences, it has been the object both of much praise and strident criticism. The enthusiasts and supporters of globalization (Bhagwati 2004; Wolf 2004) regard it as a wholly benign process, heralding the long-awaited deliverance of humanity from economic backwardness, underdevelopment, and misery. For them, allowing market forces to work largely unhindered by the state and its politics will make possible higher economic growth and, therefore, human welfare. There is

[The] supporters of globalization regard it as a wholly benign process

now a considerable consensus among mainstream economists on the basis of sophisticated econometric studies (Dollar and Kraay 2004, and the works cited therein) that outward-oriented economies perform better in terms of economic growth than do inward-oriented ones, which in turn leads to desirable consequences for human welfare.

On the other hand, the critics of globalization (Falk 1999; Petras and Veltmeyer 2001; Chomsky 2002; Klein 2002; Monbiot 2003; Singh 2005)—while varying considerably in their views—have mounted a powerful attack against globalization, holding it to be a malign force. On almost every point, the critics make the opposite case to that of the supporters of globalization. Thus, rather than higher economic growth, the likely result of integration into the world economy is considered to be economic *stagnation*, a position that earlier had also been forcefully articulated by dependency theorists. Rather than economic advance and industrialization, *deindustrialization.* Rather than promotion of local entrepreneurship, *denationalization.* Rather than economic stability, economic *destabilization.* And rather than the enhancement of human welfare, *impoverishment* and growing *inequality.* These critics exist in both the developed and developing worlds, and powerful lobbies agitate for policies to counter globalization in the protection of the interests of their various constituencies.

Although the critics are not limited to any particular region, their influence varies. Thus, in most countries of the developed world as in East Asia and Southeast Asia, by and large there exists a consensus on the desirability of integration into the world economy—though not recklessly—and of policies to that effect. By contrast, in other parts of the world—such as India—globalization is not a settled issue at all but is highly contested. While India has doubtless made considerable accommodation to globalization since the last decade of the twentieth century if not earlier, powerful political and intellectual forces nonetheless actively oppose and resist globalization there because of its actual or potential adverse consequences for the economy, among other areas. The dean of Marxist economists in India, Prabhat Patnaik, offers an exemplary articulation of the contra position. In a wide-ranging attack in which he uses the terms *globalization* and *imperialism* alternatively to describe the same phenomenon, Patnaik claims that:

powerful political and intellectual forces...actively... resist globalization

> The net result, taking the third world as a whole, of surrendering to the process of "globalization" in this sense is: relative economic stagnation, increased income inequalities leading to a worsening of poverty, a loss of economic and political sovereignty, an implicit attenuation of democracy . . . a loss of control over domestic assets and natural resources to metropolitan capital, the loss of food security, and an exposure to the prospects of sharply fluctuating fortunes owing to the vicissitudes of the world market and the caprices of international speculators. . . . The current phase of imperialism entails a tendency towards stagnation, not only generally but in particular in the third world . . . The process of globalization is associated with economic retrogression and accentuation of poverty over much of the third world. . . . Rather than ushering in a more vigorous development of capitalism, and hence a more rapid growth of the productive forces, the pursuit of "neoliberal" policies under the aegis of imperialism ushers in deflation, deindustrialization, loss of food security and stagnation. (2003: 42, 63, 102, 162)[1]

The contested status of globalization, particularly in India but not necessarily limited to it, necessitates an empirical inquiry into globalization's impact in terms of the debate between the supporters and critics of globalization. The issue can be cast in the form of a *hypothesis*: Increased integration of the national economy into the world economy under globalization will have significant negative outcomes for the former, such as the five broad elements mentioned earlier: (1) economic stagnation; (2) deindustrialization, with the closure of domestic firms in the face of unhindered imports; (3) denationalization, with the takeover of domestic firms by foreign multinationals; (4) economic destabilization, marked by a higher frequency of economic crises arising from the greater exposure of the nation to external shocks; and (5) increased impoverishment.

The contested status of globalization…necessitates an empirical inquiry into globalization's impact

The hypothesis should not be seen as the cheap exercise of setting up an intellectual straw man or making broad generalizations about third-world countries. Prabhat Patnaik very much believes his diagnosis to apply specifically to India as well, where his orienting concept is the "demand-constrained economy," into which India has been transformed during the

1990s as a direct result of implementing the program for structural adjustment. Defined as "a system in which the potential output in any period always exceeds the level of demand of that output at the base distribution of income," its creation in India is "an inevitable accompaniment of its opening out to global capital flows." In brief, "the emergence of demand constraint is an inevitable fall-out of wooing foreign capital, which is the essence of the 'liberal' strategy." The consequence of the transformation to a perennially demand-constrained system has been the rise of "significant unutilized capacity during the 1990s, owing to the absence of adequate demand for their products." Besides, the "distinct decline in the role of the state in stimulating demand" and "the opening up of the economy to the inflow of foreign goods . . . also has an adverse effect on aggregate demand." Naturally, therefore, the initial "transient boost to industrial production during the 1990s" to meet the elite's pent-up demand for luxury consumption goods was short-lived; by the end of the decade "this stimulus had exhausted itself, landing the economy in the throes of an industrial stagnation." Moreover, "the inflow of net imports (financed, for example, through foreign capital inflows) was certainly an important reason behind the emergence of a demand constraint during the 1990s." In addition, structural adjustment has created a situation "that aggravates rural poverty" and has led to a fall in real wages of rural workers, all of which had "a demand-compressing effect" (2003: 183–97).

Although India may not have suffered as badly as some other third-world countries, for Patnaik "many of the tendencies associated with a liberalized third world economy, namely, accentuation of economic inequalities, the preservation of and even a marginal increase in rural poverty, worsening of the food supply situation, the transformation of the economy into a demand-constrained system, a tendency towards industrial stagnation, and vulnerability to speculative capital flight, are already evident." The hypothesis, then, has very much to do with India's experience, not the third world in general. Needless to add, its thrust is accepted among a wide constituency in the intellectual and political arenas in India.

Methodology

The more interesting task is to test the hypothesis empirically in a systematic way. There are two ways in which the hypothesis can be tested: One way would be (a) develop appropriate indicators for the independent variable (globalization) and the dependent variables—stagnation, deindustrialization, denationalization, destabilization, and impoverishment; then (b)

take a large sample of developing countries for purposes of testing; and finally (c) assess on a cross-national basis whether the suggested hypothesis is confirmed or not by this *extensive* procedure of examining the relationship between the dependent and independent variables across the large sample of countries. Some excellent work in this genre is available on the developing world comprehensively (Garrett 2001) and in more geographically limited quantitative studies (Stallings and Peres 2000; Kaufman and Segura-Ubiego 2001).

The other way is to select one or more developing countries for an *intensive* examination as case studies. The first method has the merit of more extensive coverage, the second has the advantage of greater in-depth analysis, which allows for more empirical richness and the potential for deeper insights. Indeed, even some of the most sophisticated quantitative analyses (Kaufman and Segura-Ubiego 2001) end up stating: "Like most statistical studies, our findings leave open a variety of questions, many of which can be answered only by more qualitative research methods." Again, despite much econometric analysis, Stallings and Peres (2000) perforce resort to "qualitative, historical analysis" because "the complex interrelation of variables leads to the use of such methodology." Besides, the case study approach itself can also fall within the genre of comparative study depending on the nature of the questions asked—that is, whether they are nomothetic or ideographic. In the present case, the questions have been formulated in the form of a hypothesis that can also be the basis of a comparative quantitative study.

It is the second method that has been chosen here (though elements of the first method are included), and India is the country that has been chosen for investigation. India constitutes an important case for such study, because it is a mega-state that includes about one-fifth of the population of the developing world, containing more people than all of Africa or the Western Hemisphere. Largely unique among developing countries ("Indian exceptionalism"), it has remarkably sustained a democratic framework for more than a half-century. It is unrivalled in the developing world for its ethnic and linguistic diversity; the presence of a large number of states within its ethnic federation—many of which themselves surpass the populations of most developing countries—opens up possibilities for comparative study among them.

India constitutes an important case...study

The research strategy employed for examining the hypothesis is, then, a case study of India's experience with globalization and the related process of economic liberalization. The rest of the study investigates the extent to which that experience conforms to the hypothesis. It first examines the nature and extent of the reintegration of India's economy with the world economy and then assesses the consequences of such reintegration for the economy in terms of the hypothesis, which forms the bulk of the study. In assessing the consequences of globalization for India's economy, the study compares the experience of the period under globalization—with its different phases delineated—with that under non-globalization, a step that is absolutely essential. In its absence, globalization is likely to be assessed against some ideal world that exists nowhere, and unwarranted assumptions are likely to be made about the possible consequences of constraining or ending globalization.

the experience of India [refutes the critics]

Briefly, the larger argument of the present study, based on considerable quantitative and qualitative evidence, is that India's experience with globalization and liberalization over the period from 1975 to 2005 does not conform to the hypothesis. In other words, the experience of India has not furnished the critics of globalization with much basis for argument.

Complexity in Assessing Globalization's Impact

Despite its importance, the issue of assessing the economic consequences of globalization is not an easy one, especially if the assessment takes, as the present study does, a comprehensive view. To begin with, globalization itself is a social phenomenon of systemic proportions, embodying contradictory processes and different crosscurrents. Again, no single variable can explain such a broad and multifaceted phenomenon as the economy. In particular, where multiple variables are involved, as in the present case, it would be difficult to determine the effect of any single variable with any degree of precision or definitiveness. At best, one can only discern whether globalization is associated with changes in areas where it is reasonably expected to have an impact, such as economic growth, asset ownership, economic stability, and even human welfare. At the same time, any assessment of the consequences of globalization would have to be sensitive to the impact of other variables.

Among these other variables, there is none more important than the state, whether for good or ill. The state is critical to globalization. For one

thing, appropriate state policy is essential to benefit from the claimed benign aspects of globalization and to obviate its alleged malign aspects. Indeed, the very diffusion of globalization presupposes state action. Globalization does not work its way automatically into a nation's economy; it requires state action to remove the blocking mechanisms in its path so that the economy can partake of it. In that sense, the state continues to be important, even under globalization. Importantly, it is not a helpless entity in coming to terms with globalization. As a gatekeeper between the world economy and the national economy, the state can to a considerable extent determine the degree of openness to the world economy as it navigates the opportunities and risks involved in international integration.[2]

the state can…determine the degree of openness to the world economy

Such a stance serves to underline the basic importance of public policy. Even if the consequences of globalization are taken to be as benign as its enthusiasts insist, it is not a panacea, and it does not work instantly all by itself. It requires appropriate public policy to facilitate its benign effects. This applies as much to states within a federation as it does to nation-states. At the same time, no amount of globalization can entirely undo the effects of, or compensate for, bad or imprudent policy on the part of the state. At the most basic level, there must be adequate governance in the form of maintenance of law and order and security of life and property. Governance matters. The lack of adequate capacity for governance can hardly be propitious for economic growth, as is evident in the state of Bihar. Understandably, nation-states as well as their constituent political units differ in this regard.

globalization…is not a panacea

Besides, the structure of the state itself has a crucial bearing on economic policy. Authoritarian and democratic regimes, for example, differ fundamentally on how national goals and public policies are formulated and implemented. In authoritarian systems, the state can largely impose goals and policies on society from the top. On the other hand, goals and policies in democratic systems evolve through bargaining in the political marketplace; they are a function largely of the balance of forces among electorates, interest groups, and political parties. Take, for example, the Congress-led coalition government in power in India since May 2004; the

aspirations of its reform "dream team" are heavily circumscribed by what is acceptable to the Left. The basic problem in democracies is not knowledge but action. There is a surfeit of policy proposals for economic reform from a variety of commissions, committees, and task forces in the government and international financial institutions, but movement to implement them is excruciatingly slow because of the requirement of support for them from critical support groups.

The basic problem in democracies is not knowledge but action

Furthermore, authoritarian and democratic regimes differ significantly in their responsiveness to demands on the part of the population for expenditure by the state (Goyal and Jha 2004). In an effort to enhance their electoral appeal, governments under democratic regimes tend to emphasize consumption over investment.

Thus, in the Indian case, both the specific extent of openness to globalization and the nature of its political system are fundamental factors in evaluating economic performance. What or how much ought to be attributed to one or the other can be a difficult proposition. Given the ambiguity of social facts, human beings are likely to differ over interpreting them.

The complexity of assessing the economic consequences of globalization ought not to deter analysis, however. The importance of the issue demands an analysis grounded in empirical evidence, even if it is constrained by some limits rooted in the complexity of the subject matter.

India's Reintegration with the World Economy: Its Limited Nature

With the twin aims of achieving economic advance and establishing "the socialistic pattern of society," India under a highly interventionist state in 1956 launched a gigantic and overly ambitious import substitution industrialization (ISI) program, the hallmark of which was the heavy industry strategy under the aegis of the public sector. Influenced significantly by the Soviet model and powerfully attracted by the notion of economic independence as a necessary complement to and foundation of political independence, India's economic planners sought to install a regime of economic autarky that delinked or disassociated the national economy from the world economy. The strategy, which was structurally biased against agriculture and exports, essentially entailed a "command and control economy" that relied on physical controls and was restrictive toward the private sector.

While India succeeded in setting up a complex and diversified industrial system through this strategy, for a long time it was stuck with economic stagnation in the form of an annual economic growth rate of around 3.5 percent, the so-called "Hindu rate of growth." It also became economically marginalized in the world economy, with a secular decline in its share of world trade. Dissatisfied with this level of performance, the government eventually jettisoned the strategy in favor of moving to economic liberalization—and with it reintegration with the world economy.

Globalization and Liberalization

Globalization as the sharper and continuing integration of the world economy is an ongoing economic process, not an end-stage. Consequently, any determination of its emergence is inherently arbitrary. Though globalization in its contemporary phase can be considered to have been underway over a longer duration in the postwar period, 1975 can serve as a convenient point demarcating the period of globalization from the pre-globalization one. Such a temporal demarcation proceeds from the recognition of the transformative impact on the integration of the world economy of the collapse in 1971 of the Bretton Woods regime and the earthshaking OPEC oil price shock of 1973. Besides, in the pre-globalization period as understood here, inward-oriented ISI policies as a matter of deliberate strategy were the norm in much of the developing world—large portions of the world economy, such as the Soviet bloc, China, and India, were under regimes that were committed to economic autarky.

Interestingly, the start of India's reintegration into the world economy through a policy of economic liberalization, at least in its nascent form, coincides temporally with the onset of globalization in the postwar period. Globalization as a social phenomenon and liberalization as a national project, though conceptually distinct, are linked processes. They are two sides of the same coin—each presupposes, compels, or entails the other. Globalization as the more comprehensive process and compelling force generates pressures on closed economies to open up. To fail to respond constructively to such pressures is to forgo the benefits of participating in a wider, and therefore more productive, division of labor and to incur losses from perverse economic and social effects such as smuggling.

Globalization…and liberalization [are distinct but linked processes]

At the same time, economic liberalization within a country creates pressures to integrate the national economy with the world economy. Economic liberalization is at times differentiated between *external* liberalization and *internal* liberalization. The former relates to facilitating openness of the national economy to the world economy and seems essentially synonymous to globalization and its diffusion. On the other hand, internal liberalization pertains to deregulation and decontrol in a national economy. However, such liberalization cannot remain limited to the internal realm alone, for it is likely to generate pressures to widen its scope to external liberalization as well. Say, for example, a country commences economic reform and removes restrictions on production by the private sector in order to accelerate growth. Eventually the state would have to allow imports of capital goods and intermediate goods to increase production—and that means integration into the world economy. And if it allows imports of these goods, then it must also promote exports in order to pay for them—further integration into the world economy.

Although they are treated as different concepts, globalization and liberalization in the actual world are, in effect, almost equivalent and interchangeable terms. As the broader concept, globalization encompasses and entails liberalization. It would therefore be futile to attempt to disentangle the two in a vain effort to determine the separate effects of each on the economy.

India's Long March to Economic Liberalization

The year 1991 is often cited as marking the initiation of economic liberalization in India. However, some analysts (Virmani 2004; Panagariya 2004), attempting to explain the country's equally strong economic performance during the 1980s, place the starting point of economic reforms around 1980. But they provide neither evidence of reform in 1980 (or even the early 1980s) nor any compelling rationale for such reforms. What the analysts (Rodrik and Subramanian 2004; Virmani 2004) see in the early 1980s is not economic policy reform but merely a change in Indira Gandhi's attitude toward business—which, again, goes unexplained. They regard Rajiv Gandhi to have carried out reform more explicitly from 1985 onward during the remainder of the 1980s. On the other hand, the work of other analysts (Joshi and Little 1994; Nayar 2001; Dhar 2003) provides

the early 1980s… [witnessed] a change in Indira Gandhi's attitude toward business

considerable evidence that the reforms actually began in late 1974. Significantly, such reforms—or at least hesitant and tentative first steps—took place under the stimulus of an enormous economic and political crisis, and they were then carried forward incrementally in a long but still fairly incomplete process of economic liberalization. This revisionist position, while largely accurate, needs a slight elaboration.

The period from 1969 to 1973 witnessed an intense radicalization of economic policy through large-scale nationalization of banking and industry and the further tightening of restrictions on the private sector in the name of curbing monopolies (Nayar 1989: 282–327). Whether because of this policy thrust under Prime Minister Gandhi or because of external shocks (droughts, war, quadrupling of global oil prices), there occurred a socially ravaging deterioration of the economy, which then spilled over into societal and political upheaval. In this circumstance, apart from savagely crushing a massive railway strike in May 1974, the government now changed economic course. It rescinded the nationalization of the wholesale wheat trade and jettisoned plans to nationalize the entire wholesale foodgrains trade. More important, besides adopting a deflationary policy package in July, it introduced deregulation and export promotion measures on top of the earlier de facto currency devaluation (Joshi and Little 1994: 56).

The government made a sharp departure from the earlier pattern of imposing ever-expanding and increasingly severe restrictions on production by the private sector. In an effort to boost non-traditional exports, it now allowed fifteen export-oriented engineering industries to increase their production capacity by 25 percent over five years without prior permission. More broadly, to facilitate expanded production for exports, the government shifted to automatic licensing for the import of raw materials and components for export-oriented industries. To the same end, it increased import entitlements for selected industries. The government also liberalized the provision of finance for the export sector at concessional rates of interest. Further, it increased cash incentives for exports and expanded such entitlements to industries hitherto not covered, such as engineering, chemicals, synthetic fibers, and garments. The government crucially took to "selective abolition of export licensing and simplification of procedure. The licensing formalities were

Such changes…mark a significant break with the earlier radical course

dispensed with for nearly two-thirds of the 300 items which were subject to export licensing earlier" (RBI 1976: 198–201; see also Dhar 2003: 23–24). Such changes may not seem earthshaking in retrospect, but they marked a significant break with the earlier radical course. Moreover, given the severe and extensive distortions that had come to inform the economic system through escalating government controls and restrictions, they contained a disproportional potential for spurring growth by providing greater leeway to entrepreneurs.

In view of this reversal of course, though nascent in form, 1975 is here roughly regarded as demarcating the initiation of India's effort to reintegrate its economy with the world economy in direct contrast with the earlier attempts at economic autarky. Thus considered, 1975 marks the initial phase of a long liberalization process—to which the later reforms constitute a sequel. Incidentally, an econometric study (Wallack 2003), investigating the question of structural breaks in the Indian economy, finds 1974 and 1980 to be "the two most robust break" years. The phase of liberalization inaugurated in 1975 was driven by dissatisfaction with *performance* under the earlier economic regime, not by any attempt at *emulation* of liberalization in some other successful countries or by any *direction* or coercion by foreign agencies to implement the "Washington consensus" (Williamson 1990: 7–38), which had not been developed yet. After the course reversal in 1975, there followed other economic reforms.

When Prime Minister Gandhi returned to power in January 1980 after the 1977–79 interregnum of Janata Party rule, she resumed the course of economic reform in the context of an economic crisis resulting from an unprecedented drought and the doubling of global oil prices. One of the first noteworthy economic policy actions of her government was the issuance of an Industrial Policy Statement in July 1980 to adjust the Industrial Policy Resolution of 1956 to new circumstances. Continuing the liberalization inaugurated during the economic crisis of 1974–75, the new policy extended the permission for automatic expansion of capacity by 25 percent over five years to a much larger number of industries (Lok Sabha Debates, July 23, 1980: 367–82). The government further adopted a more liberal stance toward the import by industry of raw materials, spare parts, and, especially, technology. Significantly, the number of foreign collaborations approved annually suddenly more than doubled. These various reforms were consolidated in the Sixth Five Year Plan. When India went in for an IMF loan in 1980, it preempted the

application of conditionalities that would likely have been placed on it on the plea of having already accomplished the necessary reforms on its own (Stiles 1991: 114–15, 121, 122).

In 1982, a more dramatic shift in industrial policy incorporated two new measures. One extended the principle of automatic expansion of licensed industrial capacity to permit expansion by a third rather than a fourth as before. The other enlarged the list of "core" industries that would be open to large industrial houses and foreign companies (Lok Sabha Debates, April 21, 1982: 484–85; GoI 1983: 30). Again, the government allowed the private sector to enter new areas of industrial activity, such as power and oil exploration, that were earlier closed to it. Further, it abolished government-administered prices for pig iron and brought about partial decontrol of cement (GoI 1983: 25, 30). Significantly, Prime Minister Gandhi appointed two important committees, one on licensing controls and the other on trade liberalization, the recommendations of which would have a considerable impact on subsequent liberalization.

When Rajiv Gandhi became prime minister after his mother's assassination, he openly embraced and accelerated economic liberalization. This was unlike his mother, whose "liberalization by stealth" was masked by socialist rhetoric. Remarkably, his liberalization program was undertaken without the stimulus of an economic crisis. Despite its great promise, the program was soon halted in the face of strong opposition, however. Panagariya (2004) has provided a comprehensive account of the various measures undertaken by the government under Rajiv Gandhi, which encompassed both internal and external liberalization.

Rajiv Gandhi…openly embraced and accelerated economic liberalization

The various installments of economic reform undertaken thus far—sometimes characterized as "creeping liberalization"—while extremely important in themselves and for revealing a new path, represented within-system change under the umbrella of the continuing inward-oriented economic regime. It was left to another economic crisis to provide the stimulus for a paradigm shift in 1991 to an outward-oriented economic regime openly seeking integration with the world economy in explicit emulation of the newly industrializing countries of East and Southeast Asia. Apart from a sharp devaluation, there was a gradual unification of exchange

rates, even as the national currency was made convertible on the current account. The government also slashed tariffs, gradually removed quantitative restrictions on foreign trade, all but dismantled the system of industrial licensing, and sharply reduced taxes (Joshi and Little 1996; Ahluwalia and Little 1998; Nayar 2001). However, once the crisis was over, the thrust for liberalization went with it. Economic liberalization was limited, but the process nonetheless continued through piecemeal measures under the auspices of a variety of successive governments.

In view of the various changes in economic policy, the following three broad periods can be delineated for the purpose of making a comparative assessment of the economic consequences of globalization (the Indian fiscal year runs from April 1 to March 31):

1. 1956–57 to 1974–75, the dominant feature of which was the thrust for *autarky and the "command and control" economy.* The period began with the launching of the Second Five Year Plan (1956–57/1960–61) with its inward-oriented heavy industry strategy. In the final year of the period, there was, as mentioned above, some turning away from its central feature.
2. 1975–76 to 1990–91, during which there occurred *intermittent incremental liberalization* but still within the earlier inherited framework of the inward-oriented economic strategy. This period can be differentiated into two parts, the first one of (a) nascent liberalization from 1975–76 to 1983–84, largely under Indira Gandhi, and the second one of (b) explicit but stalled promotion of liberalization from 1984–85 to 1990–91, largely under Rajiv Gandhi.
3. 1991–92 to the present, characterized by the *paradigm shift in economic policy* to liberalization, although admittedly in a half-hearted, halting, and limited form.

In light of this temporal differentiation, the decade and a half or so between 1975 and 1991 can properly be regarded as a long transition from autarky to partial reintegration with the world economy. On the other hand, the entire period after 1975 can be treated as one of *extended liberalization.* Over the course of this long transition, the same intellectual and political forces that would later attack and oppose the paradigm shift had also attacked and opposed the intermittent incremental reforms (Nayar 1989: 322, 326–27, 338). Earlier, they had greeted similarly the change in the mid-1960s to the modern, technology-driven, entrepreneurial agricultural strategy known as the Green Revolution strategy, which also modified

to some extent the inward-oriented economic strategy and the "command and control" economy.

The Nature and Extent of Reintegration

The nature of an economy's integration with the world economy can be assessed through three different indicators: (1) trade in goods and services, (2) capital flows, and (3) migration of people. The changes in these indicators in India are discussed below; the purpose here is not to provide a substantive analysis about these indicators but simply to assess the degree to which India has become integrated into the world economy.

Trade

In regard to trade in both goods and services, what is noteworthy first and foremost is the dramatic change in India's integration with the world economy. In 1974, India's trade (imports plus exports) as a proportion of its GDP was around 10 percent (already a substantial improvement over its earlier performance because of the tacit but significant currency devaluation following the linkage of the rupee with the weak sterling in December 1971). By 2002, however, that proportion had about tripled to nearly 31 percent (table 1). At that level, India in 2002 was more globalized than the United States (23.6 percent) and Japan (21.0 percent). Even so, India was at the lower end of international integration.

India in 2002 was more globalized than the United States and Japan

The twenty-five largest national economies in 2002 (table 2) can be divided into four categories in terms of the share of trade in GDP: medium (20–49 percent), high (50–79 percent), very high (80–110 percent), and super high (above 110 percent). Significantly, none of these major economic powers are below the 20 percent level. India is in the medium category, but it is telling that it has very little company in that category—the only other economic powers there are Japan, the United States, Brazil, and Australia. By contrast, the other twenty countries all have higher rates. It is significant that the more dynamic among the developing economies belong to the high category (China: 54.8 percent; Indonesia: 65.1 percent; Korea:

China's performance defies the conventional wisdom

69.1 percent; Mexico: 55.5 percent). Indeed, China's performance defies the conventional wisdom that exports are a low share of GDP in large economies. Regardless, the record of the more dynamic among the developing economies underlines the long road that India still has before it.

Despite its belonging to the medium category, India has nonetheless made rapid strides toward international integration when compared with its experience prior to liberalization. Looked at from a long-term perspective in relation to *merchandise* exports alone, it took twenty-three years for India's exports to double in dollar value (1949–72; table 3). They then doubled in the next four years (1972–76), but this result may partly be an illusion because of the commodity boom following the first OPEC oil price shock. However, they doubled again in the next eleven years (1976–87), nearly doubled again in the next six years (1987–93), and still again in the next eight years (1993–2001).

Table 1: India's Foreign Trade in Goods and Services as a Share of GDP (%)

Year	*Exports %*	*Imports %*	*Total Trade %*	*Year*	*Exports %*	*Imports %*	*Total Trade %*
1970	3.61	4.49	8.10	1987	5.72	7.13	12.85
1971	3.72	4.64	8.36	1988	6.15	7.59	13.74
1972	4.14	4.36	8.49	1989	7.12	8.27	15.39
1973	4.03	4.70	8.73	1990	7.15	8.56	15.71
1974	4.75	6.13	10.89	1991	8.61	8.61	17.23
1975	5.95	7.00	12.95	1992	8.99	9.75	18.75
1976	6.73	6.79	13.52	1993	10.03	10.01	20.04
1977	6.40	6.55	12.94	1994	10.03	10.34	20.37
1978	6.19	7.77	13.96	1995	11.00	12.20	23.21
1979	6.54	8.94	15.48	1996	10.59	11.77	22.36
1980	6.28	9.46	15.74	1997	10.85	12.11	22.96
1981	6.08	8.78	14.87	1998	11.22	12.91	24.13
1982	6.14	8.36	14.50	1999	11.76	13.72	25.47
1983	5.99	8.05	14.04	2000	13.89	14.65	28.54
1984	6.45	7.94	14.39	2001	13.48	14.10	27.58
1985	5.38	7.83	13.20	2002	15.22	15.60	30.82
1986	5.32	7.19	12.50	2003	14.48	15.99	30.47
				2004	15.35	17.24	32.58

Source: World Development Indicators (WDI), available at devdata.worldbank.org/datalonline.

Before the beginning of economic liberalization in 1975, India had manifested stagnation in its trade performance. Indeed, as a share of world exports, India's merchandise exports went into a steep long-term decline over this period, falling almost every year, from 2.17 percent in 1949 to 0.48 percent in 1974 (table 3), remarkably consistent with the country's autarkic aims. Following the start of liberalization in 1975, India's international integration in terms of trade fell into three major phases. There was, in the first phase of four years from 1975 to 1978, a sudden spurt in growth of exports, taking India's share of world exports to an average of around 0.55 percent, but this performance was not sustained. In the second phase, from 1979 to 1991, the share fell into an unstable, stagnant pattern of a little up or a little down, with the average below 0.50 percent. Only in the third phase beginning in 1992 did there occur a slow but consistent rise, from 0.52 percent to 0.77 percent in 2002 (table 3) and, reportedly, to 0.82 percent in 2004 (Economic Times Online, April 29, 2005). During this phase, India's exports grew at a higher rate than world exports. In the six years from 1999–2000 to 2004–05, exports in dollar value grew at over 15 percent, and they have moved to a higher growth trajectory since 2002–03, whence they have grown at over 20 percent (GoI

Table 2: Share of Trade in GDP (%) of the World's Top 25 Economies in 2002

Medium (20–49%)		*High (50–79%)*		*Very High (80–110%)*		*Super High (110+%)*	
Australia	41.8	Korea, Rep.	69.1	Austria	103.1	Belgium	160.5
India	30.8	Norway	68.8	Denmark	83.9	Netherlands	118.1
Brazil	28.9	Germany	67.0	Canada*	82.5		
USA	23.6	Indonesia	65.1	Switzerland	81.8		
Japan	21.0	Turkey	59.9	Sweden	80.5		
		Russia	58.8				
		Poland	58.7				
		Spain	58.5				
		Mexico	55.5				
		China	54.8				
		UK	53.4				
		Italy	52.8				
		France	52.1				

*Figure for 2001

Source: World Development Indicators (WDI) Online.

2005: 113, S-79). Thus, the last buoyant phase since 1992 marks a sustained reversal of the secular decline that had started in 1950. Indeed, one authority maintains that "in our own gradual, laid-back sort of way, we seem to be moving closer to the export-led growth model that our East and North Asian neighbors have exploited so well" (Barua 2005). They take the increase in exports to have contributed more than a quarter of the increase in GDP during the business boom over several years following 2001.

Table 3: India's Merchandise Exports as a Share of World Exports (US$, in billions)

Year	*World*	*India*	*%*	*Year*	*World*	*India*	*%*
1949	55.2	1.197	2.17	1976	953.4	5.549	0.58
1950	57.1	1.145	2.01	1977	1,080.5	6.378	0.59
1951	77.4	1.602	2.07	1978	1,251.5	6.671	0.53
1952	74.5	1.243	1.67	1979	1,618.4	7.806	0.48
1953	75.6	1.102	1.46	1980	1,931.7	8.586	0.44
1954	77.8	1.169	1.50	1981	1,924.4	8.295	0.43
1955	84.9	1.263	1.49	1982	1,777.2	9.358	0.53
1956	94.6	1.257	1.33	1983	1,736.0	9.148	0.53
1957	101.5	1.380	1.36	1984	1,840.8	9.451	0.51
1958	96.7	1.216	1.26	1985	1,875.8	9.140	0.49
1959	102.6	1.323	1.29	1986	2,048.5	9.399	0.46
1960	114.6	1.332	1.16	1987	2,419.0	11.298	0.47
1961	119.8	1.386	1.16	1988	2,765.2	13.234	0.48
1962	125.5	1.403	1.12	1989	3,008.5	15.872	0.53
1963	137.4	1.626	1.18	1990	3,423.4	17.969	0.52
1964	154.0	1.705	1.11	1991	3,534.0	17.727	0.50
1965	167.1	1.687	1.01	1992	3,775.9	19.628	0.52
1966	183.6	1.954	1.06	1993	3,768.7	21.572	0.57
1967	192.7	1.613	0.84	1994	4,287.7	25.022	0.58
1968	215.2	1.761	0.82	1995	5,129.6	30.630	0.60
1969	246.6	1.835	0.74	1996	5,351.5	33.105	0.62
1970	300.1	2.026	0.68	1997	5,537.2	35.008	0.63
1971	336.4	2.036	0.61	1998	5,450.7	33.437	0.61
1972	398.8	2.448	0.61	1999	5,649.8	35.667	0.63
1973	552.6	2.917	0.53	2000	6,360.7	42.379	0.67
1974	811.3	3.926	0.48	2001	6,128.9	43.347	0.71
1975	845.4	4.355	0.52	2002	6,419.1	49.327	0.77
				2003	7,430.8	57.100	0.77

Source: International Monetary Fund, *International Financial Statistics Yearbook*, 1979, 2000, 2003, 2004.

In respect to overall trade in goods and services as a proportion of GDP, economic liberalization is broadly associated with a rise in the trade/GDP ratio, though not evenly. There was a sudden rise in the ratio in the second half of the 1970s, so that by 1980 it was about 50 percent higher than in 1974. There was then a fall over the 1980s followed by a strong upward thrust after the paradigm shift in economic policy in 1991 (table 1). That the share in 2004 (32.58 percent) was more than double that in 1990 (15.71 percent) is a sign of the quicker pace of integration in recent years.

The rapid rise in services exports, which have grown faster than merchandise trade in recent years, is a noteworthy aspect of India's new trade profile. Along with China, Ireland, and Korea, India has emerged as an important services exporter on the global scene; its services exports, worth $4.9 billion in 1992, rose to $25 billion in 2003. Services now account for 31 percent of India's total exports. Of particular importance in services exports are software exports, in which India has emerged as a substantial global player. Growing at an annual compound rate of about 36 percent between 1995–96 and 2003–04, software exports formed about half (48.9 percent) of all services exports in 2003–04 (GoI 2005: 111–12).

Examined from the viewpoint of both the trade/GDP ratio and the growth of merchandise exports in dollar value during the period after the start of liberalization in 1975 and particularly after the paradigm shift in 1991, it is manifest that India is now significantly integrated into the world economy. The fate of India's economy has thus become intertwined with the fate of the world economy, though not as intensely as that of most of the other major economic powers.[3]

Capital Flows

The story on capital flows points in the same direction. For long, India was highly restrictive toward foreign investment, and its restrictive posture reached its peak in the mid-1970s when India forced foreign companies to dilute the foreign equity in their subsidiaries in India to 40 percent on pain of having to withdraw from India. Indeed, IBM and Coca-Cola chose to leave India in 1977 rather than dilute equity. Every proposal for foreign investment in India required specific approval from the central government. Because of India's restrictive posture, in the ten years from 1975 to 1984 FDI net inflows to India were $434.8 million in all (table 4). Over this entire period, they never reached the figure of even $100 million in any year; indeed, the figure in 1977 was a negative $36.10 million.

Gradually, however, in the 1980s, India began to relax its attitude. For the first time, in 1985, FDI net inflows crossed the figure of $100 million. In the next seven years, the average was about $180 million a year. After the economic liberalization of the early 1990s, FDI net inflows expanded quickly, reaching the figure of over $2 billion in 1995; the annual average between 1995 and 2000 was about $2.5 billion. The high point was in 2001, when FDI net inflows exceeded $4 billion (table 4).

No doubt, the recent figures look good; indeed, in 2003 and 2004, India ranked fourth—after China, Hong Kong, and Singapore—among FDI recipients in Asia and the Pacific (UNCTAD 2004: 51). But the record looks impressive only against India's own past experience. Compared to China's achievement of $49.3 billion in FDI net inflows in 2002, it seems rather pathetic. FDI net inflows to India as a share of such inflows to developing countries have been about 1.5 percent; as a share of India's GDP they have been less than 1 percent (GoI 2002: 14–15). Understandably, this performance relative to China's has been a source of unhappiness and concern about the country's inability to attract FDI in adequate measure. Despite the progressive relaxation of restrictions on FDI, a number of factors have acted as a deterrent to increased FDI inflows: bureaucratic hurdles and red tape, inflexible labor laws, "weak credibility of regulatory systems," poor infrastructure, and delays in the judicial system (ibid.: 21–29).

India was quite late in allowing portfolio foreign investment (PFI). It was not until September 1992 that India permitted investment by foreigners in securities traded on India's primary and secondary markets. But it required such investment to be channeled only through foreign institutional investors (FIIs), who had to register with the Reserve Bank of India and were subject to investment ceilings in particular sectors (GoI 2004b: 7–9). PFI inflows have been considerable since then, often more than FDI inflows and sometimes strikingly so. India attracts a far higher proportion of the PFI flows to developing countries than it does of FDI. PFI inflows to India exceeded a billion dollars in 1993; the annual average from 1994 to 2003 was over $3 billion (table 4); the figure for 2003 was a spectacular $8.2 billion. Such high inflows, while indicative of the confidence of foreign investors in the Indian economy, have created anxieties about externally driven monetary instability. Besides, they seem to have made the FIIs by far the dominant player in India's stock markets. While this view has been questioned by the govern-

Table 4: Capital Inflows, Labor Emigrants, and Inward Workers Remittances: India

Year	*FDI Net Inflows ($, in millions)*	*PFI Equity Inflows ($, in millions)*	*Number of Emigrants*	*Remittances ($, in billions)*
1975	85.10	0.00	N/A	0.43
1976	51.10	0.00	4,200	0.64
1977	-36.10	0.00	22,900	0.93
1978	18.10	0.00	69,000	1.16
1979	48.60	0.00	171,000	1.44
1980	79.20	0.00	236,200	2.76
1981	91.90	0.00	276,000	2.30
1982	72.10	0.00	239,545	2.62
1983	5.60	0.00	224,995	2.66
1984	19.20	0.00	205,922	2.29
1985	106.10	0.00	163,035	2.47
1986	117.70	192.00	113,649	2.24
1987	212.30	0.00	125,356	2.66
1988	91.30	56.00	169,844	2.31
1989	252.10	168.00	126,786	2.58
1990	236.70	0.00	143,565	2.35
1991	73.54	4.60	197,889	3.28
1992	276.51	283.60	416,784	2.89
1993	550.02	1,369.10	438,338	3.50
1994	890.69	5,491.10	425,385	5.78
1995	2,026.44	1,590.50	415,334	6.14
1996	2,186.73	3,958.30	414,214	8.45
1997	3,464.41	2,555.70	416,424	10.30
1998	2,587.06	-601.20	355,164	9.45
1999	2,089.23	2,317.10	199,552	11.00
2000	3,074.68	2,475.40	243,182	12.75
2001	4,073.96	2,951.50	278,664	14.16
2002	3,947.90	1,063.80	367,663	15.65
2003	3,260.04	8,237.00	466,456	21.60

Source: For capital inflows and workers remittances: World Development Indicators (WDI) Online; starting in December 2005, the WDI database no longer provides FDI figures before 1991. For number of emigrants: (a) through 1989, International Organization for Migration, *World Migration Report 2000*, 110, and (b) after 1989, "Distribution of Annual Labor Outflows from India by Destination," available Online at www.indiastat.com.

ment, nonetheless “India is now more integrated with the factors that affect all emerging markets such as world trade, portfolio flows, and FDI” (GoI 2005: 82).

Migration

Contemporary globalization has often been unfavorably contrasted with the globalization of the nineteenth century because of the massive human migration characteristic of the earlier period, including large outflows of contract labor from India, as also happened in China. This may, however, be a debatable issue, because, as the United Nations puts it: “In the past few decades, international movements of people have increased alongside, though less strongly than, the expanded international flows of goods and capital” (2004: v). The International Organization for Migration (2000: 4–5) puts the number of long-term (resident more than one year) migrants in 1990 at 120 million, and the figure is estimated to have grown to 150 million by 2000.

In the postwar period, the migration of workers from India began with globalization in the mid-1970s and quickly expanded to over 200,000 labor emigrants by 1980. The movement slowed down to about 150,000 by 1985 but escalated to over 400,000 in 1992 after the economic liberalization of the early 1990s. In 1998, however, there was a reverse movement of the increasing trend, with the numbers falling sharply to below 200,000. However, the rising trend picked up again in 2000 and the numbers swelled to a record level of over 460,000 by 2003 (table 4). The actual numbers of emigrants may have been as much as 30 to 50 percent higher, for only documented emigrants are covered in the official data. The International Organization for Migration believes that over 90 percent of the labor emigrants from India went to the Middle East as temporary workers, and some 55 percent of them came from one state, Kerala (2000: 116; 2003: 19).

While this level of emigration is not significant as such in view of India’s large population, one important by-product of it has been to stimulate a substantial reversal of capital flows to India. Starting with insignificant amounts in the mid-1970s, remittances to India from workers employed or intending to remain employed abroad for more than a year were over $2 billion a year from 1980 to 1990. Thereafter they rose rapidly, passing $10 billion in 1997 and $15 billion in 2002. In 2003, they passed the unprecedented and enormous figure of $21 billion (table 4). Note that these remittances have, except in 1994, invariably outstripped

FDI and PFI inflows put together—often by a wide margin—and were almost twice their combined size in 2003. With a share of 15 percent of worldwide foreign remittances, India ranks the highest in the world in this respect (Sorensen 2004: 8, 11). Such remittances were only 0.7 percent of India's GDP in 1990–91, but they increased to 3.2 percent of the GDP in 2003–04. The bulk of these remittances now comes from the advanced countries, primarily the United States and Europe, unlike the past, when the Middle East was the major source (GoI 2005: 111).

India ranks the highest in [worldwide foreign remittances]

Although it may be debatable as to with whom the balance of gains and losses lies in relation to the export of manpower—the host country or the exporting country—there can be no doubt about the massive sums involved in capital flows to India from workers remittances. Remarkably, then, these remittances show the important role that international labor mobility has come to play in international capital mobility. In addition, when strategically necessary, the Indian government has been able to mobilize substantial resources from its emigrants abroad, as is evident in the floating of the Resurgent India Bonds worth $4.2 billion in 1998 and the Indian Millennium Deposits worth $5.5 billion in 2000 (Sorensen 2004: 11).

Summary Assessment: Whether looked at from the perspective of movement of goods and services, capital, or people, it is patently evident that India has become considerably more integrated into the world economy since 1975, when India began its long but still uncompleted march to economic liberalization. The advance in this respect since the paradigm shift in 1991 has been very substantial. At the same time, if China, as a country with a largely similar background in terms of population numbers and stage of development, can be used as a standard of comparison, then it is equally obvious that India is a case of only *limited integration* in the world economy. From that perspective, India still has an enormous distance to travel in becoming internationally integrated.

India still has an enormous distance to travel in becoming internationally integrated

Assessing the Economic Consequences of Globalization

The account that follows examines seriatim the consequences of globalization for the economy in terms of each of the principal elements of the hypothesis set forth earlier.

Economic Stagnation or Accelerated Economic Growth

Contrary to the position of the critics of globalization, who emphasize economic stagnation as its likely outcome, the empirical data on economic growth rates leave no doubt that the opening to globalization has been enormously beneficial for economic growth in India. Rather than economic stagnation, globalization has led to the acceleration of the growth rate.

Table 5 provides data on growth rates, with the years in column 1 representing the period *before* globalization—that is, before 1975—and column 4 the period *after* globalization. If one compares the pre- and post-globalization periods, it is abundantly clear that the latter period is marked by much higher growth—an average growth rate of 5.5 percent instead of 3.4 percent for the earlier period. However, the comparison considerably understates the achievement. The two periods are internally varied, and the true magnitude of the difference emerges only when the period in which globalization deepened after the 1991 paradigm shift is set against the last decade of the pre-globalization period, when the long-term consequences of the earlier economic course became manifest.

globalization has led to the acceleration of the growth rate

During the pre-globalization period, the first four years after the launching of the autarkic heavy industry strategy in 1956 saw an average growth rate of 3.6 percent, the same as in the five-year period prior to it. However, the strategy resulted in an immediate foreign exchange and resource crisis, and it was rescued only because of the special resource mobilization organized by foreign donors under the auspices of the World Bank (Hanson 1966: 162). The subsequent five-year period (1960–61/1964–65) marked the high water mark of the economic performance of the heavy industry strategy, with the average growth rate being 5.0 percent. This better performance was partly the result of the initial one-time impact of the gigantic ISI strategy, but it was also partly a function of the massive foreign economic assistance provided by both the

power blocs in geopolitical competition with each other (Bhagwati and Desai 1970: 171–215). But it was only an aberration.

The strategy soon collapsed under the impact of two wars, two droughts, donor fatigue, and crisis in the world economy, but fundamentally because of its own inherent structural weakness. The average rate of growth over one whole decade, from 1965–66 to 1974–75, was a mere 2.6 percent (table 5a), which, in view of the high population growth rate, really meant economic stagnation. Indeed, if there was ever a period marked by economic stagnation in India's post-independence history, it is precisely these ten years. It is against the particular performance of this specific decade that the subsequent growth acceleration should more realistically be compared, rather than that of the entire autarkic period. Indeed, it was precisely dissatisfaction with that performance that served as the trigger in 1975 for taking the liberalization cure, however modestly at the beginning.

Table 5: GDP and Manufacturing Growth Rates, 1951–52 to 2004–05 (1993–94 prices)

Year (1)	*GDP % (2)*	*Mfg. % (3)*	*Year (4)*	*GDP % (5)*	*Mfg. % (6)*
1951–52	2.3	3.2	1975–76	9.0	2.1
1952–53	2.8	3.5	1976–77	1.2	8.8
1953–54	6.1	6.9	1977–78	7.5	6.2
1954–55	4.2	7.8	1978–79	5.5	12.4
1955–56	2.6	7.8	1979–80	-5.2	-3.2
Average	**3.6**	**5.8**	**Average**	**3.6**	**5.3**
1956–57	5.7	7.5	1980–81	7.2	0.2
1957–58	-1.2	3.9	1981–82	6.0	8.0
1958–59	7.6	4.9	1982–83	3.1	6.6
1959–60	2.2	6.8	1983–84	7.7	10.1
4-Year	**3.6**	**5.8**	1984–85	4.3	6.6
Average*			**Average**	**5.7**	**6.3**
1960–61	7.1	8.3	1985–86	4.5	3.9
1961–62	3.1	8.5	1986–87	4.3	6.9
1962–63	2.1	7.3	1987–88	3.8	7.3
1963–64	5.1	9.5	1988–89	10.5	8.8
1964–65	7.6	6.9	1989–90	6.7	11.8
Average	**5.0**	**8.1**	**Average**	**6.0**	**7.8**

Table continued next page

Subsequently, during the period of "intermittent incremental liberalization" from 1975–76 to 1990–91, the growth rate accelerated to 5.1 percent (table 5a). But there are variations within this long period. The initial four years from 1975–76 to 1978–79, after the change in economic course,

Continued from Table 5

Year (1)	*GDP %* (2)	*Mfg. %* (3)	*Year* (4)	*GDP %* (5)	*Mfg. %* (6)
1965–66	-3.7	0.9	1990–91	5.6	6.1
1966–67	1.0	0.8	1991–92	1.3	-3.7
1967–68	8.1	0.4	1992–93	5.1	4.1
1968–69	2.6	5.5	1993–94	5.9	8.5
1969–70	6.5	10.7	1994–95	7.3	11.9
Average	**2.9**	**3.7**	**Average**	**5.0**	**5.4**
1970–71	5.0	2.4	1995–96	7.3	14.9
1971–72	1.0	3.3	1996–97	7.8	9.7
1972–73	-0.3	3.9	1997–98	4.8	1.5
1973–74	4.6	4.5	1998–99	6.5	2.7
1974–75	1.2	2.9	1999–00	6.1	3.9
Average	**2.3**	**3.4**	**Average**	**6.5**	**6.6**
			2000–01	4.4	7.4
			2001–02	5.8	3.6
			2002–03	4.0	6.3
			2003–04	8.5	6.9
			2004–05	6.9	9.2
			Average	**5.9**	**6.7**
1956–57/1974–75			**1975–76/2004–05**		
Average	**3.4**	**5.2**	**Average**	**5.5**	**6.4**

*This four-year period starts with 1956–57, when the Nehru-Mahalanobis import-substitution strategy as embodied in the Second Five Year Plan, emphasizing heavy industry and the public sector, was launched with the aim of establishing "the socialist pattern of society." The particular data series on national accounts on which this table is based begins with 1951–52.

Source: For GDP for all years (except the last one) and for manufacturing from 1951–52 to 1960–61: Government of India, Central Statistical Organization (CSO), "National Accounts" – (1) Statement S1-2: Macro Economic Aggregates and Population, and (2) Statement 5: Gross Domestic Product by Economic Activity (available online). For manufacturing from 1961–62 to 2003–04: World Bank Indicators (WDI) Online. The figures for 2004–05 are revised estimates by CSO; see GoI, Press Information Bureau, Press Note dated June 30, 2005, mospi.nic.in/mospi_press_releases.htm.

Table 5a: Growth Rates in Various Combinations of Years

Period		GDP (%)	Manufacturing (%)
1	Autarky and "Command" Economy		
	(a) 1956–57 to 1974–75	3.4	5.2
	(b) 1956–57 to 1964–65	4.4	7.1
	(c) 1965–66 to 1974–75	2.6	3.5
2	Transition to Liberalization		
	(a) 1975–76 to 1990–91	5.1	6.4
	(a) 1975–76 to 1978–79	5.8	7.4
	(a) 1975–76 to 1979–80	3.6	5.3
	(a) 1975–76 to 1984–85	4.7	5.8
	(a) 1980–81 to 1984–85	5.7	6.3
	(a) 1985–86 to 1990–91	5.9	7.5
3	Paradigm Shift		
	(a) 1991–92 to 2004–05	5.8	6.2
	(a) 1992–93 to 2004–05	6.2	7.0
2 + 3	Extended Liberalization		
	(a) 1975–76 to 2004–05	5.5	6.4

saw the average growth rate go up to 5.8 percent, which is more than twice the average of 2.6 percent for the preceding decade. However, because of external shocks in the form of an unprecedented drought and the doubling of global oil prices, there was a severe setback in 1979–80. There was resumption of the accelerated growth path during the first half of the 1980s, when the average growth rate was 5.7 percent. With the more explicit move to economic liberalization in 1985, even though the process was soon halted, the average growth rate moved up to 6.0 percent in the second half of the 1980s.

The pattern of high growth continued into the period after the paradigm shift. If one excludes the "paradigm shift" year 1991–92—in the midst of an economic crisis—then the average growth rate of 6.2 percent over the thirteen years from 1992–93 to 2004–05 provides a stark contrast with the pre-globalization period. Clearly, as liberalization progressed from one period to the next, so did the growth rate. Indeed, with an average growth rate of over 7 percent during 2003–04, 2004–05 and 2005–06, "a trend acceleration may be under way," spelling "a possible ratcheting up of

the trend rate of growth of the economy from around 6 percent to about 7 percent" (GoI 2005: 14). The positive outlook embodied in the preceding statement rests on the recognition that the recent growth performance is, in part, a function of structural change in India's economy. That change pertains to the faster-growing services sector, the share of which now constitutes more than half (52.15 percent in 2004) of the country's GDP (table 6), while that of the usually volatile agriculture sector has been reduced to about a fifth (21.79 percent). Note the contrast with the year 1970, when agriculture constituted 46.54 percent and services 34.06 percent of GDP. Since the time of the stepped-up but within-system liberalization under Rajiv Gandhi and through the paradigm shift, the services sector as part of the GDP has been growing at an annual average rate of about 7.60 percent. Analysts differ over whether this is the most desirable sectoral growth configuration, but it is this sector that in recent years has really provided the dynamism to the economy, including the exports sector, and there can be no doubt that it is associated with globalization.

Table 6: Share in GDP and Growth Rate of Various Sectors (Percent)

Year	*Agriculture*	*Industry*	*Services*
Share in GDP (%)			
1960	46.54	19.40	34.06
1970	46.07	20.65	33.27
1980	38.86	24.50	36.64
1990	31.27	27.64	41.10
2000	24.62	26.60	48.78
2004	21.79	26.06	52.15
Average Annual Growth Rate (%)			
1970–74	1.17	2.02	3.86
1975–79	1.34	5.35	5.34
1980–84	5.71	6.03	5.42
1985–89	3.14	7.57	7.58
1990–94	3.50	5.31	6.04
1995–99	2.56	6.31	9.18
2000–04	1.98	6.23	7.63

Source: World Development Indicators (WDI) Online.

Given the empirical evidence, it would be difficult to maintain that India's experience with globalization in any way at all confirms the initial hypothesis; globalization, rather than making for economic stagnation, has led to the acceleration of the growth rate. If the growth rate has not been even higher, as in, say, China, it is also true that globalization has also been limited in India's case, with India being only a reluctant and partial "globalizer." What India's experience makes manifest is that globalization has not led to economic stagnation; indeed, non-globalization prior to 1975 was associated with stagnation, and globalization rescued India from that fate. Consequently, the stagnationist thesis advanced by globalization's critics merits rejection, as had that of their predecessors in dependency theory. No doubt, the case of the critics is broader and encompasses much else, but it could hardly be maintained that the stagnation of the non-globalization period is preferable to the economic advances under globalization.

stagnation of the non-globalization period is [hardly] preferable to the economic advances under globalization

International Integration and Economic Growth in the States

The case that emerges in favor of globalization on the basis of accelerated growth at the national level in India receives considerable support from the performance of the constituent states of India in respect of their state gross domestic product (SGDP). There are some obvious limitations to studying the issue at the state level, however. For one thing, unlike the national level of a single nation-state, where shifts in opening up to the world economy can be easily discerned, it is more difficult to delineate similar shifts in the score or so of large political units within the federation. Besides, figuring out causation at the level of the constituent states is more problematic in the absence of in-depth analyses of most, if not all, of them. For example, does a given state have a higher growth rate because it is more globalized, or is it more globalized because it has a history of higher growth rates? However, such questions are no different in studying the states within India than they are in doing cross-national investigations of trends among the states of the world. They need not therefore deter analysis in this case any more than they do in the other.

Consistent with the subcontinent's immense ecological, economic, and social diversity, the states in India had shown divergent growth rates

even before the paradigm shift to economic liberalization in 1991. Studies of growth rates after 1991 testify to a widening divergence in growth among the states, leading to sharper disparities in terms of per capita state incomes (Ahluwalia 2002; Dasgupta et al. 2000; Bhattacharya and Sakthivel 2004; Ghosh and De 2004). Taking the greater divergence in growth rates as a given, the question that arises is whether the states that have experienced accelerated growth rates in the post-1991 period had greater exposure to the world economy than those states that lagged behind them. Unfortunately, official data on actual FDI inflows to individual states are unavailable, as are official data on exports from them. Consequently, the value of "FDI proposals approved" by the government is used here as a proxy for actual FDI, while the value of investment in 100 percent export-oriented units (EOUs) located in the different states is taken to be a proxy for exports.

Table 7 sets out the quantitative data on SGDP growth rates for eighteen states—relying on an authoritative study by Bhattacharya and Sakthivel (2004)—and on FDI and export-oriented units. As is evident, there already existed some disparities among the states in the 1980–90 period, but by and large most of the states (with the exception of Andhra Pradesh, Assam, and Kerala) had done uniformly well, with their SGDP growing at over 5 percent. However, the disparities widened during the 1990–2000 period—which largely coincides with the post-1991 reform period—as some of the earlier good performers advanced sharply forward. Nine of the eighteen states grew at a rate of over 6.5 percent, with the exceptional performers being Gujarat, Goa, West Bengal, and Karnataka. The other big winners were Himachal Pradesh, Maharashtra, Haryana, Tamil Nadu, and Delhi, the good showing by all of which came on the back of a strong performance in the preceding decade. Rajasthan did nearly as well, followed by Kerala, Madhya Pradesh, and Andhra Pradesh. On the other hand, Punjab, Uttar Pradesh, Orissa, Bihar, and Assam all fell behind, regressing from their performance level during the 1980–90 period.

To what extent can this differential performance be attributed to globalization? While it may be mistaken to argue that FDI provides the sole explanation for most instances of sharper or sustained growth, it is nonetheless evident that there is considerable correspondence between high FDI inflows and high economic performance in the individual states. To begin with, note that FDI is concentrated in a small number of states, with four states alone accounting for 43.74 percent of the FDI approved—

Table 7: GSDP Growth Rates, FDI, and Exports

State	*Growth Rates (Constant Prices)* 1980–90	1990–2000	*FDI 1991–2004* Rs. Mill.	Rs. Per Capita	*Export-Oriented Units* Rs. Mill.	Rs. Per Capita
Andhra Pradesh	4.81	5.12	116,091	1,533.57	424,400	5,604.12
Assam	3.91	2.47	15	0.56	360	13.51
Bihar	5.20	3.46	7,397	89.25	170	2.05
Delhi	7.80	6.60	303,038	21,991.15	11,150	809.14
Goa	5.71	8.23	9,977	7,445.52	5,300	3,955.12
Gujarat	5.71	8.28	111,765	2,208.79	86,270	1,704.94
Haryana	6.68	6.71	38,752	1,838.33	44,560	2,113.85
Himachal Pradesh	6.10	6.91	11,742	1,931.15	20,330	3,345.75
Karnataka	6.10	7.07	188,184	3,568.82	583,970	10,115.54
Kerala	4.50	6.00	17,806	559.23	9,580	300.89
Madhya Pradesh	5.18	5.45	92,714	1,535.25	90,240	1,494.29
Maharashtra	5.98	6.80	366,024	3,783.19	81,490	842.27
Orissa	5.85	3.60	82,293	2,241.70	81,400	2,217.38
Punjab	5.14	4.63	21,242	874.52	36,400	1,498.60
Rajasthan	7.17	6.46	29,112	515.53	50,120	887.55
Tamil Nadu	6.35	6.65	225,826	3,635.90	611,990	9,851.88
Uttar Pradesh	5.88	4.33	48,267	290.68	168,390	1,014.09
West Bengal	5.20	7.24	77,898	971.05	29,300	365.25

Source: (1) GSDP growth rates are from Bhattacharya and Sakthivel (2004), except for Delhi, the figures for which are for 1981–90 and 1990–2001 and are drawn from Joseph (2004). (2) FDI refers to FDI proposals approved over the period August 1991 to August 2004 and are from the Secretariat for Industrial Assistance, Department of Industrial Policy and Promotion, Ministry of Commerce and Industry, Government of India; available at www.indiastat.com/India; actual realizations may vary from 20 to 100 percent. (3) Information on 100 Percent Export-Oriented Units is from the same source as in (2).

Maharashtra (14.78 percent), Delhi (12.24 percent), Tamil Nadu (9.12 percent), and Karnataka (7.60 percent). All four states manifest high growth in the post-1991 reform period, with Delhi's growth following an exceptionally strong performance in the earlier period.

What, then, is the relationship of FDI to the other high-growth performers? For part of the explanation, we must turn to the data on FDI per capita for these states (table 7). With the exception of West Bengal, all the high-growth states are among the top nine states in terms of FDI per capita, with Delhi, Goa, Maharashtra, Tamil Nadu, and Karnataka occupying the first five places. So high FDI does correlate with high growth. Another

similar but earlier analysis (Saez 2003) had come to a similar conclusion: "FDI magnets have had greater rates of growth than FDI laggards" over the period 1991–92 to 1999–2000. A more recent comparative study by the World Bank (2004) on the investment climate in the Indian states also broadly concludes that "the high-growth states are also among our high-FDI states." It may well be that FDI is attracted to these high-growth states by virtue of the welcome they accord to foreign investors through appropriate economic and administrative policies as well as by their past growth record. On the other end of the scale, some of the poor growth performers have had low FDI inflows—Assam (0.00 percent), Bihar (0.30 percent), and Uttar Pradesh (1.95 percent).

The concentration of EOUs among the states in India is even higher than that of FDI. Three southern states alone account for 68.76 percent of the total investment in such facilities—Tamil Nadu (25.97 percent), Karnataka (24.78 percent), and Andhra Pradesh (18.01 percent). The first two of these three states are from among the high growth performers. In terms of per capita EOU investment, the top five ranking states are: Karnataka, Tamil Nadu, Andhra Pradesh, Goa, and Himachal Pradesh. All except Andhra Pradesh are among the high growth states. Here, again, outward orientation correlates with high growth.

Overall, then, it can be reasonably concluded that, other things being equal, openness to globalization leads to higher growth rates at the level of the states within India, just as it does at the national level. It is precisely the recognition of this correlation that has recently led the communist regime in West Bengal to lay out the welcome mat for FDI. At the same time, it is apparent that globalization does not affect the states within India uniformly, any more than it does the nation-states of the world. Its impact varies depending on initial conditions, institutional capacity, and the policy regime.

globalization does not affect the states...uniformly

Deindustrialization or Industrial Advance

The data on industry confirm the overall findings noted above on the national GDP growth rates, though the performance with respect to industry does not mark as dramatic a break with the record prior to globalization. Table 5 also provides data on manufacturing, which is the largest component of "industry," the other components being construction, mining and quarrying, and electricity, gas, and water supply. At the broadest

level of comparison, the rate of growth in manufacturing over the thirty years of the post-globalization period has been 6.4 percent, which represents an increase of 23.1 percent over the rate of 5.2 percent for the nineteen years of the pre-globalization period. But, again, the internal variations within these two periods are significant.

To begin with the period of autarky and "command and control" economy, there was an initial burst in the average growth rate for manufacturing to 7.1 percent during the first nine years from 1956–57 to 1964–65. That rate is quite high by Indian standards for that time. As in the case of GDP in general, this high growth rate was a function of the one-time initial impact of the massive ISI strategy and of the large infusion of foreign aid. However, this performance proved to be a flash in the pan, and growth simply collapsed over the subsequent decade; the growth rate fell to an average of 3.5 percent—the lowest rate of any decade or half-decade. As a result, the rate for the period of autarky as a whole was 5.2 percent.

During the second period of intermittent incremental liberalization from 1975–76 to 1990–91, manufacturing recovered from the trough of the previous decade to grow at 6.4 percent, a respectable level for India. After the paradigm shift in the crisis year of 1991–92, which marks the start of the third period, manufacturing grew at an average rate of 7.0 percent over the thirteen years from 1992–93 to 2004–05. It is obvious that there is a clear hierarchy among the three periods, with the period after the paradigm shift at the top (7.0 percent), followed by the period of intermittent incremental liberalization (6.4 percent), and the period of autarky at the bottom (5.2 percent).

Within the post-paradigm shift period, the four years from 1993–94 to 1996–97, with their average growth rate in double digits (11.3 percent)—a rate unequalled in India's post-independence economic history for any comparable period—represent the high water mark in manufacturing growth. Indeed, the year 1995–96 recorded the highest growth rate ever for a single year (about 15 percent). That performance was the result of an investment boom based on euphoric growth expectations in the wake of the paradigm shift to economic liberalization in 1991. The necessary demand, however, failed to materialize, and the result was surplus capacity. The period was soon succeeded in 1997 by a major slowdown as a result of election-induced, counter-inflation contractionary policies. Critics, however, took what was a transitory situation to be a permanent

condition of stagnation generated by economic liberalization. But by 2002 industry had emerged from the slowdown and entered a buoyant period, fuelled by a consumption boom based on easy loan finance, by road construction, and by exports. That buoyancy is likely to be sustained during 2005–06. Significantly, in its later stages, the buoyant period was also accompanied by an upswing in the investment cycle.

No doubt, globalization in the post-1991 reform period presented enormous challenges to industry through the competition arising from increased foreign imports following the reduction in tariffs and from the expanded entry of foreign multinationals after the easing of restrictions on foreign investment. But industry became stronger and more competitive after a wrenching restructuring during the economic slowdown of the late 1990s. In the process, it exorcised fears of imminent disaster by cheap Chinese imports that were dominant at the time. The new competitive strength of Indian industry is especially evident in the area of pharmaceuticals and automobile parts, sectors that are now competing in foreign markets.

The new competitive strength of India industry is...evident in...pharmaceuticals and automobile parts

In light of this evidence, it can hardly be maintained that globalization has resulted in deindustrialization; rather, the evidence points to a higher growth rate in the industrial sector and the strengthening of industrial capabilities. With the growth rate of 7.0 percent during the years from 1992–93 to 2004–05 assuring a doubling of manufacturing output in a little over every ten years, it would be preposterous to describe the outcome of the paradigm shift as deindustrialization. Nor can the unprecedented expansion of manufacturing be reconciled with claims that it is demand-constrained. At the same time, it is obvious that India has not experienced rapid industrialization either, comparable to say, again, China's, but then again India has been reluctant to remove the substantial barriers to FDI inflows, which lie at the heart of China's rapid industrialization and economic growth. As a consequence, India has

it would be preposterous to describe the outcome of the paradigm shift as deindustrialization

stayed largely outside the transnationalization of industrial production, that is, participation in the global chains of production, where China has excelled, raising itself in the process to the status of a mighty industrial power. But India may also be changing in some areas, such as automobile parts, where annual exports now exceed one billion dollars. Some observers (Nagaraj 2005) see other positive features in India's record—its industry is more competitive, largely dependent on local demand and local content, and predominantly domestically owned.[4]

Of course, some might say that the overall growth rate is not an accurate indicator of the health of industry, as it may well mask the hollowing-out of the capital goods industry even as a more import-intensive consumer goods industry, catering to an elite consuming class, has expanded production. Indeed, as ardent a supporter of economic liberalization as Ashok Desai acknowledged the damage that the machinery industry had suffered during the 1990s in what he called the "massacre of machine-building" (1999: 66; see also 2001). However, this, too, was not a permanent condition, as seen by the recovery of the industry (Wolf 2004: 202).

Perhaps the engineering industry had suffered more relatively, but in the initial years after the paradigm shift, say up to 1993–94, the reverses in industry were more generalized; consumer durables suffered just as much as capital goods (table 8). However, it is an open question whether such reverses should be ascribed to liberalization, the crisis in 1990–91 to which liberalization was a response, perverse tariff policies, or over-protectionism under the *ancien regime.* In the period after 1993–94, consumer durables have, no doubt, demonstrated fast growth, but they have done so from a small base, with their weight in the 1993–94 index being 5.4 percent and less than half of that in the 1980–81 index. Moreover, sectoral growth is not a zero-sum proposition, and there is no particular order ordained by nature or economic theory as to the optimal balance among growth rates for the various sectors. It is clear that industrial advance after 1993–94 has been quite broad-based. The capital goods industry has grown apace, recording an average annual growth rate of 7.4 percent between 1993–94 and 2003–04 as against 10.6 percent and 6.5 percent for consumer durables and non-durables, respectively.

industrial advance after 1993–94 has been quite broad-based

Table 8: Industrial Production by Sectors: Index Numbers (Growth Rates %)

	Basic Goods	*Capital Goods*	*Intermediate Goods*	*Consumer Durables*	*Consumer Non-Durables*
Weight 1980–81	*39.4*	*16.4*	*20.5*	*2.6*	*21.1*
Weight 1993–94	*35.5*	*9.3*	*26.5*	*5.4*	*23.3*
Base 1980–81					
1991–92	226.9 (6.2)	266.8 (-12.8)	173.2 (-0.7)	320.5 (-12.5)	175.1 (1.2)
1992–93	232.9 (2.6)	266.4 (-0.1)	182.6 (5.4)	318.1 (-0.7)	179.3 (2.4)
1993–94	254.9 (9.5)	255.4 (-4.1)	203.9 (11.7)	369.4 (16.1)	181.7 (1.3)
Average	**(6.1)**	**(-5.7)**	**(5.5)**	**(1.0)**	**(1.6)**
Base 1993–94					
1994–95	108.9 (8.9)	105.7 (5.7)	105.3 (5.3)	116.2 (16.2)	110.8 (10.8)
1995–96	120.6 (10.7)	110 (4.1)	125.4 (19.1)	146.2 (25.8)	121.1 (9.3)
1996–97	124.3 (3.0)	120.2 (9.3)	135.5 (8.1)	153.0 (4.7)	127.5 (5.3)
1997–98	132.4 (6.5)	126.6 (5.3)	146.5 (8.1)	164.9 (7.8)	134.1 (5.2)
1998–99	135.8 (2.6)	152.7 (20.6)	155.8 (6.3)	174.1 (5.6)	138.1 (3.0)
1999–00	143.3 (5.5)	163.3 (6.9)	169.5 (8.8)	198.7 (14.1)	142.5 (3.2)
2000–01	148.5 (3.6)	166.2 (1.8)	177.4 (4.7)	227.6 (14.5)	150.8 (5.8)
2001–02	152.5 (2.7)	160.6 (-3.4)	180.1 (1.5)	253.7 (11.5)	157.0 (4.1)
2002–03	159.9 (4.9)	177.4 (10.5)	187.1 (3.9)	237.8 (-6.3)	175.9 (11.6)
2003–04	168.6 (5.4)	201.5 (13.6)	199.0 (6.4)	265.4 (11.6)	186.1 (5.8)
Average	**(5.4)**	**(7.4)**	**(7.2)**	**(10.6)**	**(6.9)**

Source: For 1991–92 to 1993–94, Reserve Bank of India, *Bulletin* (December 1997), S-1072, and GoI, *Economic Survey 1995–96,* 118; for 1994–95 to 2003–04, Reserve Bank of India, *Bulletin* (various issues).

Besides sustained industrial growth, globalization and liberalization have made possible breakthroughs to new areas of economic strength—information technology (IT), pharmaceuticals, and automobile components. In the case of computer software, India has emerged as a major economic power. It is hard to imagine that such a development would have been possible without globalization and liberalization. These new areas of strength have also made for increased exports to other countries; for example, exports of IT and IT-related services alone were $17.2 billion in 2004–05, constituting 44 percent of the world's outsourced market

(Economic Times Online, June 10, 2005; Chandrasekhar 2005). Given such exports, which perhaps displace or preempt local production, isn't it true that globalization has resulted in deindustrialization not in India but elsewhere? At least, that is precisely the case that protectionist elements outside India have been making, even if it may not be based on sound economic logic. Overall, India has been a clear beneficiary of globalization; any notion of it being a victim as a result of some phantom deindustrialization seems at odds with reality.

exports of IT and IT-related services alone were $17.2 billion in 2004–05

Still, even if manufacturing growth in the post-liberalization period clearly does not qualify as deindustrialization, it does fall radically short of the benchmark set by China. It also falls tremendously short of the need to widen employment opportunities beyond the high-value and high-skill ones in the IT sector and the long-term aim to facilitate the demographic transition to an urban industrial society. The policy prescriptions to rectify the situation are also well known to the reformers (Acharya 2005b). These include bringing down tariff levels to deepen international economic integration in order to accelerate growth, reforming restrictive labor legislation to promote labor-intensive industry, dereserving industries statutorily reserved for the small-scale sector, drastically improving economic infrastructure (especially in the area of power, which has been a national disgrace), and relaxing restrictions on FDI inflows. But adequate movement on this score has been stymied by various interest groups in India's political system.

Denationalization or Regeneration

Foreign investment is not only an indicator of globalization, it is also important for the national economy. It can be a source of additional capital to supplement domestic savings, diffusion of new technology and managerial techniques, and employment expansion. But it can also simply lead to the displacement of local enterprise through direct mergers and acquisitions (M&As) or the ousting of domestic entrepreneurs from the market in tough competition, predatory or otherwise, by the principal bearers of foreign investment—powerful multinational corporations (MNCs). It can therefore become a lightning rod for protectionist forces

in opposition. From the perspective of the advocates of globalization, of course, the whole question of national ownership is meaningless. Rather, they see foreign investment as beneficial to humanity, especially the poor, on the analogy of a rising tide that lifts all boats. However, there is no denying the appeal of nationalism as an antithesis to globalization.

For long, there was a national consensus in India against foreign investment because of what has been referred to as "the East India Company syndrome," named after the British trading firm that served as the spearhead of the British conquest of India from the seventeenth through nineteenth centuries. As a consequence, government policy after independence was mistrustful of foreign investment and fiercely protective of local industry, particularly in the public sector. There was some relaxation of the restrictive posture toward foreign investment in the mid-1980s, and the post-1991 economic reforms opened the door even wider. However, political forces on both the left and the right have continued to oppose foreign investment for fear of economic and political domination and to agitate for the protection of local industry.

After the first flush of enthusiasm for the dismantling of licensing and controls, Indian business itself, though not entirely united, became suspicious about foreign investment and almost hostile once the early signs of economic slowdown appeared around 1996. One element in the growing antagonism was the swiftness, vigor, and aggressiveness with which foreign investors sought to penetrate and capture the domestic market along a broad front and, more crucially, to sideline or oust earlier local partners in joint ventures. This startled the Indian corporate sector and spread consternation among its members. Particularly, in respect to joint ventures, it appeared as if the MNCs were alarmingly eager to reduce or eliminate Indian partners and to assume complete control. The rush on the part of MNCs to shove aside their Indian partners became a grave concern for the Indian business class. MNC activity raised the specter of the Indian corporate sector being eventually swallowed up by the multinationals, and it fueled a revival of "the East India Company syndrome." The takeover by Coca-Cola of the dominant local soft drinks player Parle and the breakdown of the joint venture in soap between Godrej and Procter & Gamble were defining events for Indian business in its view of MNCs. Business perceived itself to be under economic siege from the MNCs.

Yet the industrial recovery that began in 2002 rendered the rising threat from foreign investment almost a non-issue for local business. Having

restructured itself in the meantime, the business community reemerged with renewed self-confidence, no longer afraid of globalization or of foreign investors. It now perceived M&As to be part of the normal working of the market, even as it believed that it was in a position to provide stiff competition to the multinationals. Meanwhile, the nature of discourse had changed from the "threat" of foreign investment to the failure of Indian public policy to attract FDI on a scale comparable to China's, particularly for infrastructure. "India had missed the bus" became the refrain.

Is there some hubris at work here? Should Indian business be more concerned than it is? Perhaps part of the reason for the apparent lack of concern may be that, despite the greater welcome accorded to foreign investment in the post-1991 period, foreign investors have not yet found India to be an attractive destination. For a long time, UNCTAD has regarded India as a consistent underperformer in obtaining foreign investment, receiving FDI much below its potential (2004: 13). At the same time, Indian policymakers have looked at China with both awe and envy for its ability to attract FDI many times beyond India's level. In 2003, India received FDI worth $4.27 billion as against China's spectacular figure of $53.51 billion plus Hong Kong's $13.56 billion (ibid.: 370). Another factor in the lack of concern may be that a significant part of the FDI inflows has gone into new lines, such as mobile telecommunications and business process outsourcing (BPO), where few local big players were initially involved.

There are issues beyond the absolute amount of FDI received that have been of concern to independent Indian analysts, however. One of these pertains to the sectors where FDI is concentrated. Nagesh Kumar, a renowned authority on the subject of foreign investment in India, points to a significant shift in the sectoral composition of FDI in the post-1991 period away from manufacturing and toward services (2003: 7, 10). Another issue concerns the "Trojan Horse" role of foreign investment in taking over functioning Indian enterprises. Again, Kumar underlines "the emergence of mergers and acquisitions as an important channel of FDI inflow. During the period 1997–99, for instance, nearly 39 percent of FDI inflows into India have taken the form of M&As by foreign companies of existing Indian enterprises, whereas in the pre-reform period, FDI entry was invariably in the nature of greenfield investments." On the basis of a sample of large private sector companies listed on Indian stock exchanges, forming part of the database at the prestigious think-tank RIS,[5] Kumar

maintains that "the shares of foreign enterprises in both value-added and sales reveal an increasing trend in the nineties particularly in the late nineties. Therefore, liberalization of policy seems to have led to a rise in the place of foreign enterprises in the Indian industry" (2003: 14).

However, on closer examination of the data, the share of foreign firms in total value-added and total sales does not look particularly high (table 9). This is especially true if one recalls that the sample includes only *large private sector* companies, not all Indian manufacturing enterprises, especially not those belonging to the public sector. At the same time, foreign investment has clearly not prevented the number of large domestic private sector companies from growing at a much faster rate than that of the foreign enterprises. The number of such companies in 2000 was more than twice that in 1990, whereas the number of foreign enterprises had increased by about 50 percent. Despite the talk of M&As facilitating domination of the Indian economy, it is noteworthy that there are only three MNCs among the top 25 companies in India—Hindustan Lever, ITC, and Maruti Udyog; in the next 25, there is exactly one more—Nestle.[6] India is thus pretty much master of its own house in ownership and control of the economy. However, since there are no normative standards that would tell us what the appropriate share of FDI ought to be in an econo-

Table 9: Shares of Foreign Firms in Indian Manufacturing, 1990–2001

	Number of Sample Firms			*Share (%) of Foreign Firms in*	
Year	*Total*	*Foreign*	*Domestic*	*Total Value-Added*	*Total Sales*
1990	1,378	126	1,252	9.50	11.26
1991	1,754	149	1,605	9.77	11.77
1992	1,991	158	1,833	9.61	11.69
1993	2,381	171	2,210	9.77	11.88
1994	2,987	178	2,809	9.91	11.67
1995	3,500	190	3,310	9.25	11.03
1996	3,649	195	3,454	9.65	11.67
1997	3,695	208	3,487	10.77	12.64
1998	3,695	216	3,479	11.20	12.85
1999	3,716	225	3,491	12.12	13.66
2000	3,726	224	3,502	12.76	14.05
2001	2,959	193	2,766	12.63	13.77

Source: Kumar (2003: 14).

my, while the issue is at the same time politically sensitive due to nationalism, a comparison with China seems instructive.

Table 10 confirms what is generally known—that when it comes to FDI, India is nowhere near China's level. While inward FDI stock in India has been increasing, in 2003 it stood at only about 6 percent of that in China. True, China's GDP at $1,409 billion in 2003 was more than twice that of India's at $599 billion, but one reason for such an augmented GDP is precisely the relatively massive presence of foreign investment in China. It is noteworthy that, as regards to FDI stock as a proportion of GDP, India's figure of 5.4 percent was roughly a seventh of China's figure. The share of FDI inflows in fixed gross capital formation was 12.4 percent for China in 2003, which was more than three times India's share. Again, M&A sales to cross-border investors were far higher for China than for India. Given the decided contrast in the role of FDI in the two countries, China and India can indeed be regarded as two distinct growth models, the former driven by foreign capital and the latter principally reliant on local capital.

China and India can indeed be regarded as two distinct growth models

The position that foreign investment has come to occupy in China has had consequential results for China's economy. Corresponding to the frenetic pace of capital inflows from the early 1990s onwards, the share of exports by foreign affiliates in China's total exports exploded to 50 percent in 2001 from less than 5 percent in 1986. Significantly, 90 percent of their exports consisted of manufactured goods, with machinery and equipment occupying a prominent place (UNCTAD 2002: 154, 162–63). Besides their role in exports, foreign affiliates have a substantial share—about a quarter—of the domestic sales in manufactures (Huang 2001: 147).

The massive level of foreign participation in China's economy has undoubtedly made an enormous contribution to China's GDP, per capita income, and industrial capabilities, and by extension also to higher employment. Note that in 1980 per capita income was about the same in India ($270) and China ($220), but by 2003 China's per capita income ($1,100) was more than twice that of India's ($530; World Development Indicators Online). Beyond economic growth and employment expansion, China has also benefited strategically from acquiring, through FDI inflows, foreign stakeholders in sustaining its wealth and power and,

Table 10: Comparison between China and India Regarding FDI ($, in millions)

	2000		*2002*		*2003*	
	China	*India*	*China*	*India*	*China*	*India*
FDI Inward Stock	348,346	17,517	447,966	25,408	501,471	30,827
Inward FDI Flows as % of Gross Fixed Capital Formation	10.3	2.3	11.5	3.0	12.4	4.0
Inward FDI Stock as % of GDP	32.2	3.8	35.4	5.2	35.6	5.4
Cross-Border Sales by	2,247	1,219	2,072	1,698	3,820	949

Source: UNCTAD 2004: Annex Tables B.3, B.5, B.6, and B.7.

therefore, its welfare. Such an outcome must raise troubling questions for policymakers and analysts elsewhere: Is it preferable, for reasons of nationalism or protection of the interests of local business and unionized labor, to limit foreign investment? Or is it more desirable, as in the case of China, to improve per capita incomes, expand employment beyond the existing unionized labor, and help reduce poverty through a larger role for foreign investment?

No absolute answers are possible, however, for the response must take into account the specificities of individual countries and the characteristics of the particular historical-time in which they are situated. Continental-size economies and polities are not in the same situation as small-size countries. Nor can the present situation of competition among several centers of economic power and their numerous corporations be equated with that of a world-system dominated by a single hegemonic power with a few monopolistic firms. Ironically, in the seventeenth century both China and India had full ownership of the national economy, but that did not prevent them from becoming helpless victims of imperialism. What is really relevant is the achievement of overall capabilities under national control, not any particular local share in the ownership of the economy. With its size of population, territory, and economy closely matching China's, it would seem that India needs to learn from China's globalization policies. Equally, foreign MNCs cannot be regarded as more sinister or exploitative than

local companies, even as it is undoubtedly in the nature of business, whether domestic or foreign, to make profit. Certainly, foreign business invariably sets higher standards on quality for its products, and it treats its labor better. Indeed, to work for an MNC in management carries a badge of high social status comparable, if not higher, to membership in the elite civil services and commands similar value in India's marriage market.

India's record as an underperformer when it comes to attracting FDI, particularly in comparison to China, has been, of course, a consequence of public policy. When India reversed its longstanding restrictive posture on foreign investment, change was gradual, incremental, measured, and halting, and FDI inflows continued to be hemmed in by myriad restrictions. It would therefore be difficult to characterize such change as a "race to the bottom." At best, it has been more like a slow crawl, not necessarily because of some top-down policy blueprint but rather because of careful responses to societal pressures within a democratic and open polity. It is as if a hidden hand had conspired, in effect, to organize a subtle sequencing by way of initiating "internal liberalization" first, in order to enable Indian business to adjust to economic competition within, before being exposed to competition from without through "external liberalization." Further, it seems that the shift to external liberalization was, consciously or unconsciously, staggered over a considerable period of time. This was accomplished through various measures, such as devaluation or high tariffs, to provide as it were—in the manner discussed by the great historian Arnold Toynbee—enough challenge to business to restructure itself and to adapt to economic openness but not so much challenge that the economy would be overwhelmed.

To examine the issue of M&As in terms of foreign takeovers of Indian business enterprises is to consider only one side of the equation, however. If an essential characteristic of globalization is that economic actors become increasingly oriented to the world market, rather than remaining focused on the domestic market, then Indian business transformed itself considerably in that direction during the second half of the 1990s. Long sheltered from competition, both internal and external, Indian business underwent a regeneration through a wrenching restructuring in the face of increased competition from within and without. The new reorientation of Indian business toward the world market expressed itself in expanded exports, as new (though small) multinationals establishing subsidiaries and plants abroad, and in the takeover of foreign enterprises abroad.

Table 11: FDI Outflows and M&A Purchases Abroad by China, Hong Kong, and India

Year	*China*	*Hong Kong*	*India*
FDI Outward Stock ($, in millions)			
1980	-	148	4
1985	131	2,344	19
1990	2,489	11,920	50
1995	15,802	78,833	264
2000	25,804	388,380	1,859
2002	35,206	309,430	4,006
2003	37,006	336,098	5,054
FDI Outward Flows as Share of GDP (%)			
1980	-	0.5	-
1985	-	6.7	-
1990	0.7	15.9	-
1995	2.3	55.6	0.1
2000	2.4	234.9	0.4
2002	2.8	191.6	0.8
2003	2.6	211.9	0.9
Cross-Border M&A Purchases ($ Million)			
1993	485	4,113	219
1994	307	2,267	109
1995	249	2,299	29
1996	451	2,912	80
1997	799	8,402	1,287
1998	1,276	2,201	11
1999	101	2,321	126
2000	470	5,768	910
2001	452	3,012	2,195
2002	1,047	5,062	270
2003	1,647	4,168	1,362

Source: UNCTAD 2004, Annex Tables B.4, B.6, and B.8.

No doubt, India's record does not match that of China's (table 11), but in the post-1991 period it is strikingly evident that Indian business has broken out of its traditional mold of being confined to the domestic mar-

ket. It is a testimony to the regeneration of the competitive spirit and strength of Indian business that had been lost during the years of autarky that it has increasingly ventured forth abroad to make acquisitions there. The trend has been manifest not only in the field of information technology but also in pharmaceuticals and motor vehicles.[7] The pace of acquisitions of overseas businesses by Indian firms has also quickened; the value of such acquisitions abroad doubled to $9.30 billion in 2004 over the previous year (Business Standard, May 20, 2005), a clear sign that Indian business is becoming increasingly global. Some twenty of India's top hundred companies (ranked by market capitalization) derive more than 50 percent of their revenues from sales abroad (Economic Times Online, December 5, 2005).[8]

In summary, then, neither foreign imports nor foreign investment through a sudden and massive wave of takeovers has swamped Indian business. Entering gradually because of policy-driven limits on international integration by India, foreign investment has served to supplement, not supplant, Indian business. Meanwhile, confronted by the threat of competition, Indian enterprises have themselves undergone a regeneration, one that has enabled many of them to enter the world market as new mini-multinationals.

Economic Destabilization or Stability

What is the likely impact of globalization on the stability of a national economy? There are essentially two opposing viewpoints on the question. One view asserts that the opening up of a national economy to the contemporary world economy makes it vulnerable to external shocks and exposes it to economic instability (Weil 2005: 327; Patnaik and Rawal 2005). The prospect for countries that take to globalization through the liberalization of their economies is therefore likely to be economic destabilization. The point has considerable merit in the light of the region-wide contagion of financial crisis that struck East and Southeast Asia in the late 1990s.

The opposing viewpoint, however, holds that there is no automatic relationship between integration with the world economy and economic instability (Ila Patnaik 2004a, b, 2005b). The real outcome of integration would seem to depend on national capacity and public policy. Thus, for example, developing countries are more prone to economic crises than are developed countries, because of the weaker capacity of institutions in the former. At the same time, public policy may also induce

economic instability, with public policy understood not as necessarily limited to international trade and capital flows, but also encompassing the domestic sphere, particularly the management of public finances and monetary policy.

Interdependence and Economic Crises

It is a truism to say that globalization entails both opportunities and risks. The key risk from international integration is that any turmoil in the world economy will transfer to the national economy and make for destabilization. Yet there can be no guarantee about escaping such turmoil even on a path of exclusive economic insulation. For a certain minimal level of integration of national economies into the world economy is inevitable, because the sheer fact of sharing the physical space of the same planet makes it inescapable. The Soviet Union was a model par excellence of economic insulation—and a socialist one at that—yet it could not escape the explosive implications of existing physically alongside the rest of the world economy with a more productive and dynamic economic system. That situation eventually led to its collapse and dissolution. Similarly, India's economy was perhaps the most insulated one outside the Communist bloc, but the shock of the OPEC oil price hike in 1973 had a devastating impact, as did the similar shock in 1979. Indeed, India had to rely on the world economy and its international financial institutions to rescue it from its desperate situation.

Given this experience, the grievance against globalization, then, can only be one about the likelihood of the *relatively* higher incidence of economic instability after integration into the world economy. The questions, consequently, would be: Given that economic vulnerability is unavoidable for all economies, what difference does integration with the world economy make? Does it accentuate vulnerability?

On the other hand, it may well be that integration serves to enhance national capacity through improved national and per capita incomes as well as economic diversification. The issue then becomes not whether international integration generates more economic instability but whether over the longer term it provides greater capacity to cope with prospective instability. There is a substantial consensus in the mainstream economics literature over the better economic performance of outward-oriented economies compared with inward-oriented ones. India's own shift from inward to outward orientation, even though gradual, fitful, and limited, provides considerable testimony to the learning effect of that consensus.

Interestingly, it was a strongly held position by the late Bela Balassa that outward-oriented economies not only perform better in terms of economic growth, they also manage external shocks better. After studying the effects of the OPEC oil price shock in the early 1970s, he rejected the proposition of some observers that "the high share of exports in the gross national product associated with outward orientation increases the vulnerability of countries applying such a strategy to external shocks." Instead, he maintained:

> The experience of the period following the quadrupling of oil prices in 1973–4 and the world recession in 1974–5 does not support this proposition. While the balance-of-payments effects of external shocks represented a larger proportion of GNP in countries following outward-oriented, than in those pursuing inward-oriented, policies, the superior growth performance of outward-oriented economies compensated for this loss several times over. (1985: 216)

Statements such as these on general tendencies in the developing economies, however, do not necessarily hold true for individual countries. Such countries have to be examined in their own terms. What, then, has been India's experience with international economic integration in relation to the issue of economic crises? Has integration worsened the situation or not? Economic crisis is understood here to mean the eruption of an economic situation, no matter its origins (nature, markets, or states), which entails production, employment, and welfare losses severe enough to lead to a balance of payments problem of such acuteness as to require the help of external economic agents.

Autarky and the Enduring Crisis

Several major crises have marked India's post-independence economic history between the launching of the autarkic heavy industry strategy in 1956 and the paradigm shift in 1991. It is not the purpose here to give a detailed account of each crisis but rather to provide a summary assessment of the crises encountered by the Indian economy before and after international integration and to touch on their principal causes.

Whether generated internally or externally, the crises usually manifested themselves in food shortages and high inflation—but the eruption of serious balance of payments problems due to the scarcity of foreign exchange was a constant. While the predicament of the shortage of foreign exchange resources arose in a critical manner in each of the crises, it is

noteworthy that the lack of such resources was a perennial problem throughout the period of autarky before the paradigm shift. The foreign exchange constraint, with its slow-burn—but cumulatively extremely damaging—consequences for the economy, handcuffed India's economic development, stunting the country's growth, condemning it to economic stagnation, confining it to low-income status, and making it a basket case fit only for aid donors. In the process, it also adversely affected its foreign policy and national autonomy aside from the simple blow to national pride it caused in being a perennial supplicant for aid. As Bimal Jalan, one of India's foremost economic administrators, had noted at the height of the economic crisis in 1991:

> India has had balance-of-payments problems in twenty-nine out of thirty-five years since 1956–7 [marking the start of the inward-oriented economic strategy], which has been highly disruptive to its development. . . . India has been continuously subject to balance-of-payments problems since 1956–7. Policy-making during this entire period was dominated by concern over the balance of payments. The evolution of the industrial and trade policy, in particular, was heavily influenced by the concerns over the balance-of-payments situation, and this introduced several distortions. . . . Ever since 1956–7, except for a few years, the balance-of-payments problem has merely varied in its intensity. (1991: 12, 14, 31–32)

Given the abiding foreign exchange constraint under the inward-oriented economic strategy and its damaging consequences for economic growth, the ill effects of any rise in the incidence of economic crises following the advent of international economic integration must be weighed against the enduring harm inflicted earlier on the economy by that constraint. It was not simply the economic stagnation, there were also social consequences like smuggling and corruption as a result of the many controls that issued out of the scarcity of foreign exchange resources. Incidentally, Jalan saw no possibility of relief from the constraint in the foreseeable future: "The balance-of-payments concern is likely, once again, to dominate India's economic policy-making in the 1990s" (1991: 47).

Apart from the chronic infirmity of the shortage of foreign exchange, there were three major economic crises over the first period. The first of these occurred within the first year of the Second Five Year Plan (1956–57/1960–61), which had the inward-oriented heavy industry strategy as its principal focus. It was triggered by the large-scale expenditures on

the ambitious ISI program; in that sense, public policy was clearly at the root of the crisis. The foreign exchange resources of the country were quickly exhausted, throwing the future of the Second Plan into doubt. Fortunately for India, the crisis did not last long. It proved to be brief because the Western powers, persuaded by Cold War considerations, came to India's rescue through mounting a major effort at aid mobilization for the Plan. Were it not for that effort, the heavy industry strategy would have collapsed.

The second crisis during the first period was, in contrast, a drawn-out affair, spread over most of the 1960s. Public policy was, no doubt, again implicated because of the inward-oriented economic strategy. But so also were interstate conflict and war, forces of nature by way of consecutive droughts, and partial abandonment by aid donors as a result of "aid fatigue" in the wake of the thaw between the superpowers after the Cuban missile crisis. India's second crisis did not end until 1967—if at all—when the shift to the Green Revolution agricultural strategy during the mid-1960s offered its first fruits in an abundant harvest.

Even before that crisis erupted, the Third Five Year Plan (1961–62/1965–66), in which the state persisted with its heavy industry strategy, was already in trouble soon after its initiation in what Lewis has described as a "quiet crisis" (1963). The cause lay in the shortage of resources, galloping population growth, and stagnation in agriculture. Then, in 1962, the short but traumatic border dispute between India and China made defense a top priority. The escalation in defense expenditures affected the implementation of the Third Plan adversely while inflation reached double digits (on average) during the four years from 1964 to 1967. A second war took place in 1965 between India and Pakistan. An unprecedented drought added to India's miseries in 1965, reducing agricultural production by a steep 11.0 percent, while a similar second drought in the following year brought it down a further 1.4 percent (World Development Indicators Online). Food riots and the looting of food trains and food warehouses followed. The crisis made India thoroughly dependent for its survival on the United States. In the midst of the agricultural downturn, the American-imposed currency devaluation of 34 percent (Manohar Rao 2002: 97)—as the first installment of a liberalization package—turned out to be a disaster. Economic planning then simply collapsed, and the Fourth Five Year Plan was postponed for three years while economic liberalization was aborted. The severe cuts in public

expenditure dictated by the economic strategy resulted in deterioration of the economic infrastructure, and the savage cuts in imports rendered idle a substantial part of industrial capacity. It was the most difficult time for India in its entire post-independence history.

Many factors were involved in the period's third economic crisis, which lasted from 1971 to 1974: consecutive droughts in 1971 and 1972, which brought agricultural production down by 1.9 and 5.1 percent, respectively; the influx of 10 million refugees from East Pakistan; war with Pakistan in 1971, in which the United States and China both supported Pakistan; the first OPEC oil price shock in 1973 that quadrupled oil prices; strikes and agitations by trade unions; and a large-scale political movement to bring about the downfall of the government. Inflation reached intolerable levels, with consumer prices rising by 16.9 percent and 28.6 percent in 1973 and 1974, respectively. It was in response to this deepening and politically threatening crisis that the government took the first hesitant steps in late 1974 to reintegrate India with the world economy. As a result of the change in policy, India did quite well in the subsequent five years in balancing its payments and building up its foreign exchange reserves.

Overall, the three crises taken together demonstrate that, barring a few exceptional years, virtually the entire period of the heyday of the inward-oriented heavy industry strategy, even when somewhat modified by being supplemented by the Green Revolution strategy in the mid-1960s, was one long, enduring crisis.

The Long Liberal Transition and Economic Crises

The second period from 1975–76 to 1990–91 saw two major crises. The first one was triggered by the severe drought in 1979, which brought agricultural production down by an unprecedented 12.8 percent and was aggravated by the second OPEC oil price shock of 1979, which doubled oil prices. Inflation raged for five years, with the average annual rise in consumer prices over the 1980–84 period at over 10 percent. Learning from the past, however, the government did not adopt contractionary policies on this occasion but instead went to the IMF in 1981 for a massive loan of over $5 billion to continue with economic development even as it opened India further to technology imports and liberalized industrial policy. The crisis was soon overcome, and in 1983 India decided not to avail of a substantial part of the IMF loan. The rest of the 1980s saw no economic crisis even as economic liberalization was pushed further. However, one was certainly building up over this period.

The second crisis occurred in 1990–91, and it stemmed from a combination of internal and external factors. The principal culprit was imprudent public policy with the resort to fiscal profligacy by the state over the second half of the 1980s. The fiscal deficit (FD)—representing the excess of government expenditure over revenues, which has then to be borrowed, thus increasing the public debt—persisted at unsustainable levels. The average FD/GDP ratio for the six years from 1985–86 to 1990–91 (the year of the economic crisis) was about 8 percent (Parikh 1997: Statistical Tables). Meanwhile, as foreign aid went into decline because of aid fatigue, the state took to extensive short-term external commercial borrowing, making India a ripe case for the debt trap. India's foreign debt increased fourfold from $18.0 billion in 1980 to $71.8 billion in 1991 (OECD 1982: 77; OECD 1993: 135). The situation was compounded by the sharp rise in oil prices because of the gathering international crisis in the Persian Gulf following Iraq's invasion of Kuwait in 1990. Unable to pay even for its savagely cut imports, with foreign exchange reserves good only for a fortnight's imports, with non-resident Indian (NRI) depositors abroad withdrawing their capital and with creditors unwilling to provide further loans, India was on the economic brink. It had to mortgage its gold holdings and was teetering toward default on its international obligations. It was in this circumstance of extreme economic exigency that India made the paradigm shift in 1991–92 to economic liberalization and to more deeply reintegrating itself with the world economy. As part of this endeavor, it undertook a devaluation of 36 percent (Manohar Rao 2002: 97), a considerable dismantling of controls, and a sharp lowering of tariffs even though India continued to remain among the world's most protected economies.

What is striking about the entire period after the paradigm shift is the absence of any major economic crisis

The Paradigm Shift and Crisis-Avoidance

Since the paradigm shift in 1991–92, there has been a remarkable turnaround in the building up of India's foreign exchange reserves. What is striking about the entire period after the paradigm shift is the absence of any major economic crisis.

In the post-1991 period, even though the trade imbalance grew enormously despite the robust expansion of merchandise exports, the foreign

exchange reserves began accumulating with great consistency after 1993–94. That accumulation occurred on the basis of India's strengths (not IMF loans) with contributions from expanding exports of services (particularly relating to IT), foreign remittances from NRIs, and inflows of foreign capital. Bimal Jalan, who in 1991 saw no end to the foreign exchange constraint, exulted: "I believe today India is in a position to do what it wants to do. If we want the best of anything—airports, roads, ports, we can have it because today we do not have resource crunch of any kind" (Hindu Business Line Online, May 18, 2004). The reserves grew to some $120 billion by the end of 2004, and ironically the growing concern for India became this surfeit of new riches that was causing its currency to appreciate against the U.S. dollar. India's foreign debt as a share of GDP fell substantially from 28.7 percent in 1991 to 17.8 percent in 2004 (GoI 2005: 138), and India became a creditor country to the IMF. Furthermore, for the half dozen years after 1998, India experienced, in contrast to the bouts of severe inflation earlier, a low-inflation regime of around 5 percent. Indeed, "the tolerance limit for inflation in India is now 5 percent, if not less" whereas earlier "the politically tolerable limit for inflation used to be reckoned as 10 percent" (Ninan 2005a).

Even though no economic crisis has occurred in this third period of nearly a decade and a half, there have certainly been occasions that would have potentially led to a crisis situation were it not for the absence of the foreign exchange constraints of the past. Such occasions include the slide in the value of the rupee in the late 1990s, India's nuclear tests and American sanctions against the country in 1998, the financial crisis in East and Southeast Asia in 1997, the monsoon-induced fall of 5.2 percent in agricultural production in 2002, and the oil price spikes of 2004 and 2005. The fundamental reason for the lack of economic crisis has been the strengthening of India's economic capacity, made possible by globalization and liberalization, primarily through generating increased financial resources as a result of the acceleration of the growth rate of the economy and the accumulation of vast foreign exchange reserves. Despite the manifest absence of a crisis through 2005-end, there is no room for complacency on the economic crisis front, however, for the past cannot foretell the future. As it is, there already exist two very live potential sources for crisis.

The PFI Flood and the Economic Trilemma

During the calendar year 2004, PFI net inflows rose to a crescendo, with reportedly over $8.5 billion (Korgaonkar 2005a) coming in on top of the

record-breaking inflows of over $8.2 billion during the previous year (table 4). For foreign institutional investors (FIIs), India had become a very attractive destination for portfolio investment, behind only Korea among Asia's emerging markets (excluding China as a special case). In 1999, India had a share of 12.2 percent in net PFI inflows to Asia's emerging markets, but five years later, in 2004, that share had jumped to 30.3 percent, with only Korea (32.8 percent) ahead of India (Bandyopadhyay 2005).

One consequence of this massive inflow of PFI money has been that FIIs have emerged as arguably the dominant player in the domestic stock markets (Pal 2005). Not only that, they have also acquired substantial ownership of India's blue-chip companies, even though this aspect is perhaps mitigated by the nature of PFI in that it is distinguished from FDI by the "basic presumption . . . that FIIs are not interested in management control" (GoI 2004b: 9). By the end of 2004, they owned every fifth share of the thirty scrips in the Sensex basket (India's equivalent of the Dow Jones). They held the largest number of shares in 77 companies (compared to 24 in 2002 and 54 in 2003), which accounted for 44 percent of the total traded market capitalization of the Bombay Stock Exchange.[9] This entire outcome began to raise serious issues for public policy over national ownership of the economy, over the government's own voracious appetite for money, and over domestic investor behavior. It seemed as though India's risk-averse investors were putting their savings in physical assets or in public sector banks, which in turn—although already holding a mountain of government bonds—preferred the easy path of lending them to the government, while foreign investors furiously bought into Indian companies (Ninan 2005).

The rising tide of PFI inflows, however, provoked a more immediate concern over a possible imminent threat to India's financial and economic stability. In January 2005, Reserve Bank of India (RBI) Governor Y. V. Reddy gave pointed expression to this concern, and he wondered aloud about imposing controls on PFI inflows.[10] The stated concern of the RBI was not new but had now been raised publicly by India's central banker. In the event, fearing damage on the bourses, Minister of Finance P. Chidambaram immediately quashed any proposition to restrict FII inflows. Indeed, in a quick clarification that was tantamount to an embarrassing retraction, the RBI governor first mentioned the option of employing price-based measures like taxes (a face-saving gesture) but then, acknowledging that their effectiveness may be arguable, said that "there-

fore it may not be desirable." An opportunity to seriously debate and clarify critical issues was lost.

Many have long suspected that "hot money" has been at play in the augmented PFI inflows. Others have, however, contested this view (Aiyar 2005; Emcee 2005), noting that since the economic reforms of the early 1990s, there has been only one year when a small net PFI outflow took place. That was 1998—in the midst of the generalized financial crisis in East and Southeast Asia (and India's nuclear tests and American sanctions against India). In all other years, PFI net inflows have been consistently positive (table 4). On its face, such commitment to investments in India ran against the suspicion about hot money. Equally, the alleged domination of the FIIs over the stock markets has been questioned. In the first place, FIIs and their sub-accounts—given their large numbers (637 and 1,785, respectively), with some selling, some buying, some both—are not a single, homogeneous force but rather reflect "a diversity of views and portfolio strategies." Moreover, their participation is limited in the totality of stock market transactions (GoI 2005: 80–81). Regardless, there are larger structural forces at work in India's predicament over excessive PFI inflows.

There exists a consensus among economists, following the work of Mundell and Fleming, about the "open-economy trilemma" or "impossible trinity," according to which the decision-makers of a country with an open economy do not have the option of simultaneously claiming control of all three macroeconomic levers: (1) monetary autonomy, (2) fixed exchange rates, and (3) capital mobility. Rather, they can exercise control over only two of them at any one time. During the long course of its economic regime of autarky, India attempted to defy the trilemma by applying stringent controls on all three macroeconomic levers. The consequence, of course, was the frequent eruption of balance of payments crises. In the resolution of these crises, the country had to beg perpetually for increased foreign aid and loans from donors and devalue the currency periodically.

After the economic reforms of the early 1990s, India gradually relaxed many of its controls, but in reality many controls have persisted throughout the economy. In effect, India has tried to transcend the trilemma by continuing to exercise control over all three macroeconomic levers in greater or smaller measure. True, there has been liberalization of the controls on capital mobility, as the abundant influx of PFI inflows (some $30 billion in the decade from 1994 to 2003) demonstrates. Yet the IMF takes India to be a closed economy as far as capital transactions are concerned.

As IMF's Economic Counsellor Rajan (2005) has averred, "India's capital account is still closed. It still places restrictions on foreign entry and participation in various areas of the economy."

Technically, at first blush, it would seem that India's exchange rate is, as the RBI repeatedly maintains, market-driven and that the RBI merely attempts to smoothen out the fluctuations in the market. In fact, by its heavy intervention, the RBI controls the market that, in turn, determines the exchange rate. The RBI has "continued to buy and sell heavily in the rupee-dollar market to manipulate prices" (Ila Patnaik 2005b); in short, "the market itself is RBI-driven" (Aiyar 2004). The intent, of course, is to prevent the rupee from appreciating too much, which if left unchecked would hurt India's export competitiveness and thus local employment. To that end, the RBI buys the dollars that the FIIs bring in and parks them mostly in low-yielding American securities. Since such intervention is likely to expand the local currency in circulation and generate inflationary pressures, the RBI has the option of controlling these pressures through raising the interest rate. However, because raising the interest rate would affect domestic investment, the RBI instead controls the money supply by selling government bonds that it holds. Through this latter process, referred to as "sterilization," it is able to reduce "the impact of its dollar purchases on money supply in the economy" (Ila Patnaik 2004a, b). Incidentally, PFI inflows are not the only element at work in creating the dilemma for the RBI, so are (perhaps principally and more sustainedly) software export earnings and foreign remittances from NRIs (Acharya 2005a)—but they do aggravate it.

Many attacked the RBI for having publicly articulated the need for the imposition of restrictions on PFI inflows and for being the last surviving bastion of the erstwhile "Control Raj," with a 1970s mindset that was out of tune with the contemporary ethos of liberalization.[11] Such harsh criticism was perhaps misdirected, for the issues raised by the RBI in essence lay in the realm of high policy, not that of banking alone. There can be little quarrel over the fact that the RBI had a genuine basis for its fears of a gathering crisis. As its 2003–04 "Report on Currency and Finance" already noted, "Permitting unbridled appreciation of the exchange rate during periods of heavy capital inflows can be a harbinger of a future financial crisis" (Chandrasekhar 2005b). Quotas or taxes may not have been the answer, but neither was inaction. For the combination of capital mobility with substantively fixed exchange rates (variously

described as “managed float,” “dirty float,” “moving peg,” “tight peg”)[12] is a combustible mix for the financial health of the economy.

It is understandable that brokers and merchant bankers would be vituperative in their reaction to the RBI governor’s pronouncements, for they had a vested interest in a giddily ascending stock market index. But what can explain the peremptory dismissal of the idea of taxation to stem the tide of PFI inflows, with Finance Minister Chidambaram declaring “I rejected it earlier; I reject it now” (Hindu Business Line Online, January 13, 2005) without offering any alternative solution for the conundrum? Perhaps the government either felt that the RBI governor’s views were unnecessarily alarmist or was anxious to signal foreign investors about its intent to persist with the economic reforms process in the hope of attracting a greater volume of what it really yearned for—FDI. In any event, by late 2005 as the U.S. dollar strengthened, fears of a rising rupee eased. Chidambaram seemed vindicated in his faith in the market, partly controlled though it may have been. But the problems of a stronger rupee cannot be ruled out.

the problems of a stronger rupee cannot be ruled out

One prescription offered for getting out of the conundrum of accumulating foreign exchange reserves is to expand the sphere of the market in this arena by “letting market forces determine the exchange rate, and simultaneously moving towards capital account convertibility” (Ila Patnaik 2005b). In other words, renounce altogether, after the fashion of most advanced economies, the lever of fixed exchange rates and secure monetary autonomy through influencing interest rates. That is easier recommended than done, however. For capital account convertibility runs into a major block—persistent and high fiscal deficits—which is, additionally, an independent source for potential crisis.

Fiscal Deficits—The Permanent Tendency to Fiscal Crisis

As part of its liberalization thrust in the early 1990s, the government had considered the issue of capital account convertibility (CAC). The committee instituted for the purpose, chaired by RBI Deputy Governor S. S. Tarapore, in its report of May 1997 set out an astute roadmap for shifting to CAC. Rather than simply accepting the prevailing doctrinal wisdom of the IMF about the superiority of CAC, it established three critical preconditions for moving to CAC—quite prudently, it would seem, in view of the

financial contagion that swept across Southeast Asia soon after. Chief among the preconditions was the reduction of the FD/GDP ratio by the central government from 4.5 percent in 1997–98 to 4.0 percent in 1998–99 and then on to 3.5 percent in 1999–2000. The other two pertained to bringing down the inflation rate and strengthening the financial system (Jadhav 2003: 16–18, 47).

The record of achievement in regard to the principal precondition has, however, been less than awe-inspiring. In the seven years following the report, it proved quite difficult to bring the FD/GDP ratio at the Center below 4.5 percent.[13] Not until 2004–05 did the ratio come down to 4.1 percent (Financial Express Online and Business Standard Online, June 3, 2005). At the same time, the Tarapore committee had not established any FD/GDP ratio precondition for the states, perhaps on the assumption that the ratio of 3.3 percent then prevailing there was satisfactory and stable. However, the FD position of the states deteriorated soon after, following the implementation of the recommendations of the Fifth Pay Commission, and the FD/GDP ratio for the states rose; by 2003–04 it stood at 5.1 percent. The combined FD (CFD) for the central government and the states together as a proportion of GDP also rose; in 2001–02, it was 10.0 percent, higher than in the crisis year of 1990–91. Revised estimates place the CFD/GDP figure for 2003–04 at 9.4 percent, the same figure as in the crisis year (table 12). Meanwhile, the gross debt to GDP ratio climbed from 71.0 percent in 1995 to 80.6 percent in 2002 (Hausman and Purfield 2004: 4). Note the contrast between these figures and the standards set for EU members by the 1992 Maastricht Treaty, with FD/GDP and debt/GDP ratios required at 3 percent and 60 percent, respectively, for a sustainable fiscal policy (Burger 2003: 2). Such fiscal discipline is regarded as an essential requirement for crisis prevention.[14] For India, the Twelfth Finance Commission has deemed the sustainable CFD/GDP ratio to be 6 percent, equally shared by the central government and the states (Govinda Rao 2005b).

There are two issues that arise for analysis from this situation of persistent and high fiscal deficits. First, what are its causes? Is economic liberalization or globalization to blame? Second, what are its likely consequences? Taking the issue of the causes first, one school of thought holds the persistence of the high deficits to be the result of the slashing of taxes, both direct and indirect, in the wake of economic liberalization. The cutting of tariffs was, of course, part of the deliberate shift in economic poli-

cy to make Indian industry competitive in the world economy, and the buoyancy of India's exports is testimony to the success of that policy. There can be no denying, however, that the tariff cuts have led to a reduction in the contribution of revenues from customs as a proportion of GDP, from 3.6 percent in 1990–91 to half of that, 1.8 percent, in 2003–04 (table 12). Similarly, the revenue from excise taxes has come down but much less so, from 4.3 percent to 3.3 percent. The total contribution from indirect taxes changed from 7.9 percent to 5.3 percent. Since indirect taxes are usually regarded as regressive, some would welcome the change.

The story is very different, however, in relation to direct taxes, but it tends to receive far less attention, indeed neglect, from critics of economic reform. Even as such taxes were cut drastically by the central government in the early and mid-1990s, the revenues they yielded as a proportion of GDP doubled from their 1990–91 rate (1.9 percent) to 3.8 percent in 2003–04. (The share of personal income tax and corporation income tax rose from 0.9 percent each of GDP to 1.5 percent and 2.3 percent, respectively.) Indeed, during 2004–05, direct taxes exceeded 4 percent of GDP (Business Standard Online, July 7, 2005). The change emerges as even more dramatic when direct taxes are examined as a share of gross tax revenues, having risen from 19.1 percent in 1990–91 to 43.9 percent in 2004–05 and expected to go up even further to 48 percent in 2005–06 (GoI 2005: 24; Economic Times Online, March 1, 2005). No matter from which perspective it is examined, this outcome contradicts the position of the opponents of tax cuts—that they would result in a decline in revenues. At the same time, it vindicates tax cut advocates, who had argued, on the basis of the Laffer curve approach, that tax cuts would lead to higher revenues. Since total revenues as a proportion of GDP were 10.1 percent in 1990–91 and had declined only marginally to 9.2 percent by 2003–04, it would seem that liberalization and globalization as such could hardly be faulted for the persistence of high fiscal deficits.[15] Meanwhile, the share of tax revenues in GDP increased to 9.8 percent in 2004–05, and it was budgeted to increase to 10.6 percent in 2005–06 (Hindu Online, June 23, 2005). Regardless, experts continue to differ over whether India is more or less taxed compared to other countries at its stage of development (Bhalla 2005a; Govinda Rao 2005a). However, the balance within tax revenues has changed to the more progressive component as against the regressive one.

Fundamentally, the persistence of high fiscal deficits is rooted more in the expenditure, rather than in the revenue, side. Here, it is not just the

Table 12: Revenues, Expenditures and Deficits (% of GDP)

	1990–91	*1999–00*	*2000–01*	*2001–02*	*2002–03*	*2003–04**
Central Government						
Tax Revenues	10.1	8.9	9.0	8.2	8.8	9.2
Direct**	1.9	3.0	3.3	3.0	3.4	3.8
PIT	0.9	1.3	1.5	1.4	1.5	1.5
CIT	0.9	1.6	1.7	1.6	1.9	2.3
Indirect	7.9	5.8	5.7	5.1	5.3	5.3
Customs	3.6	2.5	2.3	1.8	1.8	1.8
Excise	4.3	3.2	3.3	3.2	3.3	3.3
Service tax	0.0	0.1	0.1	0.1	0.2	0.3
Revenue Expenditures	12.9	12.9	13.3	13.3	13.8	13.1
Interest Payments	3.8	4.7	4.8	4.7	4.8	4.5
Major Subsidies	1.7	1.2	1.2	1.3	1.7	1.6
Defense Expend.	1.9	1.8	1.8	1.7	1.7	1.5
Revenue Deficit	3.3	3.5	4.1	4.4	4.4	3.6
Fiscal Deficit	6.6	5.4	5.7	6.2	5.9	4.6
States						
Revenue Deficit	0.9	2.8	2.6	2.6	2.2	2.6
Fiscal Deficit	3.3	4.7	4.3	4.2	4.1	5.1
Combined Center and States						
Revenue Deficit	4.2	6.3	6.6	7.0	6.6	6.2
Fiscal Deficit	9.4	9.5	9.6	10.0	9.5	9.4

* Provisional for Central Government; revised estimates for States and Combined Center and States

** Personal income tax and corporation income tax

Source: Tabulated from data in GoI (2005: 23, 24, 44, 48). The original sources are different for (1) Central Government, and (2) States and also Combined Center and States. Budget documents were used for the first, Reserve Bank of India documents for the second.

bloated bureaucracy and the extensive subsidies at the central and particularly state levels—often benefiting the middle classes in the name of the poor—that are at issue (GoI 2004a; GoI 1998: 21–24). But, more substantively, it is also the vast and expanding array of development and welfare agencies and programs instituted by the central and state governments. Of the government's penchant for expending state funds, Bhalla is

exaggerating only slightly when he laments, "Our expenditures are Scandinavian social democratic, and our incomes are close to Sub-Saharan Africa. That is the problem" (2005a).

Regardless, the innumerable welfare and subsidy programs are a structural response by political leaders to India's democratic framework. That framework requires the leaders to go to the electorate periodically to secure power. In the resulting fierce, often bitter, competition, the leaders attempt to win votes through ever-increasing commitments to the electorate of direct governmental help in consumption rather than indirect economic improvement through investment. Such competitive populism is what has made for the state's permanent tendency to fiscal crisis. No doubt, in the process, many of the leaders also abundantly enrich themselves and their protégés through what amounts to organized graft. The cause of the potential crisis emerging from high fiscal deficits is thus an internal one, not external in the form of economic globalization. The graft does exist, but it is the electoral process that is really at the root of the problem.

Given the persistent pattern of high fiscal deficits, there has been criticism not only from domestic votaries of fiscal prudence but also, particularly, from the IMF. On the occasion of the economic crisis in the early 1990s, the IMF had, of course, used its enormous leverage as a provider of huge loans at a critical time to have the Indian government bring down the fiscal deficit. However, for more than a decade after it lost its clout with the end of that crisis, the IMF (2005) has continued to beseech India to attend to its FD problem. Not only has it brought the problem to the attention of India's decision-makers in its periodic reports, but senior IMF officials have publicly warned them of the grave consequences that are likely to result if the situation persists, warnings that are highlighted in the financial press. Thus, IMF's Economic Counselor Rajan (2003) told the *Financial Express* in an interview:

> We would be making a mistake not to deal with the fiscal issue on a priority basis. . . . I think we will have to curb our deficits or else see tremendous increase in interest rates as private investment competes. I'd say that it should be a priority to control the deficit. If nothing else, we know from the experience of many countries, that eventually it comes back to haunt you. One can't imagine that India is a special situation where the deficit is not going to be a problem.

Again, he reportedly warned that those who believed "that deficits have ceased to matter argue as if the laws of economics don't hold any more"

(Mulji 2004a). Later, an IMF study concluded that "India is on an unsustainable path and will eventually have to adjust, one way or the other—in other words, with or without a crisis" (Hausman and Purfield 2004: 24).

Notwithstanding the warnings about an impending crisis—not only from the IMF—that one has not yet happened constitutes a genuine enigma. Stanley Fischer described India's uncontrolled fiscal deficit as an unexplained mystery in the general story of positive developments since the economic reforms of 1991 (Mulji 2004b). Similarly, NCAER director-general Suman Bery, formerly a World Bank official, has admitted: "There is a paradox here of a grave fiscal situation that is not showing up in either high inflation or in external debt" (Mulji 2004c). Even the IMF's economic counselor acknowledged in the interview noted above that "the beauty of India's fiscal deficit is that somehow, the consequences of the lack of fiscal prudence aren't showing up." The IMF study cited earlier was struck by "the apparent absence of any symptoms of fiscal illness" and recognized that "elsewhere, the magnitude of fiscal imbalances in India would presage a fiscal crisis. Yet, this is not happening" (Hausman and Purfield 2004: 4). There is thus no getting away from this modern "rope trick" of Indian exceptionalism, apparently defying the laws of economics on fiscal prudence over a long period. It will not do to say that the IMF and other critics have cried wolf too often and too early. For, in the absence of fiscal consolidation, a crisis can still take place. Even though India may eventually have to countenance its day of reckoning, that a crisis has not occurred over a decade and a half in the face of an apparently reckless lack of fiscal prudence still requires an explanation.

There is…no getting away from this modern "rope trick" of Indian exceptionalism

Discounting Indian exceptionalism in terms of immunity to economic laws, there are two possible candidates for such an explanation. One, buoyant invisible earnings from foreign remittances of NRIs and software exports are said to have compensated for the lack of fiscal prudence; as Swaminathan Aiyar (2003) argues,

> So how does it sustain its huge overspending without going bust? The answer lies in the flood of remittances coming from Indians overseas. These, along with software exports and other items are called invisibles, since they earn dollars without any visible export of goods. . . . This

> enormous inflow is almost 4 percent of GDP, roughly equal to the government's revenue deficit. So, Jaswant Singh's overspending is offset by the bonanza from abroad. The dissaving of the government is offset by the huge savings from abroad. Hence even a deficit of this size is sustainable, and causes no distress, let alone crisis. Forex reserves are high, inflation and interest rates are modest.

Two, there is the Keynesian argument, most forcefully and persistently presented by Sudhir Mulji (2004a, b): there are unemployed resources in the economy and fiscal deficits work productively to pick up the consequent slack. In short, as a developing country, India faces the problem of lack of adequate demand, and fiscal deficits function as a means of creating such demand.

To sum up the discussion on globalization's relationship to economic destabilization, whereas economic crises were a principal characteristic of the period before globalization, the period after the paradigm shift in 1991 has seen no economic crisis. While the flood of PFI inflows constitutes a potential source of economic instability, there is merit in the argument of some critics that the solution lies in greater openness to globalization in this arena through capital account convertibility. To the extent that there is a latent hazard in that path, it is created by a domestic public policy that has generated huge and persistent fiscal deficits and the consequent massive and mounting domestic debt, and not by globalization as such.

Impoverishment or Welfare Enhancement

Equality as an ideal goal for society has exercised a powerful attraction on many socially concerned individuals and groups over the ages. It explains to a considerable extent the appeal of socialism over the past several generations. On the other hand, many others have regarded complete equality as impractical and its pursuit as the source of immense suffering for humanity. The turning away from it by the end of the twentieth century by most societies under socialism underscores the recognition of both its impractical nature and of the high price that attempting to achieve it can incur. Still, it is a sign of its persistent appeal that even an international financial institution such as the World Bank, much abused for its conservatism, has recently made equality—albeit in its softer version, equity—the focus of one annual report: *World Development Report 2006: Equity and Development.*

It is almost universally accepted today that all human beings qua human beings deserve, regardless of their background, an equitable order that assures them of a certain minimum level of living standards and that

does not discriminate against them in the opportunities of life. However, societies fall short of living up to that ideal in smaller or greater measure, especially in the third world, precisely because they are underdeveloped and lack the means to implement it. As a consequence, what happens in contemporary society in relation to mass welfare and equality is a lively issue for research. Indeed, the study of poverty and inequality—the former an absolute concept and the latter a relative one—constitutes, like globalization, a growth industry. However, the impact of economic reform, by way of liberalization and globalization, on poverty and inequality is a heatedly debated topic, and nowhere more so than in India. To understand that impact is therefore necessarily to navigate through a veritable intellectual minefield. Little convergence is apparent in the research on the consequences of globalization and liberalization for poverty and inequality.

Most analysts studying the issue of poverty and, relatedly, inequality in India have in recent years made a pointed comparison of the record for the 1990s with that of the 1980s to establish whether there has been improvement or deterioration. At times explicitly and at other times implicitly, the intent of the comparison is to demonstrate the success or failure of economic reform. In this endeavor, the analysts have taken 1991—the year of the paradigm shift in economic policy—as marking a demarcating point between "economic reform in the 1990s" and "no economic reform in the 1980s." Despite the agreement on this score, they often differ quite radically in their conclusions about poverty and inequality. Chart 1 provides a tentative classification of their divergent, even contradictory, views.

Chart 1: Analyses of Poverty and Inequality in the 1990s Compared to the 1980s: A Tentative Classification

		Poverty	
		Improvement	*Deterioration*
Inequality	*Improvement*	Bhalla (2003a,b; 2004; 2005c)	
	Deterioration	Datt/Ravallion (2002) Deaton/Dreze (2002) Sundaram/Tendulkar (2004a,b)	Sen/Himanshu (2003a,b,c,d)

The analysts in the lower left quadrant can be taken to represent a middle position, agreeing by and large with the official position that the 1990s saw a considerable decline in poverty. At the same time, they emphasize the rise of inequalities of different kinds. On the other hand, the lower right quadrant (Sen and Himanshu) and the upper left quadrant (Bhalla) represent the left and right positions, respectively. For Sen and Himanshu, there has been little decline in poverty during the 1990s compared to the 1980s, at most about 3 percent for the five years between 1993–94 and 1999–2000; indeed, there has been a worsening of the situation with an increase in the absolute numbers of people below the poverty line. Worse still, there has been a significant increase in inequality, almost on the scale of that in China. On the other hand, however, Bhalla is highly critical of such views and demonstrates that there has been a reduction in poverty to half the level of that claimed by the official position even as there has been no increase in inequality.

Remarkably, despite the wide divergence among their positions, these analysts basically draw on the same sources for quantitative data in their research—household consumer expenditure (CE) surveys conducted by the National Sample Survey Organization (NSSO) every five years ("quinquennial") on the basis of a large or "thick" sample of about 125,000 households and annually on a smaller or "thin" sample of about 60,000 households. Some of them supplement such data from CE surveys with data from the parallel Employment-Unemployment Surveys (EUS) undertaken by the same organization. The source of the radical differences among the analysts is the application of different deflators (temporal and spatial), the changes in questionnaire design—which raise issues about comparability with other surveys—and the use of only the more intensive quinquennial surveys or, additionally, the less intensive annual surveys. The 1999–2000 quinquennial CE survey has generated particular controversy because of changes in its questionnaire design, with the resulting contaminated or biased data alleged to have boosted the figures on decline in poverty. Perhaps there is some exaggeration about the extent of bias that has resulted from the changes in the questionnaire design, since the organization soon took action to reduce the bias.[16]

Extending the Horizon on Economic Liberalization

One remarkable feature of the controversy among the various analysts is the focus on the 1990s—which they take to be the decade of reforms—as against the 1980s, which they regard as having been without reform. It is

not clear why the attempts at comparison have been limited to only between the 1990s and 1980s. There is certainly an element of arbitrariness in circumscribing the comparison to just periods selected in this manner. The underlying assumptions seem to be that economic reform began in 1991 only and that a comparison of the 1990s with the 1980s provides a validation of the success or failure of economic reforms as against the earlier economic regime.

It is not clear why… comparison [has] been limited to only between the 1990s and 1980s

However, this assumption is not warranted. There is no valid basis for regarding the entire period before 1991, and certainly not the 1980s, as having had *no* economic reform. Of course, some analysts have recognized that the reform process started in 1985, or even in 1980. In that light, the 1980s are distinguished from the 1990s only by the degree of economic liberalization, not by its absence. The 1980s and the 1990s thus belong together—not in separate compartments by a false dichotomy. Indeed, in the perspective adopted earlier in this study, economic reform actually began even earlier.

If the intellectual horizon is broadened to encompass the longer period of economic reform—if the period from 1975 onwards is regarded as one of *extended* liberalization or globalization—what kind of assessment can be made about what has happened to poverty and equality? In making such an assessment, the analysis here draws on data of the "thick" quinquennial CE surveys from official sources and the World Bank, for using such sources has the advantage of allowing quick verification by others because of their easy accessibility. Data adjusted by particular analysts are likely to reflect idiosyncratic biases and in any case are not available for the period prior to 1983. The criticisms of the 1999–2000 CE data on grounds of possible contamination of responses on the recall period are sidestepped here for two reasons. One, there seems to be an element of exaggeration in them, because only about 10 percent of the households surveyed could have been affected by the alleged contamination. Two, such data do not deviate wildly from the adjusted data as represented by the largely consensual middle position considered above, even as the opposite ends of the spectrum on adjusted data as reflected in

Sen/Himanshu and Bhalla can be taken to largely cancel each other out. While we rely primarily on the quinquennial surveys, which began with the 1973–74 CE survey, comparison with the period prior to that is made through the annual surveys (then the practice by the NSSO) for the preceding decade or so.

Table 13 and figure 1 set out the data on poverty before and after 1975. What they illuminate with singular clarity is the correspondence, by and large, of the entire period of liberalization and globalization in its extended form, starting from around 1975, with a continuous and consistent decline in poverty.

On the other hand, it is clear that the decade prior to 1975 is not merely one of sheer stagnation in terms of the economic growth rate, as demonstrated in an earlier section. It is also one in which poverty persisted at very high levels, covering more than 50 percent of the population—albeit with annual variations—and at times even over 60 percent. That, then, is the record of the period *before* economic reform as understood in its extended version.

It is evident that, somewhere around 1975, coincident with the onset of liberalization, undoubtedly initially in a nascent form, there began a gradual but consistent decline in the level of poverty. The record for the 1993–94 survey and for the more contentious 1999–2000 survey—both carried out after the paradigm shift—is simply a continuation of that decline, with the poverty ratio falling from 54.88 percent in 1973–74 to less than half that by the latter year (26.10 percent). It is fashionable in some quarters to mock "the trickle down theory," but, in view of the combined record for economic growth and poverty reduction under extended liberalization, nothing could illustrate the theory's intrinsic merit better than the data in table 13 and figure 1. The line of causality can be taken to proceed thus: globalization/liberalization → acceleration of economic growth rate → reduction in poverty.

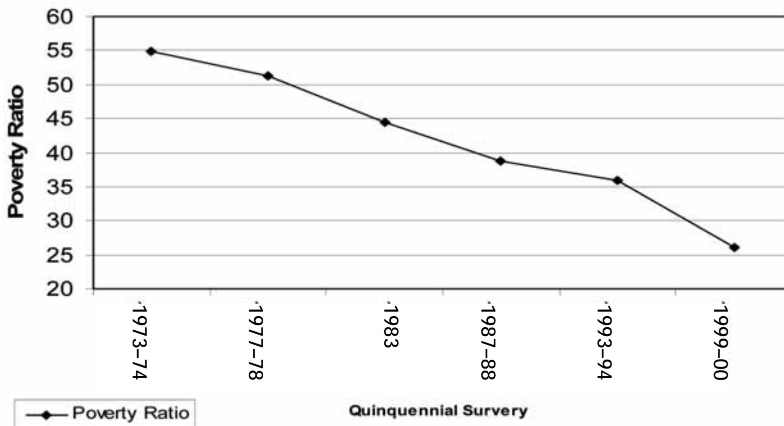
The counterpoising of the 1990s as the reform decade against the 1980s as the so-called non-reform decade is perhaps supposed to establish for some the superior performance in respect of poverty reduction under the economic *ancien regime* of the autarkic heavy industry strategy and the "command and control" economy. What such counterpoising has actually brought about, however, is an overlooking or masking of the correlation between the staggeringly high poverty ratio and the heyday of that economic regime prior to 1975.

Table 13: Poverty Trends in India (Headcount Index): Population Below Poverty Line

NSS Round	*Year*	*Poverty Level (%)*	*NSS Round*	*Year*	*Poverty Level (%)*	*Number (Millions)*
Annual Surveys			*Quinquennial Surveys*			
17	1961–62	46.54	28	1973–74	54.88	321
18	1963–64	47.85	32	1977–78	51.32	329
19	1964–65	52.75	38	1983	44.48	323
20	1965–66	56.71	43	1987–88	38.86	307
21	1966–67	62.00	50	1993–94	35.97	320
22	1967–68	61.60	55	1999–00*	26.10	260
23	1968–69	57.11				
24	1969–70	55.56	* 30-day recall			
25	1970–71	52.88				
27	1972–73	53.37				

Source: "Estimates of Poverty Ratio by Expert Group Methodology in India" and "Poverty Trends of India (1951 to 1957)" at www.indiastat.com.

Figure 1: Poverty Ratio in India



Source: Based on data from Table 13.

The Question of Inequality

What, then, of the record on equality? Of course, some degree of increase in inequality is to be expected with development or industrialization, regardless of the era or political regime in which it takes place. That was, indeed, the basis of the U-shaped Kuznets curve, advanced in 1955 by Simon Kuznets, who hypothesized that inequality tends to rise first with industrialization but then begins to fall as industrialization and its consequences spread through society (Weil 2005: 369–74). Globalization as such is not implicated in this process except insofar as it affects the pace of industrialization. Some, however, have gone further, advocating the doctrine of the "functional utility" of inequality, which proponents used to divert resources to entrepreneurs by squeezing agriculture and suppressing the demands of industrial workers in the name of driving economic growth (Papanek 1967: 242). Such a course may, however, not be acceptable to many governments today on political or ethical grounds.

More recently, the World Bank (2005) and the United Nations Development Program (2005) have, quite to the contrary, underlined the functional utility of equality and equity for economic development. Such authoritative endorsements are, however, not likely to close the debate on the subject, for some will maintain that unrealistic policies undertaken in the name of fostering equality may well retard development, as had happened earlier in the Indian case. Regardless, the issue will remain a lively one, and India's own record on inequality will continue to be an important part of the debate.

One means for examining inequality in income or consumption expenditure in a country is the Gini coefficient or ratio, a summary measure of inequality; the higher the Gini ratio, the greater the inequality. The other is to look directly at the income or expenditure distribution of the bottom quintile of the population against the other quintiles; understandably, the Gini ratio based on expenditure as against income understates inequality. Data on the Gini ratio and distribution of per capita consumption expenditure by quintiles is available for India in the World Bank's database. Table 14 presents the Gini ratio data for several five-year intervals after 1973 on the assumption that these reflect information from the quinquennial CE surveys. The table also includes annual data for about a decade prior to 1973. With this table, one can make a broad comparison between the state of inequality between the period before and after 1975—the year of the onset of economic liberalization.

Table 14: Gini Coefficient and Distribution of Consumption Expenditure in India

Year	*Gini*	*Q1*	*Q2*	*Q3*	*Q4*	*Q5*
1962	32.60	8.4	12.4	16.3	21.6	41.3
1963	30.73	8.9	12.9	16.6	21.8	39.8
1964	31.05	8.8	12.7	16.7	21.8	40.0
1965	31.14	8.8	12.7	16.6	21.9	40.0
1966	31.06	8.4	12.9	16.8	22.1	39.8
1967	30.55	8.6	13.0	16.9	22.0	39.5
1968	31.86	8.5	12.6	16.5	21.8	40.6
1969	31.47	8.6	12.7	16.6	21.8	40.3
1970	30.38	8.8	13.0	16.8	21.9	39.5
1972	31.85	8.5	12.6	16.5	21.8	40.6
1973	29.17	9.0	13.1	17.2	22.6	38.1
1977	32.14	8.5	12.5	16.4	21.7	40.9
1983	31.49	8.6	12.7	16.5	21.7	40.5
1988	31.15	9.0	12.7	16.4	21.4	40.5
1994	29.7	9.2	13.0	16.8	21.7	39.3
2000	32.5	8.9	12.3	16.0	21.2	43.3

Source: For all years except 1994 and 2000: *1997 World Development Indicators CD-ROM*. For 1994 and 2000: *1999 World Development Indicators CD-ROM* and *2005 World Development Indicators CD-ROM*.
Note: Information for 1973 and 1977 is included here on the assumption that it corresponds to the quinquennial surveys of 1973–74 and 1977–78, respectively.

An examination of table 14 reveals no discernible trend before or after 1975 in respect to either the Gini ratio or the bottom quintile despite periodic variations. The average Gini ratio for the years 1962 to 1973, covering a considerable period before reform, is 31.08. The average for the years

1977, 1983, and 1988, representing the period of intermittent incremental reform, is 31.59; that for 1994 and 2000—the years after the paradigm shift—is 31.10. That is, the Gini ratio is about the same for these three different periods. Similarly, the figure for the first or bottom quintile over all the years ranges from 8.4 to 9.2, though the average tends toward the lower side for the first two periods as against the last one—8.7, 8.7, and 9.1.

It is true that within the period after the paradigm shift, there is a noticeable increase in the Gini ratio from 29.7 in 1994 to 32.5 in 2000. But that outcome, though sharp as such between those two years, is not very much out of line with earlier years, such as 1977 and 1988 or, for that matter, 1962. As for the shares in CE distribution among the first four quintiles, there are marginal variations over the years, but they all manifest—after a rise in 1994—slight declines in 2000. What is striking, however, is the sharp increase in the share of the fifth quintile from 39.3 in 1994 (and from 38.1 in 1973) to 43.3 in 2000, which apparently underlies the rise in the Gini ratio in that year.

Overall, then, the pattern is one of stability in the Gini ratio and CE expenditure distribution except for the fifth or top quintile in 2000—a stability that had earlier been noted by S. R. Hashim (1998), then member of the Planning Commission. Certainly, the fifth quintile has gained, but surprisingly, this gain does not seem to have been much at the expense of the first quintile. The gain rather reflects decline in the shares of the three middle quintiles since 1973. This finding reflects some change from the pattern of stability in respect of equality over the post-independence period pointed out by Hashim (1998). However, while there have been some gainers and there has been some rise in inequality, it would be difficult to say—absent any drastic change in the pattern of distribution—that there have been losers as such during the course of development since the inauguration of liberalization. For, in the meantime, incomes have risen substantially in absolute terms since 1975, particularly after the paradigm shift.

It may well be that this interpretation based on data over a longer period tends to understate a possible strong rise in inequality that has been underlined by several scholars (Deaton and Dreze 2002; Sen and Himanshu 2004a, b; Banerjee and Piketty 2001). On the other hand, it is noteworthy that 1994 (after the paradigm shift, incidentally) is an exceptional year from the viewpoint of declining inequality. Perhaps data from subsequent surveys would shed more light on the issue of whether there is a decisive break in 2000 in the pattern of stability in inequality.

It does not seem sufficient, however, to examine the Indian record in the light only of its own historical experience. The Indian record on the Gini ratio and income/expenditure distribution can be better appreciated when it is viewed in comparison with a select group of countries and regions for which UNDP provides Gini data based on income, as shown in table 15. There is no figure in the table for India as such, but because the country looms so large in South Asia, one can take the figure of 33.4 for that region as broadly reflective of the Indian reality. It is obvious that compared to most other countries, India features considerably less inequality; note by way of comparison the figures for Mexico (54.6), Malaysia (49.2), and China (44.7). What is the explanation for this disparity between India and these countries? Is it the greater advance of these countries in terms of development? Or is it India's polit-

surveying the 1990s... India has had the best of both worlds, combining growth with equity

Table 15: Inequality in Income: Selected Countries and Regions—Gini coefficient, income distribution (GDP per capita, PPP US$)

Country/ Region	*Gini*	*Country/ Region*	*Gini*	*Country/ Region*	*Gini*
Sub-Saharan Africa	*72.2*	*East Asia & the Pacific*	*52.0*	*High-income OECD*	*36.8*
Namibia	70.7	Malaysia	49.2	U.K.	36.0
World	*67.0*	Philippines	46.1	Egypt	34.4
South Africa	57.8	China	44.7	Poland	34.1
Latin America & Caribbean	*57.1*	Thailand	43.2	*South Asia*	*33.4*
Chile	57.1	*Central & Eastern Europe & CIS*	*42.8*	Sri Lanka	33.2
Zimbabwe	56.8	Kenya	42.5	France	32.7
Mexico	54.6	United States	40.8	Russia	31.0
Zambia	52.6	Viet Nam	37.0	Ethiopia	30.0
Argentina	52.2			Albania	28.2
				Hungary	26.9
				Sweden	25.0

Source: UNDP (2005): 55.

ical regime? Hashim (1998) had thought that the stability in India's Gini ratio was the consequence of its democratic framework, which compelled political leaders to implement programs to benefit the poorer sections in order to get elected. Regardless, surveying the 1990s, Bhalla (2005) believes that India has had the best of both worlds, combining growth with equity, and that it has been able to reduce poverty and place a considerable degree of restraint on inequality while maintaining high economic growth.

Rural-Urban and Regional Disparities

The contributions of some of the major authorities included earlier in chart 1 make obvious their concern over rising rural-urban and regional disparities. It is understandable that urban areas, which house concentrations of capital, technology, and skills, would be economically more advantaged than rural areas, and that not all regions are likely to advance at the same pace. There is a considerable literature that investigates these disparities in India on the basis of GDP growth rates and GDP per capita and on indices of human development. The focus in what follows, however, is only on performance in relation to poverty reduction and inequality, based on data in the CE quinquennial surveys of the NSSO.

Table 16: Poverty Levels and Gini Ratios for Rural and Urban Areas

Survey Year	*Poverty Level (%)*		*Gini Coefficient*	
	Rural	*Urban*	*Rural*	*Urban*
1973–74	56.4	49.0	0.276	0.301
1977–78	53.1	45.2	0.339	0.345
1983	45.7	40.8	0.298	0.330
1987–88	39.1	38.2	0.298	0.354
1993–94	37.3	32.4	0.282	0.339
1999–00*	27.1	23.6	0.258	0.341

* 30-day recall

Source: Tables on "Population below Poverty Line," "Indices of Poverty and Inequality" and "State-wise Gini Ratio for Per Capita Consumption Expenditure" at www.indiastat.com.

Table 16 confirms, first of all, the finding that poverty came down sharply after 1973–74 and further reveals that this finding of poverty decline broadly applies to both rural and urban areas. If one takes 1987–88

to represent the period prior to the paradigm shift in 1991, it is striking that both rural and urban areas had about the same proportion of the population below the poverty line in that year; the difference between the two is nominal. Against that background, it becomes clear why observers have found the period after the paradigm shift—the 1990s—to be one that manifests rising disparities between rural and urban areas. For, in 1999–2000, the rural areas (27.1 percent) have a higher poverty level than urban areas (23.6 percent) by 3.5 percentage points. On the other hand, it seems that 1987–88 is an unusual year, for earlier years show an even higher degree of disparity than 1999–2000—7.4 points in 1973–74, 7.9 points in 1977–78, and 4.9 points in 1983. Again, it would seem that the observations by some analysts about growing rural-urban disparities in respect of poverty reduction are based on a limited time horizon. The same seems to apply to the Gini ratio on inequality. The year 1999–2000, or for that matter 1993–94—both after the paradigm shift—do not indicate rising inequality, whether in rural or urban areas, but rather declining inequality compared to both 1987–88 and 1977–78.

Turning to regional inequalities, table 17 provides data on poverty levels for the major states of India. There is no doubt that disparities have increased among the different states in respect of performance on poverty reduction. This can be illustrated through comparing the average poverty levels in the worst five states to that of the best five states in each of the years of 1973–74, 1987–88, and 1999–2000 (the states in the two groups change over the years). The ratio between the two (the average for the worst states divided by that for the best) increased from 1.74 in 1973–74 to 2.91 in 1987–88 to an excessively high 5.53 in 1999–2000. The trend in the ratios clearly indicates that poverty has come down in the top five states much more substantially than it has in the lowest five states. Again, however, it bears mentioning that, while the best five states are certainly the gainers, the worst five states are not necessarily losers; rather, they are laggards, since poverty has come down considerably even in these states. Still, the immense rise in regional disparities in relation to performance on poverty reduction is an ominous development, the redressing of which deserves serious attention from the Planning Commission and Finance Commission because of its implications for centrifugal strains on the federation.

Employment and Unemployment

As with poverty, so with unemployment—there is considerable controversy associated with the subject. Any assessment of the situation in respect

Table 17: State-Wise Percentage of Population Below Poverty Line in India

States	*1973–74*	*1977–78*	*1983*	*1987–88*	*1993–94*	*1999–2000*
Goa	44.26	37.23	18.90	24.52	14.92	4.40
Punjab	28.15	19.27	16.18	13.20	11.77	6.16
Himachal Pradesh	26.39	32.45	16.40	15.45	28.44	7.63
Delhi	49.61	33.23	26.22	12.41	14.69	8.23
Haryana	35.36	29.55	21.37	16.64	25.05	8.74
Kerala	59.79	52.22	40.42	31.79	25.43	12.72
Gujarat	48.15	41.23	32.79	31.54	24.21	14.07
Rajasthan	46.14	37.42	34.46	35.15	27.41	15.28
Andhra Pradesh	48.86	39.31	28.91	25.86	22.19	15.77
Karnataka	54.47	48.78	38.24	37.53	33.16	20.04
Tamil Nadu	54.94	54.79	51.66	43.89	35.03	21.12
Maharashtra	53.24	55.88	43.44	40.41	36.86	25.02
West Bengal	63.43	60.52	54.85	44.72	35.66	27.02
Uttar Pradesh	57.07	49.05	47.07	41.46	40.85	31.15
Assam	51.21	57.15	40.47	36.21	40.86	36.09
Madhya Pradesh	61.78	61.78	49.78	43.07	42.52	37.43
Bihar	61.91	61.55	62.22	52.13	64.96	42.60
Orissa	66.18	70.07	65.29	55.58	48.56	47.15

Source: www.indiastat.com.

of it, again, depends on the criteria that are used in its definition as well as on the periods chosen for comparison. The conventional picture has been that, notwithstanding the high economic growth rates during the 1990s, India has essentially witnessed "jobless growth" due to downsizing and outsourcing by firms, including public sector firms, so as to be competitive in the new globalized environment (GoI 2001: 18; ADB 2005: 46–47, 237). Further, whatever the job expansion in that period, some contend that it has been in the IT-related and services sectors, thus benefiting the already affluent sections with the wherewithal of education and skills to take advantage of the opportunities in these sectors. Thus, the benefits of liberalization in the 1990s have, again, gone to the rich.

Perhaps this conventional picture is based on a limited perspective since it does not take adequate account of the multiplier effects of income generated in these particular sectors for employment in the other sectors. Such multiplier effects also have the result of benefiting those who are not so affluent, including migrant labor from poor areas of the country. The real issue would therefore be whether the increased benefits for the less affluent compensate for the job losses since the paradigm shift.

At first blush, the NSSO data on *unemployment*, based on the quinquennial surveys, seem to confirm the picture of employment stagnation or deterioration, if the 1993–94 survey is taken to represent the 1980s as the period before reform—as is often assumed—and the 1999–2000 survey the period after liberalization. The unemployment rates, which had fallen in 1993–94 from the levels in 1983, went up again in 1999–2000 (table 18).

On the other hand, consistent with the approach taken in this study, one could maintain that the entire period from the 1983 survey to the

Table 18: Comparative Unemployment Rates in Three Surveys

NSS Survey	*Weekly Status (% of Labor Force)*	*Usual Status (% of Labor Force)*
1983	4.5	2.8
1993–94	3.6	2.6
1999–2000	4.4	2.8

Source: Bhalla (2005: 22), based on NSSO data; see also GoI (2001: 17).
Note: Weekly status applies to a person in the labor force (working or seeking work) who, when surveyed, was employed all seven days in the preceding week. Usual status denotes that the person was employed for the major part of the year.

1999–2000 survey falls under the rubric of liberalization, even if only a part of it. Further, the 1993–94 survey itself incorporates some of the impact of the paradigm shift in 1991. Again, a one-time figure for 1999–2000 may not be an adequate basis for a conclusive generalization about post-1991 reforms.

Bhalla (2005) offers a useful compilation of data on *employment* that includes statistics on an annual basis—available only from 1989 onwards—which, while encompassing the quinquennial surveys, stretches beyond 1999–2000 to 2003 (table 19 and figure 2). The picture that emerges on employment is somewhat different from the conventional one, though not necessarily contradictory to it. This picture is not one of "jobless growth" but of secular growth in employment with annual variations. Particularly noteworthy is the continued rise in employment after the quinquennial survey of 1999–2000, except for the decline in 2002, a drought year. The recovery from the drought and from the earlier industrial slow-down saw a considerable jump in employment in 2003. However, there are legitimate questions (GoI 2001: 2, 23–24) about the quality of the jobs created (which are primarily in the informal sector), since there is a big disparity between levels of unemployment (4.4 or 2.8 percent in table 18) and poverty (26.1 percent) in 1999–2000.

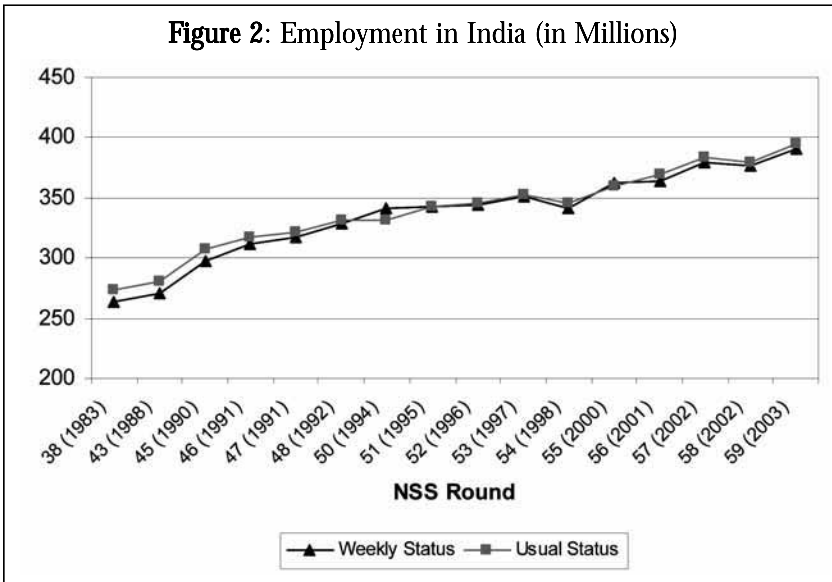
Table 19: Employment in Millions

NSS Round	*Period*	*Weekly Status*	*Usual Status*	*NSS Round*	*Period*	*Weekly Status*	*Usual Status*
38*	Jan–Dec 83	263	274	52	July 95–June 96	344	346
43*	July 87–June 88	270	281	53	Jan–Dec 97	351	353
45	July 89–June 90	298	308	54	Jan–June 98	341	345
46	July 90–June 91	311	317	55*	July 99–June 00	363	359
47	July–Dec 91	317	321	56	July 00–June 01	364	369
48	Jan–Dec 92	328	332	57	July 01–June 02	380	384
50*	July 93–June 94	341	331	58	July–Dec 02	377	379
51	July 94–June 95	342	342	59	Jan–Dec 03	390	395

* quinquennial survey

Source: Bhalla (2005: 28), which is based on NSSO's Employment-Unemployment Surveys for 1983, 1993–94 and 1999–2000, and on NSSO's *Report on Household Consumer Expenditure and Employment-Unemployment Situation in India*, 59th Round, No. 490, March 2005.

Figure 2: Employment in India (in Millions)



Notwithstanding the somewhat brighter picture about employment conveyed in table 19, the annualized *rates* of growth in employment on the basis of the "weekly status" and "usual status" were nonetheless higher for the 1983–90 period (2.4 and 2.1, respectively) than for the 1991–2003 period (1.5 and 1.5, respectively; Bhalla 2005c: 30). Since this latter pattern of slower growth in the post-1991 period does not square with the superior performance in real wage rates during the same period, Bhalla finds the explanation for it in two factors (2005c: 30–33; see also GoI 2001: 2, 18–19). One is the decline in the growth rate in the census data of the potential labor force in the age group of 15–59 years from 2.6 percent in the 1980s to 2.3 percent in the 1990s; the NSSO's age-distribution data show a steeper decline, to 1.7 percent. The other factor pertains to a higher proportion of the 15–24 years age group going to school in the post-1991 period, thus, again, reducing the potential labor force; the growth in school enrollment from this age group was higher than the growth in the potential labor force. The slower growth in

despite the slower growth rate in employment, the overall picture is one of improvement

employment in the 1990s, then, seems consistent with the slower growth in the potential labor force. In other words, despite the slower growth rate in employment, the overall picture is one of improvement. It is noteworthy that there has been at the same time a drastic reduction in child labor as a proportion of the total population in the age group 10–14 years. That proportion fell from 16.7 percent in the quinquennial employment-unemployment survey in 1983 to 10.4 percent in 1993–94 and further to 7.3 percent in 1999–2000, which is less than half of the 1983 figure (Bhalla 2005c: 33).

To sum up this section on impoverishment, poverty has dropped sharply over the period of economic liberalization, whether viewed from 1975 onwards or since 1991. At the same time, inequality—in terms of the Gini ratio or the share of the bottom 20 percent in per capita consumption—has not shown any increasing trend. Equally, it is evident that the data for the longer term do not justify the picture of "jobless growth," even as child labor has seen a drastic reduction. At the same time, the record on regional disparities should be cause for serious concern because it places centrifugal pressures on the federation, a fuller discussion of which would be a fit subject for another study.

Conclusion

The opponents of globalization have mounted a wide-ranging attack on globalization that focuses on its malign consequences for economy, society, and polity as well as ecology in the developing countries. Regardless of whether such an attack is derived from ideological preferences or empirical observation, it deserves serious consideration because of the importance of the subject. Accordingly, to treat it adequately, the in-depth analysis here of the issues involved has been confined only to India and has been limited to the economy, where the purported ill-effects ascribed to globalization include economic stagnation, deindustrialization, denationalization, destabilization, and impoverishment.

Whatever the value of the critique of globalization in relation to other developing countries, a thorough evaluation of it on the basis of empirical data, both quantitative and qualitative, demonstrates that it has little merit in the case of India. On literally every count that has been held against globalization, the criticisms seem groundless. An important part of the empirical examination undertaken here was to compare systematically the situation prevailing in India prior to globalization with that subse-

quent to the adjustment to globalization. For a realistic assessment requires the determination of what difference the presence or absence of the variable of globalization has made to the equation. Without such a systematic comparison, unrealistic expectations are likely to be held about the range of economic choice that may be available by eradicating globalization. Obviously, the globalization period needs to be seen in a differentiated way depending on the intensity of international integration. It is broadly divided here into two periods: (1) the intermittent incremental liberalization from 1975 to 1991, and (2) the post-paradigm shift period starting in 1991. Although the case in favor of globalization is manifest for both periods, it is especially so after the paradigm shift.

On literally every count [criticism of globalization seems groundless]

What the empirical examination has demonstrated is that, instead of economic stagnation, India achieved an acceleration of the growth rate after it opted for integration with the world economy. And in doing so, it has broken the barrier of stagnation that had been the lot of the country before globalization. It is difficult to exaggerate the importance of this accomplishment. The acceleration has provided additional resources not only for investment in human capital but also for expenditures on the social sectors and poverty alleviation. Moreover, the economic dynamism associated with and resulting from the acceleration has imparted to the elites and the people the self-confidence to go forward with their project of building a consolidated nation-state. It has indeed transformed what had been mocked as "the sick man of Asia"—an inveterate supplicant for foreign aid, a perennial basket case—into a credible contender for a major power role in the balance of power in Asia.

Similarly, far from the specter of deindustrialization held out by the critics, foreign imports have not swamped Indian industry after tariffs were lowered as part of India's reintegration into the world economy. Rather, Indian industry has grown at a higher rate than it had prior to liberalization of the economy. To be sure, industrial advance in India nowhere near compares with the industrial leap forward in China, but then India's integration into the world economy has by its own choice (or by necessity because of the nature of its political system) been limited, especially when compared to that of China, in respect of both trade and foreign investment. However, as India sustains its pattern of accelerated

growth, circumstances are likely to change even in respect of FDI inflows; foreign investors will find participation in a rapidly growing market irresistible even with a restrictive regime, and in the process they will reinforce the virtuous cycle.

On denationalization, industry in India has no doubt faced serious challenges from the entry of foreign multinationals, but it has not been swallowed up by them. Foreign investment has served to supplement and not supplant Indian industry. Besides, under the invigorating impulses imparted by increased foreign competition, Indian industry has reorganized itself and it has reoriented its horizons beyond the domestic market to the wider world market in terms not only of exports and establishing subsidiaries but also of M&A purchases abroad.

On the issue of economic destabilization, the autarkic period prior to the initial and nascent opening to globalization in 1975 was ridden with economic crises of a grave nature. Indeed, throughout that entire period, India labored under an enormous and enervating foreign exchange constraint, which both retarded and distorted the country's development. The period of intermittent incremental liberalization still saw a couple of crises but, learning from the beneficial nature of its experience with integration with the world economy, the leadership used the occasions creatively to advance liberalization. The story of India's economy after the paradigm shift to economic liberalization in the early 1990s is entirely different, however—India has not yet seen another economic crisis and no longer faces a foreign exchange constraint because of its accumulating reserves. Some credit may go to some of the continuing capital controls, but controls by themselves do not explain the stability. Rather, the explanation lies in the positive results that followed liberalization—a more rapidly expanding economy, the build-up of foreign exchange reserves—that have added to the national capacity to cope with instability and, indeed, to preempt it. The controls were even more stringent earlier, but that had not prevented crises from arising. There is, no doubt, considerable potential for the eruption of an economic crisis in the future as a result of the persistent fiscal deficits, but the latter have their roots in political and electoral compulsions in the domestic arena, not globalization.

As for impoverishment, the globalization period has seen welfare enhancement through a long-term decline in poverty without any marked increase in inequality relative to the period prior to economic reform. There can be no doubt about this result of poverty decline, with the line

of causality running from globalization and liberalization to acceleration in the growth rate and then poverty reduction. Obviously, there would have been more reduction of poverty if some of the economic laggards among the states had set their house in order to push for higher economic growth. At the same time, it would be heartless, indeed cruel, to make the performance on poverty reduction an occasion to celebrate liberalization, as so much poverty still remains, even when defined minimally in caloric-intake terms. Indeed, it is the persistence of poverty in such massive numbers that makes understandable the passion that goes into critiques of the contemporary situation. However, the conclusion that flows from a considered comparative analysis of the trends over the extended period of liberalization—when set against the period prior to it, of staggeringly high poverty and economic stagnation—is different. Poverty reduction has gone forward with the higher rates of economic growth that intermittent doses of liberalization and the paradigm shift facilitated. The policy implication therefore is more, not less, liberalization that fosters and sustains rapid economic growth, especially in industry and agriculture.

The widening of regional disparities in poverty reduction, as more generally in economic growth, remains a matter of deep concern. As long as measures are undertaken to reduce the sharper edges of such disparities, the present situation need not, however, be viewed entirely negatively. The earlier situation of relatively smaller regional disparities was associated with economic stagnation, whereas economic dynamism characterizes the present situation—to be vastly preferred over economic stagnation. The greater advance by some states should be a stimulus to the laggard states to set their own house in order to promote growth, with the support of the central government, obviously.

In short, contrary to the position of the critics, globalization has—to put it provocatively—served as the agent of deliverance for India from economic stagnation and perpetual economic crises, even as it has helped reduce poverty. India continues to be dogged by deep-seated societal problems that persisted through the autarkic period, but it is precisely the accelerated growth generated by globalization that has been providing the additional resources to alleviate, if not yet to remove, them.

In view of the beneficial results that globalization has brought to India when compared with the situation that existed before it, the larger policy orientation that the case study forcefully urges on us is that there should, in general, be greater openness to globalization. Economic reform is not a

one-time affair but an ongoing process to sustain growth acceleration. India has now enhanced its capacity to manage greater integration with the world economy, which is essential for sustaining the accelerated growth rate. That is not, however, an argument for a mindless or reckless integration, for nation-states fundamentally exist to advance the interrelated goals of wealth and power of their peoples. But India need not worry on that count, for excessive caution is built into its political structure as a central tendency.

International economic integration is a means to an end, not an end in itself. One of India's paramount aims has been the alleviation of poverty and, for that purpose, the promotion of wider gainful employment. The fulfillment of that aim requires not just the maintenance of the higher growth rate thus far achieved but its further acceleration to 9 or 10 percent. Accomplishing such acceleration, in turn, demands a major boost to investment in both agriculture and industry. The world economy can serve as both a resource for additional finance for investment via FDI and a market for the commodities produced and goods manufactured. To foster an environment that is conducive to greater investment, several reforms seem appropriate. There needs to be, of course, prudential macroeconomic management, particularly in respect of bringing down the fiscal deficit and the public debt. At the same time, support would have to continue to be provided to the poor even as non-strategic public sector enterprises are privatized to make them function more productively and efficiently. The promotion of industrialization requires introducing flexibility in the currently rigid labor markets through reforming the antiquated labor laws and at least selectively de-reserving industries that are now reserved for the small-scale sector. It requires, as well, the radical improvement of the infrastructure, particularly as regards to power, the lowering of tariffs to enhance competitiveness, the relaxation of restrictions on FDI, and higher investment in the social sectors. Such an agenda for reform, though not undisputed, is widely understood (see, for example, GoI's annual Economic Surveys over the last decade). What is necessary, however, is emphatic action. That presupposes movement on assuring effective governance (Jalan 2005), where institutional infirmities have accumulated to prevent India from performing to its economic potential.

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Endnotes

1. In a subsequent contribution, Patnaik and Rawal (2005) repeat the stagnation and deindustrialization theses, arguing: "the 'opening up' of an underdeveloped economy to free capital flows, instead of boosting its rate of growth as neo-liberals claim, would have the precisely opposite effect of unleashing ceteris paribus a tendency towards stagnation and greater unemployment. . . . a reduction in the level of activity ('deindustrialization')." For other works largely critical of globalization in relation to India, see Nayyar (1996), Ghosh and Chandrasekhar (2002), Gupta et al. (2003), Vanaik (2004), and Kar (2005).
2. As Grenville notes: "Globalization is an opportunity for countries to improve their living standards. Individual countries must decide how deeply they will avail themselves of this opportunity. It is not an all-or-nothing choice" (2001: 34). Similarly, Bimal Jalan advises: "neither view—for or against [globalization]—is correct. The only rational view is to accept it as an emerging and powerful global reality which has a momentum of its own. Our job as an independent nation/state is to ensure that we maximize the advantage of our country and minimize the risks" (2001: 9).
3. As two eminent observers have noted: "We must wake up to the realization that we are now a highly open economy, and consequently need to start behaving like one" (Kelkar 2004); "the meaning is clear: what goes on in India is now influenced by global trends" (Ninan 2004).
4. Nagaraj notes: "While the size and growth rate of India's industrial sector and its exports are modest compared to China's, it seems to rest on a firmer microeconomic, legal and institutional footing. India's growth and exports have a much higher domestic content, domestic ownership and are sold under domestic brands. In an increasingly open economic environment, Indian firms have displayed the ability [to] inter-

nationalize their operations with exports and by investing in businesses abroad in a variety of manufacturing and service industries" (2005: 2,170).

5. On the database at the Research and Information System for the Non-Aligned and Other Developing Countries (RIS), Kumar states: "We have computed share of foreign firms in total value-added and total sales in a sample of large private sector companies that are quoted at Indian stock exchanges and included in the RIS Database compiled by extracting information of relevant companies from the Prowess (online) Database of the Center for Monitoring Indian Economy (CMIE). The shares computed on the basis of the sample such as this are useful only to observe trends over time as information is not available from official sources" (2003: 14). Attempts to elicit further information from the author, who is the director-general of RIS, on the database and the selection of foreign enterprises were not successful.

6. See the article "Super 100—India's Best Performing Companies" (*Business India,* October 11, 2004), available at www.iocl.com/story_businessindia.asp. Based on several variables, the ranking is among those companies that are listed on the stock exchanges. It thus excludes those public sector firms in which there is no private equity, some of which are massive. It would seem that the ranking would not have been affected much by the inclusion of foreign firms that are not listed on the stock exchanges, such as Ford India.

   The conclusion on foreign ownership would be substantially similar to another ranking that is based on *net sales* only of firms listed on the stock exchanges. Four foreign firms appear among the top 25 of *BS 1000* (*Business Standard*, January 2004, supplementary brochure)—Hindustan Lever, Maruti Udyog, ITC, and Hero Honda. The list excludes financial services and banks.

7. Among the prominent Indian takeovers of foreign businesses in recent years, quite a few have been by several enterprises of the House of the Tatas, including purchases of Daewoo's truck business division by Tata Motors, Tyco Global Network by the telecommunications firm Videsh Sanchar Nigam Limited, and National Steel of Singapore by Tata Steel. Other purchases by Indian firms include the German forging companies CDP and CDP-AT by Bharat Forge (now the world's second largest forging company), Berger International by Asian Paints, the German maker of specialty polyester fibers Trevira by Reliance, the UK-based maker of molded luggage Carlton International by Dilip Piramal, and the generics business of Aventis by pharmaceutical giant Ranbaxy Laboratories. See the special issue of *BusinessWorld* (June 7, 2004) on globalization (available at www.businessworldindia.com/june0704/coverstory/01.asp) as well as Ganguli and Sriram (2005) and Murti (2005).

8. These include not only several of the IT and pharmaceutical firms, but also other companies, such as United Phosphorous, Bharat Forge, Nalco, Tata Tea, and East India Hotels. In the case of JSW Steel, 49 percent of its revenues are from overseas. Other companies with high overseas revenues include: Sesa Goa (45%), Arvind Mills (41%), Reliance Industries (36%), Cummins India (34%), and Hindalco (24%).

9. What is remarkable is that in twenty-three companies, of which nine were in the Sensex, the stake of the FIIs was higher than that of all the local banks, mutual funds, and public and private companies put together. Indeed, their holdings in HDFC (63.17%), Satyam Computer Services (56.59%) and HDFC Bank (28.99%) were more than that of the promoters (Korgaonkar 2005b, 2005c; Nayak 2005).
10. "The magnitude of FDI/FII flows are tending to be large and volatility has perhaps increased. The impact of such flows on the stock markets is discernible, but perhaps less evident at this juncture in corporate ownership and control. . . . A view needs to be taken on the quantity and quality of FII flows. While quotas or ceilings, as practiced by certain countries, may not be desirable at this stage, there is merit in our keeping such an option open and exercising it selectively as needed, after due notice to the FIIs" (Hindu Online and Hindu Business Line Online, January 13, 2005).
11. "Over the last few years, as the size of the foreign exchange market has increased, it has become even more difficult for the RBI to fix the rate. Today, it is the RBI's frustration at its shrinking power to manipulate the rupee that makes it wish to reduce the size of the market. The increase in the size of reserves is not an outcome of inflows, it is the outcome of RBI buying dollars to manipulate the rupee dollar rate and keep its movements within a narrow band. . . . RBI wants to cling on to their control of the exchange rate, and this can only be achieved by bringing back controls on FII and FDI flows" (Ila Patnaik 2005b).
12. Experts differ on their characterization of Indian exchange rate policy, partly perhaps because the policy itself has not been constant. Some call it a "dirty float" (Sharma 2005, Ninan 2005a). Others refer to it as "a flexible exchange rate policy, not a pegged rate" or "exchange rate flexibility without a fixed rate or a pronounced band" (Venkitarmanan 2005a,b). Still others regard it in certain periods as "tightly managing" or "tightly pegging" the rate (Ila Patnaik 2005a).
13. In 1997–98, the FD/GDP ratio was 4.8 percent and in the subsequent five years it was even higher at 5.1, 5.4, 5.7, 6.2 and 5.9 percent. In 2003–04, it came down to 4.6 percent (GoI 2005: 20).
14. Note Fischer's reservation about developing countries: "It is likely that the Maastricht 60 percent debt-to-GDP threshold ratio is too high for countries subject to much larger interest rate and other external shocks than are the industrialized countries" (2003: 19). For a balanced treatment of the issue in relation to India, see Ahluwalia (2002a) and Acharya (2002).
15. Some critics have speculated that if the present GDP levels had been subjected to taxation rates at the level of 1990-91, there would be abundant resources available for welfare programs. As Sainath comments, "As Professor Patnaik points out: 'The country's tax-GDP ratio, already among the lowest in the world,' sank with the coming of the 'reforms.' What if the Central tax-GDP ratio had stayed the same as it was in 1990-91? 'Then the Center,' he points out, 'would be raising an additional revenue of Rs. 30,000 crore annually at today's GDP'" (2005). There is little merit in

such speculation, however, without also asking what the current levels of GDP would have been without the reforms.

16. The recent controversies about poverty and inequality revolve around the issue of the questionnaire used in the quinquennial CE survey of 1999–2000 not being quite comparable to the one used in the 1993–94 survey or other such surveys. Earlier, households were basically administered a long questionnaire about their consumption expenditures for a uniform recall period of 30 days. But in the 1999–2000 survey, NSSO—which had been experimenting with questionnaire design in some of the annual surveys—used a 7-day recall period in addition to the 30-day recall period, for a certain set of questions pertaining largely to food, referred to as "the food group." This procedure in which the columns for the two recall periods were juxtaposed alongside each other on the same page of the questionnaire—with the 7-day recall period coming before the 30-day period—is said to have contaminated or biased the survey results. Having first answered the questions for the 7-day recall period—the recall for which is likely to be better—the respondents may then have simply mentally extrapolated their responses to the 30-day recall period. Besides, in relation to certain durable goods, the NSSO used only a 365-day recall period in contrast to the earlier practice of using a uniform 30-day recall period. The consequence of this innovation may again have been to raise CE estimates, since the chances of such goods being purchased are likely to increase over a 365-day period than over a 30-day one. The net result of these two changes may have been to elevate CE figures compared to earlier surveys and thus biased upward the subsequent official estimates about decline in poverty.

    These changes in questionnaire design have, of course, provided a field day for the experts. Analysts studying the problem of poverty and inequality in India have employed various techniques, some of them quite innovative, to overcome the problems of comparability between the 1999–2000 survey and the survey in 1993–94 as also the ones in 1983 and 1987–88. They have often taken all three of the CE surveys prior to the 1999–2000 in whole or in part to stand broadly for the record on poverty and inequality before the economic reforms. Additionally, some analysts have used the annual surveys based on "thin" simples to bolster their particular case. Little wonder that they have come up with the kind of different results that are reflected in chart 1 or that there is so much controversy about the issue of poverty and inequality.

    It may well be that there is an element of "overcorrection" in the various analyses, because six weeks into the 1999–2000 survey, NSSO issued instructions to the field investigators to ask questions about the 30-day recall period first and only then about the 7-day recall period. That would mean that, of all the households surveyed, only about 10 percent might have had their 30-day recall responses contaminated by an earlier 7-day recall. However, while some analysts refer to this fact they do so only in passing without taking it into account in their analyses; others simply ignore it or may even be unaware of it.

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About this Issue

This study systematically evaluates the economic consequences of globalization for India in the light of the attack of the critics against globalization on grounds of economic stagnation, "deindustrialization," "denationalization," destabilization, and impoverishment. On the basis of abundant qualitative and quantitative data, it strongly repudiates the case of the critics, and demonstrates that India has been a significant beneficiary of the globalization process. Instead of economic stagnation, India has seen acceleration in its average annual rate of economic growth. Instead of deindustrialization, there has been substantial industrial growth and, indeed, acceleration in the industrial growth rate. Instead of denationalization, business in India is now more competitive and is venturing forth into the global market; increased imports and the entry of foreign multinationals have not swamped it; essentially, India is master of its own destiny. Instead of economic destabilization, there has been since the paradigm shift in economic policy in 1991 a marked absence of economic crisis in India. And, instead of impoverishment, India has seen a long and unprecedented period of welfare enhancement since it began its reintegration into the world economy in 1975; there has been a secular decline in poverty since then, while inequality has not increased much. The policy conclusion that flows from this experience is that India ought to be, in general, more open to globalization in the interest of sustaining the acceleration in economic growth and enhancing the welfare of its people. To this end it should push forward with the reform agenda.

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