India 2018: Performance in the Global Economy

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ABSTRACT

During the second half of the 20th century, the world evolved into an increasingly unifying global economy with the promise, and in the expectation, that the synergy of specialization combined with free trade would create equal opportunity for all countries to prosper. However, an opportunity is just that—an opportunity, and not a guarantee. To benefit from this opportunity, the first step necessary was for a country to accept the principles of open and free trade. Further, to create real prosperity and sustain it, a country must become an effective marketer of what it is uniquely qualified to offer the world— finished goods, raw and semi processed materials. And then, the country must use the resources so generated to buy the goods and services it needs from the rest of the world and employ them effectively to deliver prosperity to its citizens.
This paper will use this framework and these criteria to analyze and evaluate India's performance in the global economy.

INTRODUCTION

Some of the fundamental changes in the world's political and economic landscape in the second half of the 20th century constitute the genesis of globalization. Important changes among them are as listed below:

1. UN Monetary and Financial Conference (1944) Bretton Woods, NH, resulted into the creation of 3 important global trade institutions namely,

● IBRD (International Bank for Reconstruction AND Development) that evolved into the World Bank Group

● IMF (International Monetary Fund) – for stable currencies

● ITO (International Trade Organization) – and idea that did not become a reality; but resulted into 8 rounds of GATTs (General Agreements for Tariffs and Trade), and finally evolved into the WTO 1995 (World Trade Organization)

(Bretton Woods Conference 1944)

2. Increasing acceptance of Free Market System by the countries of the World

3. Formation of Regional Cooperation and Integration Groups

4. Rapid advances in information technology and resultant low cost instant communications across the world

5. Rapid development of transportation and communication infrastructure and the resultant easy, rapid, reliable, and relatively inexpensive transportation across the world

6. The Silent Education Revolution in low-wage developing countries like China, India, and Russia that created creating large pools of educated and technically skilled graduates and transformed these countries into attractive destinations for manufacturers in high wage developed countries, offering them low cost, efficient, and ready workforce where they could instantly transfer their manufacturing operations and produce their products at the lowest possible costs. (Zakaria 2008).

These changes effectively broke down old boundaries and barriers that compartmentalized the world into continents, regions, countries, states, nations, and other economic and political blocs, and in some sense unified the world. By the end of the 20th century, free trade had become the norm in the new globalized world economy, which, when combined with specialization, created the opportunity to spread prosperity among all. (Adam Smith 1776; David Recardo 1817).

However, to benefit from this opportunity, a country had to first accept the principles of open and free trade and open its economy to the world. Next, to create real prosperity and sustain it, the country had to become an effective marketer of its unique offerings to the world— finished goods, raw and semi processed materials, and services. Finally, the country had to use the resources so generated to buy the goods and services it needed from the rest of the world and employ them effectively to create and deliver prosperity to its citizens.

This paper will use this framework to first trace India's political and economic evolution into a wholehearted participant in the world economy by the end of the 20th century. Further, it will analyze and evaluate India's performance in the global economy in creating and delivering prosperity to its citizens.

INDIA'S EVOLUTION FROM AN OUTSIDER TO AN ENTHUSIASTIC PARTICIPANT IN THE FREE TRADE MOVEMENT

FIRST FOUR DECADES SINCE INDEPENDENCE 1947-1980

In 1947, India gained its independence from the British rule and began its drive to become a model socialistic democracy pursuing the goal of economic self-sufficiency. These socialistic ideals combined with the lack of domestic capital needed for major investments, meant that only the central government could and therefore, must play an important and direct role in creating the infrastructure and core industries critical to the long-term growth.

The central government controlled all important aspects of the country's economic life in these years. The government took several measures to ensure sheltered markets for the creation and growth of domestic manufacturing industry. It used tariff and nontariff trade barriers to control imports, restricted foreign as well as domestic competition through licensing of all medium and large-scale manufacturing industries, imposed price controls, nationalized banks, regulated foreign and domestic investment, and imposed very tight controls on use of foreign exchange for trade, travel, and tourism. Further, the government undertook actual distribution of all essential commodities to ensure that these goods and services were supplied to all segmentations of the population equitably and at fair prices. To maintain its independence from the competing economic and political superpowers of the world, the government created and joined the bloc of countries pursuing the principles policies of nonalignment.

However, like all protectionist measures, these policies became self-perpetuating and self-defeating at the same time. They eliminated external competition and limited internal competition among manufacturers and marketers, which eliminated the major driving force that forces quality improvements and cost reductions. The industries loved the sheltered markets that allowed them to continue selling their substandard and expensive products within the country, and earn high, and virtually guaranteed returns on their investments. Moreover, since these returns at home were far higher than those possible in international markets, they had no incentive to export their products which would require them to improve quality and reduce prices. They worked with the politicians and made sure that the protectionist policies perpetuated as long as possible. Indian consumers bore the heavy costs of these policies: they paid high prices for the limited selection of substandard quality products year after year and stood in long waiting lines for the limited supply of life’s essentials. The masses continued to live in virtually stagnant economic conditions, declining living standards, and very little hope for the future through the 1970s. (Joag 2017)

On the international front, Indian politicians tried to present the country as a model democracy and a positive force in the world by founding the nonalignment movement, and pursuing a proud, independent foreign policy grounded in high moral standards. However, the country continued to have the problems of poverty, income inequality, and very high population growth rates which virtually wiped out any positive effects of its anemic economic growth. Rampant corruption at all levels of government also gave the country a bad name in the international community. Thus, with almost no visible accomplishments to boast about, the country had insignificant impact as a moral force in world politics. (Joag 2017)

INTERNAL LIBERALIZATION OF THE 1980s

Realizing that the inherent inefficiencies of these choices made these policies unsustainable, in the 1980s the government was forced to begin the policy of internal liberalization (Reddy 2006). The licensing controls on domestic manufacturing were liberalized to encourage internal/domestic competition so as to increase productivity, reduce costs, and potentially prepare the country to compete internationally.

These policies though necessary were not sufficient. Even though, they increased the country’s GDP (Gross Domestic Product) growth rate to 6% per annum in the short run, the effect was not sustainable. In 1991, India experienced payments crisis due to the high debt, growing demand, and high prices of oil imports. In response, Indian government was forced, rather reluctantly, to take urgent steps toward external liberalization by dismantling age old barriers to foreign trade and investment.

EXTERNAL LIBERALIZATION OF THE 1990s

In the 1990s, the government liberalized its policies both internally and externally. Internally, the government continuously relinquished its monopoly of more and more areas of economy hitherto reserved for public sector and opened it to the private sector. Externally, the government gradually relaxed restrictions on import of goods and services and reduced import duties. Even more importantly, the country now welcomed and, in fact, actively pursued foreign direct investment.

As a result, India experienced an economic boom that was impossible even to dream of in the past. A huge number of new jobs were created in the country due to several factors. There was outsourcing of manufacturing operations, and information and communication technology services from high-wage economies of the US, the Western Europe and Japan primarily to reduce costs. Simultaneously, many companies in the developed countries set up high-tech manufacturing operations, cutting-edge research laboratories, remote medical diagnostics, subsidiaries to handle back-office functions to take advantage of the skills and creativity of highly trained workforce now available at a fraction of the cost. Large multinationals moved new ventures and expansions of their existing operations to India through foreign direct investment creating new industries and jobs. Finally, increased trade in traditional and new goods and services created many new jobs across all sectors of the economy.

One benefit of India's slow and cautious approach to liberalization was that it minimized its negative impact by giving the domestic public and private sector industries time to adjust to the new realities and prepare to face the upcoming global competition in domestic and international markets. By the time the new millennium arrived, the domestic public sector and private sector institutions had the skills and the mental makeup necessary to sustain growth rates as high as 8 percent per year (Reddy 2006).

INDIA'S ENTHUSIASTIC PARTICIPATION IN THE GLOBAL ECONOMY 2000-2018

Realizing the enormous benefits these policies have brought to the country, India has not only continued these policies in the 21st century but has started participating in in all aspects of the global economy with unprecedented enthusiasm and excitement. India's current prime minister has gone on numerous whirlwind tours of the world as the country's premier ambassador, not only actively promoting the India brand and its new welcoming attitude towards international community, but actively courting all avenues of trade and investment.

EVALUATING INDIA'S PERFORMANCE IN THE GLOBAL ECONOMY

India's reluctant, very slow, and very late participation in the global economy can be judged as no less than a thundering success. The economy has consistently grown at the rates of 7 to 10 percent per annum. The country's GDP has shown a very impressive all-round growth in agricultural, industrial, and service sectors of the economy. The country's current account balance though improved, has fluctuated due to improved export performance combined with increasing needs for import of goods and services. The country's foreign direct investment has made huge strides.

Exhibit 1 presents chronological data on several economic indicators available as of May 2018. The data shows strong performance of the Indian economy in virtually all sectors and suggests that the pace is likely to sustain in the near future. Foreign direct investment too recorded unprecedented growth rate and the pace was expected to continue.

EVALUATING INDIA'S PERFORMANCE: DELIVERING PROSPERITY TO ITS CITIZENS

Despite these gains, India has continued to struggle to effectively deliver its new found prosperity to all segments of its society. This has been the effect of two independent factors. First, the country's economic growth has been primarily in manufacturing and service sectors, to the exclusion of agriculture. Since these sectors are concentrated in cities and urban areas, main gains of the economic boom have been in the metropolitan and urban areas, and among white and blue collar, educated, and technically skilled segments of the population. However, relatively little has changed in the performance of its agricultural sector. And, since 42% of the country's employment is in agriculture, a very sizeable section of the society has yet to see any significant improvement in its fortunes.

CONCLUSION

India has evolved from a reluctant participant forced into the global economy out of compulsion in the last two decades of the 20th century to an enthusiastic and very active participant and supporter of globalization in the 21st century. This sea change in the country's attitude has been as much the result of the enlightened political leadership as due to the enormous economic gains the country has reaped from globalization. It is expected that the country will continue to pursue this path and become an emerging world power in the next few decades.

These developments have also changed the world's perception of India in many ways. In the past, India's used to be perceived as an example of a typical third world developing country characterized by dire poverty, uncontrolled population growth, rampant corruption, and a people deserving world's sympathy, help, and handouts. In its place, today, the country is perceived as a reservoir of intelligent minds, and skilled and hardworking people who can compete with and match the best in the world, given necessary infrastructure and resources.

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EXHIBIT 1
INDIA'S ECONOMIC PERFORMANCE 1980-2016
Source: World Development Report, the World Bank

Indicator Name	1990	2000	2010	2016
Population				
Population, total (millions)	870.13	1,053.05	1,230.98	1,324.17
Population growth (annual %)	2.1	1.8	1.4	1.1
Labor force (millions)	328.6	405.2	470.6	504.0
GDP				
GDP Current M$	986,925	2,082,560	5,312,420	8,700,620
GDP PPP M$	316,697	462,147	1,656,620	2,263,790
GDP Annual Growth %	5.53	3.84	10.26	7.11
GDP by Sector				
GDP PPP (current US$) (billions)	316.7	462.15	1,656.62	2,263.79
Agriculture, value added (% of GDP)	30	24	19	17
Industry, value added (% of GDP)	32	31	32	29
Services, etc., value added (% of GDP)	38	45	49	54
Exports				
Commercial service exports in current US$ (million $)	4,625	16,685	117,068	161,819
Merchandise exports in current US$ (million $)	18,286	43,247	230,967	268,615
TOTAL	23,347	62,453	357,996	445,919
Exports of goods and services (% of GDP)	7	13	23	19
Imports				
Commercial service imports in current US$ (million $)	6,090	19,188	78,913	95,923
Merchandise imports in current US$ (million $)	23,437	53,887	360,146	376,090
TOTAL	33,220	80,489	464,622	514,859
Imports of goods and services (% of GDP)	9	14	27	21
Current Account Balance				
Current account balance (% of GDP)	-2.22	-1.00	-3.29	-0.54
Current account balance (BoP, current US$, Billions)	-7.0	-4.6	-55.0	-12.0