

National Seminar on ' Indian Business through the Ages'

"Effect of Globalization on India's Economic Growth"

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Globalisation has defied a commonly accepted definition. It has meant different things to different people. Many people across the world , increasingly cite rampant Globalisation as the reason for the economic mess and slow down . Is it so? Are we getting more emotional, than rational about a reality of economic forces? Are we wanting the 'upside' of Globalisation without its ' side effects'? Many questions- very few answers for the common man.

1. What is Globalisation?

Globalisation is the 'sharper and continuing integration of the world economy, while economic liberalisation refers to deregulation and decontrol of the in a national economy'- Baldev R Nayar-(1)

Stephen Gill(2) defines "globalisation as the reduction of transaction cost of transborder movements of capital and goods thus of factors of production and goods".

Staying with this definition, Globalisation is therefore an upside to the end customer/consumer. This is due to reduction/elimination of 'Intermediary costs' of moving product from supplier to the consumer.

Guy Brainbant(3) says that the "process of globalisation not only includes opening up of world trade, development of advanced means of communication, internationalisation of financial markets, growing importance of MNC's, population migrations and more generally increased mobility of persons, goods, capital, data and ideas but also infections, diseases and pollution.

According to Dr: C Rangarajan(4), "Broadly speaking, the term 'globalization' means integration of economies and societies through cross country flows of information, ideas, technologies, goods, services, capital, finance and people'. He goes on to say,"cross border integration can have several dimensions – cultural, social, political and economic. In fact, some people fear cultural and social integration even more than economic integration. The fear of "cultural hegemony" haunts many. Limiting ourselves to economic integration, one can see this happen through the three channels of (a) trade in goods and services, (b) movement of capital and (c) flow of finance. Besides, there is also the channel through movement of people

These two definitions alert us that a phenomena cannot be 'contained' to its upsides only- however much we may wish it that way. The rose flowers in a plant full of thorns. 'Mobility' is physical and 'virtual'. Mobility, in context of Globalisation, also means ideas/thoughts/ideologies flow like capital, from one part of the world to another.

Globalisation and integration of markets across geographies have been around for many centuries. However, "what is striking in the current episode is not only the rapid pace but also the enormous

impact of new information technologies on market integration, efficiency and industrial organization. Globalization of financial markets has far outpaced the integration of product markets', according to Dr C Rangarajan.

The Merits of Globalization that are normally highlighted are :

- There is an International market for companies and for consumers there is a wider range of products to choose from.
- Increase in flow of investments from developed countries to developing countries, which can be used for economic reconstruction.
- Greater and faster flow of information between countries and greater cultural interaction has helped to overcome cultural barriers.
- Technological development has resulted in reverse brain drain in developing countries.

The Demerits of Globalization cited are :

- The outsourcing of jobs to developing countries has resulted in loss of jobs in developed countries.
- There is a greater threat of spread of communicable diseases.
- There is an underlying threat of multinational corporations with immense power ruling the globe.

For smaller developing nations at the receiving end, it could indirectly lead to a subtle form of colonization

2. Globalisation- Impact on India:

India opened up the economy in the early nineties following a major crisis that led by a foreign exchange crunch that dragged the economy close to defaulting on loans.

The response was a slew of Domestic and external sector policy measures partly prompted by the immediate needs and partly by the demand of the multilateral organisations. The new policy regime radically pushed forward in favour of a more open and market oriented economy.

Some of the steps taken included:

- a. Devaluation: To solve the balance of payment problem Indian currency was devaluated by 18 to 19%.
- b. Disinvestment: To make the LPG model smooth many of the public sectors were sold to the private sector.
- c. Allowing Foreign Direct Investment (FDI): FDI was allowed in a wide range of sectors such as Insurance (26%), defense industries (26%) etc.
- d. NRI Scheme: The facilities which were available to foreign investors were also given to NRI's.

Over the years there has been a steady liberalisation of the current account transactions, more and more sectors opened up for foreign direct investments and portfolio investments facilitating entry of foreign investors in telecom, roads, ports, airports, insurance and other major sectors.

The Indian import tariff rates reduced sharply, over the decade -from a weighted average of 72.5% in 91-92 to 24.6 & in 96-97. Though tariff rates went up slowly in the late nineties; it touched 35.1% in 2001-02

2.1

The liberalisation of the domestic economy and the increasing integration of India with the global economy have helped step up GDP growth rates, which picked up from 5.6%(1990-91) to 7.78% (1996-97).

Post 1991, GDP growth rate has been average 5.9% (2000/01-2004/05), vis a vis 5.5% (1975/76-2004/05) and 3.4% (1956/57-1975/76). Post 2004/05 , India recorded growth in the range of 7 to 9%. India is 2nd only in economic growth rate, compared to China.

Globalisation in the form of increased integration through trade and investment is an important reason why much progress has been made in reducing poverty and global inequality over recent decades.

2.2

The percentage of the Indian population ("below the poverty line") has decreased from 46.54 %(1961-62) to 26.1%(1999-2000).

The level of inequality(measured by Gini Coefficient) has neither dramatically increased nor decreased.(31.08 for 1962-73) &(31.1 for 1994-2000. In Asia, there is no other country that has a lower Gini Coefficient.(5 and 6)

The reduction in poverty levels cannot and should not be attributed only to Globalisation. (The post 2008 global economic slowdown confirms this assessment). What has also improved- though not recognised as much as it should- are enabling good national policies, sound institutions and domestic political stability..

However, the paradox is, despite the 'above progress', Poverty remains one of the most serious international challenges we still face,

ie: Approximately, 1.2 billion people of the developing world's 4.8 billion people still live in extreme poverty- of which a significant portion live in India.

The growth of Indian economy very much depends upon rural participation in the same. Other enablers that have to be developed include technological entrepreneurship, new business openings for small and medium enterprises, importance of quality management, new prospects in rural areas and improvement in food supply chains.

2.3

One of the major forces of globalization in India has been in the growth of outsourced IT and business process outsourcing (BPO) services. Taking advantage of India's lower cost but educated and English-speaking work force, and utilizing global communications technologies such as voice-over IP (VOIP), email and the internet, international enterprises have been able to lower their cost base by establishing outsourced knowledge-worker operations in India.

3. Globalisation, Economic Development and Citizen Wellbeing:

Many question the 'quality' of economic development and its trickle down benefits to the 'Aam Aadmi.' The Human Development Indices (HDI: United Nations compiled) do reflect dilemmas. In the 2011 Report, India is languishing at 121 (list of 169 countries).

Given below is a table showing India's HDI indices over the past 10 years, vis a vis India's GDP growth rate for the same period:

Source: UNDP Report (7)

Year	India	World
1980	.344	.558
1990	.410	.594
2000	.461	.634
2010	.542	.682

How can, then, one axiomatically state that Globalisation has led to positive economic growth which in turn should have had positive effects on the well being citizen and the nation of India? If this is true, then the HDI rankings is a shame or a 'mistake'! Both indicators are essentially accurate and yet the causal effect is not explained for.

The question(perceptual or not) is whether Globalisation accelerated economic development should be the focus/goal or should economic development be shaped within the contours of the desired society we want to be part of.

This paper attempts to stratify this big question by understanding and surface some key issues/challenges and suggest possible ways forward.

4. Happiness and Economic Development:

"At present, we are stealing the future, selling it in the present, and calling it GDP'.(8).

One of the countries which has tried to walk a different path is Bhutan. This was first propounded by King Jigme Singye Wangchuk, in 1972. This nation had decided not to treat GDP growth rate as the single most important indicator of citizen wellbeing. The basic idea behind this concept, is that not only material well-being, but the composite satisfaction of material and spiritual well being should be at the centre of development.

Stehlik-(9) says , I quote, Gross National Happiness(GNH) as ' a wonderfully fresh, yet familiar , paradigm, one which proactively deflects attention from the sinking paradigms of the past.'

The Bhutanese grounding in Buddhist ideals suggests that beneficial development of human society takes place when material and spiritual development occur side by side to complement and reinforce each other.

Lyonpo Jigme Y Thinley (10) proposes, 'GNH is being presently pursued through four platforms: economic development, environmental preservation, cultural promotion and good governance. Gross National Happiness Index(GNHI), has 9 dimensions.

Please see table below :

- * promotion of sustainable development,
- *preservation and promotion of cultural values,
- *conservation of the natural environment,
- *establishment of good governance.

With this 'lens view', the concept of GNH is transcultural—a nation need not be Buddhist in order to value sustainable development, cultural integrity, ecosystem conservation, and good governance.

The Centre for Bhutan Studies further defined these four pillars with greater specificity into eight general contributors to happiness:-

- *physical, mental and spiritual health
- * time-balance
- *social and community vitality
- * cultural vitality
- * education
- * living standards
- * good governance
- *ecological vitality.

Although the GNH framework reflects its Buddhist origins, it is empirically proved research in literature of happiness, positive psychology and wellbeing.

I quote, "Finally, the authors focus on psychological interventions that increase individual happiness. In a 6-group, random-assignment, placebo-controlled Internet study, the authors tested 5 purported happiness interventions and 1 plausible control exercise. They found that 3 of the interventions lastingly increased happiness and decreased depressive symptoms. Positive interventions can supplement traditional interventions that relieve suffering and may someday be the practical legacy of positive psychology.' (Seligman, Martin E. P.; Steen, Tracy A.; Park, Nansook ; Peterson, Christopher)-(11)

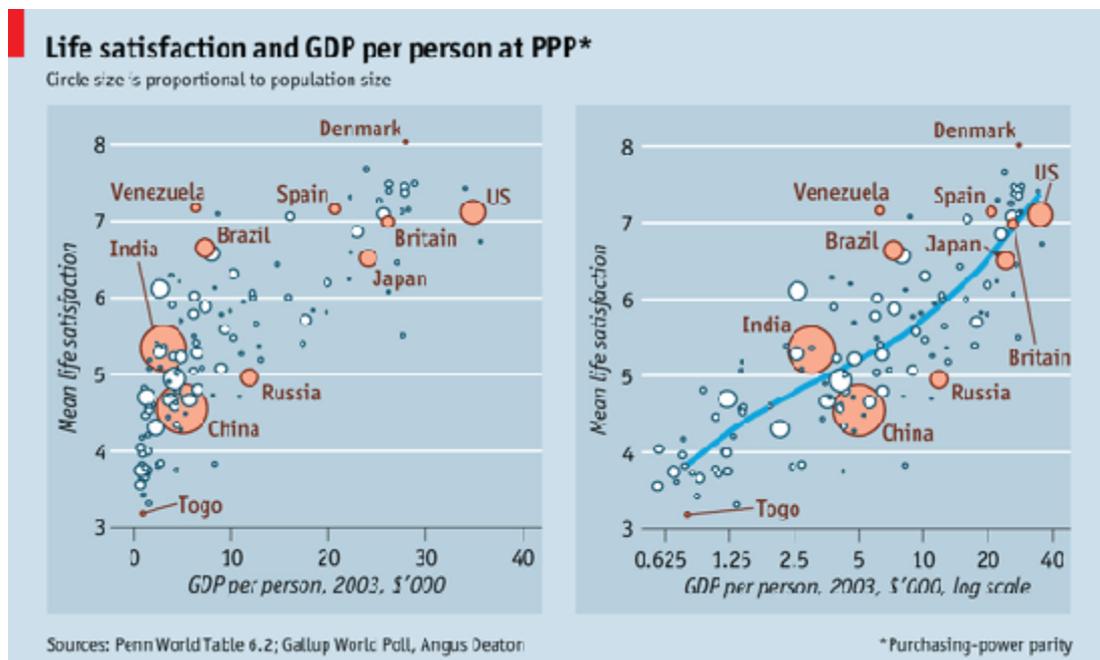
Bhutan's experiment confirms that economic development perse is not necessarily and directly proportional to the society/citizen's well being.

It is ONE of the important dimensions. The concept of 'Development' is broader and multi perspective in nature. How does one explain ,otherwise, nations and citizens who earn less seem to be no more unhappier as those who are earning in millions. Happiness cannot be 'bought' for an 'economic price', however large or high it be.

Research has shown more than in one instance that Happiness is a state of mind and not a product of one's ability to earn and/or spend. It is a state of flow- one never works towards Happiness(Hindu ethos) as a destination- the happiness is in the journey?

Research has also shown that the levels of happiness in countries where the Gross Income is high/high quality of life is always not necessarily correlated in a positive relationship- particularly when comparing across countries.

Relatively higher levels of Happiness can coexist with medium income levels /quality of life (Please see table below):



Hence, Gross National Happiness Index PLUS economic development (as in GDP growth) could be an alternative superior way forward to enhance citizen well being of a country.

For successful operational sing, further work needs to be done in:

a) Defined in a form, that it can be understood and used- both in Bhutan(the originator) and beyond

b) To be valued as an alternative concept, there must be clear distinction between GNH and other developmental indicators such as HDI

c) The status of GNH in a country has to be measurable, and then measured

The potential definitions could have a global dimension and a local flavor.

5. Economic Development and Human Development Index(HDI):

The HDI, surveyed and listed , annually, by United Nations, tries to reflect the need to view GDP, alongside other indicators of citizen well being.

The Human Development Index(HDI) is a comparative measure of life expectancy, literacy, education and standards of living for countries worldwide. It is a standard means of measuring well-being, especially child welfare. It is used to distinguish whether the country is a developed, a developing or an under-developed country, and also to measure the impact of economic policies on quality of life. The index was developed in 1990 by Pakistani economist Mahbub ul Haq^[2] and Indian economist Amartya Sen^[3].

It is hence not a surprise that the Nordic countries (Norway as an example) have been topping the list of HDI , for many years.

It is also well known that in these countries, while a certain level of economic growth has happened/is happening, the society has been invested upon in many quality of life improvement interventions.

Some of them , for eg: longer periods of paternity/maternity leave for looking after newly born children, significant mandatory representation of women on to the Boards of Public Limited companies.

The following table shows the data on countries, comparing the HDI rankings, GDP growth and other indicators: -2003- Source: UNDP

*HDI of India was 127 WHILE India was at 122 rank - GDP per capita 3344USDpa

*HDI of Norway- Ranked 1 WHILE its GDP per capita- 42363USDpa(Rank 1)

*HDI of USA- Rank 10 WHILE its GDP per capita-41399 USD pa (Rank 3)

In the past decade, India- among the top 10 movers on GDP growth-still ranks a low 119 among 169 countries(2010 Listing). China has been ranked much higher at 89 on the same index.

This throws up the reality that nature of the governance and government (more autocratic in China and more liberal democracy as in India) is not necessarily correlated as would suggest, in the higher ranking countries list.

Given below is a table which shows the top 12 nations , as to how they have fared on the HDI rankings, over a 35 years period(1975-2005)- (12).

India and China's rankings are presented at the lower end of this Table:

Rank	Country/Region	1975	1980	1985	1990	1995	2000	2005
1	Iceland	0.868	0.89	0.899	0.918	0.923	0.947	0.968
2	Norway	0.87	0.889	0.9	0.913	0.938	0.958	0.968
3	Australia	0.851	0.868	0.88	0.894	0.934	0.949	0.962
4	Canada	0.873	0.888	0.911	0.931	0.936	0.946	0.961
5	Ireland	0.823	0.835	0.851	0.875	0.898	0.931	0.959
6	Sweden	0.872	0.882	0.893	0.904	0.935	0.952	0.956
7	Switzerland	0.883	0.895	0.902	0.915	0.926	0.946	0.955
8	Japan	0.861	0.886	0.899	0.916	0.929	0.941	0.953
9	Netherlands	0.873	0.885	0.899	0.914	0.934	0.947	0.953
10	France	0.856	0.872	0.884	0.907	0.925	0.938	0.952
11	Finland	0.846	0.866	0.884	0.906	0.918	0.94	0.952
12	United States	0.87	0.89	0.904	0.919	0.931	0.942	0.951
81	China	0.53	0.559	0.595	0.634	0.691	0.732	0.777

128	<u>India</u>	0.419	0.45	0.487	0.521	0.551	0.578	0.619
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The above analysis shows the economic growth –the presence of it or the relative absence of it- has not dislodged the HDI scores of the top 12 (Range in 1975 was .002 and .036 in 2005)

The range for China on the other hand (.247) while for India it is only .020)

6..Balanced Score Card AND Economic Development measurement:

It has been now established, empirically and otherwise, that corporate organisations which focus only on enhancing profits are not necessarily going to be successful over a long period of time. Profits is , as a performance measure, records history. Profits are no indication of future success of the organisation. Profits track has to be done along with a combination of measures which holistically reflect the true health of the company.

It is in this context, Balanced Score Card framework has emerged as a strong contemporary concept -in Business Strategy Development and Performance Measurement for companies(not for profit, government included).

This framework provides a balance portfolio of measures- integrating customer, financial, processes and Learning and Growth of employees .The first two set of measures are outcomes while the other two are 'means to the end'. Hence financial metrics(including profits) and customer satisfaction enhancement has to be channelised through well thought and differentiated processes and capable human resources.

This framework also introduced the concept of lag and lead indicators. The latter are those dashboard performance metrics that appear earlier and give comfort/lack of to the achievement of the planned lagging indicators. For example, the success of a new product launch(lagging indicator) has to be tracked through a suite of leading indicators , eg: number of consumer trials, number of repeat purchases etc.

I see the concept of Balanced Score Card to be of great value for measure the true and multidimensional health of a nation/society/people. The Score Card is a reflection of the priorities of the leaders and others who influence action and results for the well being of the aam aadmi. The score card is a reflection of the manifestos, which political parties utilise to attract voters during election campaigning.

As there is no framework to measure on a continuous basis(until the next election) the manifesto , it is no surprise, that the manifestos fade into the background. At best, one can also affirm that the government and politicians have done only half a good job of even communicating and influencing public opinion for positive initiatives and policies eg: RTI Act

7. Sustainability and Economic Development:

The above contexts set the stage for what could be another framework that could integrate enhancing the quality of living of large numbers of the population AND economic development that is good and sufficient, in other words, Sustainable Development.

Sustainability factors in 'carrying capacity' of the larger eco system and its interdependence- the planet, the society and the fruits of economic development, Profits.

John Elkington in his seminal framework of "Tripe Bottom Line' gives us an opportunity to integrate economics and living processes.

Sustainability , using a Triple Bottom Line approach, ensures that the 'coherence' of the forces of economic development and quality of living and reduction in wide disparities. This is achieved by posing the question, 'is this the right thing to do, even if it means the 'things are being done right!'

Sustainable Development requires a different type of leadership- responsible leadership, that acts and walks the talk, in the best interest of all key stakeholders.

8. Closing:

I would like to end this paper with this prescient quote: 'If the firms that employ an increasing majority of the population are driven solely to satisfy the owner's greed at the expense of the working conditions , of the stability of the community, and of the health and the environment, chances are that the quality of our lives will be worse than it is now(Mihaly Csikszentmihalyi)

References/Acknowledgements:

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- 2) Stephen Gill's paper
- 3) Guy Brainbant(3)
- 4) Dr: C Rangarajan
- 5) and 6) Gini Coefficient
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12) "National Happiness : Universalism, Cultural Relativism, or both?- An Assessment-
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