India and the World
Understanding New Modes of Engagement

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Abstract

From being classed as an “emerging” economy for many years, India has, partly on the back of its robust growth performance since the early-2000s, earned recognition as a global power in the making. This is reflected in a new spirit of assertive self-confidence within official circles and a vigorous “can-do” attitude within India’s business community. Internal political consensus though, seems elusive and India’s many regions of endemic conflict show little sign of sharing in the drive towards global power status. Poverty and under-nutrition remain areas of serious concern. Though procedures of statistical estimation have been contentious in recent times, there is now conclusive evidence that the optimism of the early years of the millennium, that a dent had been made in poverty, was misplaced. A host of progressive legislation has been introduced in recent years, backed up with seemingly solid fiscal commitments in areas such as employment and education. But the foundations remain infirm and since the global financial meltdown of 2007-08, there have been grounds for worry that the sources of India’s economic growth have themselves become rather narrow. Inflation remains a worry and a deeper analysis of its causes might indicate that some of the new fiscal commitments may be unsustainable without other tough decisions being made. India remains a major presence in global councils dealing with issues of consequence, such as multilateral trade and climate change. From being a bulwark against efforts to impose inequitable agreements on the developing countries, India has of late been seen as a voice for positive change. The country’s stature in global disarmament councils though, stands diminished and its potential to contribute positively in most other forums still remains to be proved. Focused and sustained civil society action could nudge the policy establishment towards options that mean a positive difference for the world’s poor.

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Where pretence ends and reality begins

Headline news in much of the country’s media in the month of June, blazoned a 50% increase in the number of millionaires in India. This was among the sharpest rates of increase that any country had witnessed. And yet with all this, the total number of millionaires in India in 2009 stood at just over 120,000, a paltry number for a country of 1.2 billion people. If the importance given to a matter involving this number should seem an index of skewed priorities, the point as emphasised by Merrill Lynch Wealth Management, which carried out the study, was different. Despite the financial turbulence in the world economy, levels of wealth among high-net worth individuals had increased. This pointed to the sound underpinnings of the growth story, said Merrill Lynch, adding for reassurance that India’s wealth is not a bubble, since “Asia has caught up with Europe in terms of its high-net worth population and their wealth”.

Just in case it were to be thought that India’s growth story is just about the creation of millionaires, the Union Government has over recent months been showing great seriousness of intent in increasing budgetary commitments towards basic human needs. Early in August, Finance Minister Pranab Mukherjee spoke of a possible outlay of Rs 2.31 billion (Rs 2,31,000 crore) over three years to create the infrastructure that would make the right to education a reality for all Indians. Following this, the next two priorities of the Government he said, would be to make the rights to food and health operative. This level of ambition he said, would have been beyond imagination in the 1980s when the Government, despite best intentions, found itself stymied in all efforts to directly address poverty. What had made the unthinkable a distinct possibility was the turning of a page in the 1990s, which made India’s contemporary and ongoing growth story a reality.
Just how far India needs to go in terms of basic needs fulfilment became starkly clear when the Oxford Poverty and Human Development Initiative (OPHDI), announced a significant reformulation of the measure of poverty, which will be integrated into the twentieth edition of the U.N. Development Programme's authoritative annual publication: the Human Development Report. The headlines here, coming soon after the cheerful news on India's millionaires being a fast-growing tribe, were distinctly unflattering. Working with a wider definition of poverty than has so far been customary, the OPHDI found that the eight poorest states of India have no fewer than 421 million people deprived of the basic requirements of a decent life. Indeed, the number of the poor in just these eight Indian states is higher than in the 26 poorest countries of Africa. The intensity of poverty in Africa is greater; but its magnitude in just eight states of India is wider.\(^3\)

**Poverty and global voice**

This was the second rude wake-up call for the Indian policy establishment in just over six months. In November 2009, an expert group tasked with ending the long-running argument over poverty trends since India stepped on to the pathway of liberalisation and globalisation, came up with an answer that was, from the perspective of the new policy orientation and its partisans, good in some respects, but bad in most. Poverty measures, the Expert Group admitted, had been badly askew in failing to address the vast changes in economic realities since 1979, when a "poverty line" was fixed in terms of a daily nutritional intake for both the rural and urban population. This was then converted into a monetary equivalent using prices applicable at the time. Ever since, the poverty line in its monetary value, has been updated annually using the relevant consumer price index.

This method obviously fails to capture the many material changes that have taken place in production and consumption patterns, including the increasing dependence upon commodity exchange rather than subsistence farming or payments in kind, the erosion of common property resources, and a variety of other circumstances. The 1979 estimate of poverty for instance, provided no room for an individual's or a family's health care needs, since those were days when public delivery of health services was considered an entitlement. Today, with the reality of India's public health care system a large and growing scandal, there is a need to revisit that rather complacent assumption.

Recent policy decisions in the realm of education may have made a difference to the poor in terms of the access they have to publicly-funded institutions. The Supreme Court in 2002 decreed that government schools all over the country should introduce mid-day meals for all enrolled students with immediate effect. This directive has been implemented patchily, but surveys in states that were positive and responsive to this judicial decree, such as Rajasthan, have shown that school enrollment did indeed, increase as a consequence of the noon feeding programme.

Though educational access is not formally among the variables that goes into the poverty index, the derived impact on nutrition is something to be taken into account.

Noon feeding in schools relieves the typical family that lives on the margin of subsistence of the anxiety that a child sent to school any given day, might detract from economic earnings that particular day. Schooling for the poor is not about terms of years, but a day to day struggle. In terms of economic theory, the "opportunity cost" – i.e., the earnings foregone –
by sending children to school, even when education is free, is neutralised by the provision of noon meals.

The noon-meals programme also sets free the care-giver within the family -- the mother or the older sister -- to partake of economically earning activities and to supplement family earnings. While providing for better nutrition levels and reduced anxiety among female care-givers who are compelled to enter the labour market, noon feeding has contributed to poverty reduction in sparing the typical household the expense of providing one meal for its children. The rest of the family would conceivably enjoy better earnings and derivatively, improved access to nutrition and the other necessities of life, for the 180 days a year that the children are at school. The broader impact on poverty will have to wait one generation, when the children who gain an education today, grow to adulthood.

The poverty estimates that are available though, do not pertain to any moment in time when the noon feeding scheme may have had an impact for the better. Poverty is estimated on the basis of consumer expenditure surveys conducted by the National Sample Survey (NSS) Organisation every five years. The last available sample is from 2004-05 and all the arguments so far have revolved around this and two earlier surveys, of 1999-2000 and 1993-94.

A serious dissonance in the whole debate was introduced in the 1999-2000 round, which asked respondents about their consumption of certain of life’s necessities and indulgences, over three distinct recall periods: one week, one month and one year. As experts pointed out then, this contaminated the data at source, rendering it incompatible with earlier estimations.

Simply for this reason, official claims that India had made significant inroads in the battle against poverty in the years of liberalisation, proved contentious. In the official narration, poverty both in terms of ratio (i.e., people living in poverty as a percentage of population), as well as absolute number, had shown sharp declines between the consumer expenditure surveys undertaken in 1993-94, 1999-2000 and 2004-05. More serious scholars, who were by no means hostile to the programme of liberalisation, thought these claims rather overstretched. Certain among them, such as Angus Deaton of Princeton University, were prepared to concede that there had been a fall in the poverty ratio, though of not sufficient magnitude to make a dent in the absolute number of the poor. Others such as Abhijit Sen argued that the decade following 1995 had been a lost decade in the war against poverty, since the number of the poor had actually increased.4

The November 2009 expert group report, proposed a formula that would address the adequacy - or otherwise - of the poverty line measure as a representation of reality. Its inference was that if a broader definition were to be used, that took into account levels of not merely nutrition, but also other basic needs such as health, education and shelter, then the incidence of poverty is much greater than originally thought. And though there is no serious basis to question that the “comparable extent of poverty reduction” in the decades following liberalisation, is not dissimilar between the two methodologies, the claim that the number of the poor had declined did not quite pass muster. Indeed, there was, if anything, an increase in the number of the poor: from 403 million during the 1993-94 survey period, to 407 million during 2004-05.5
These figures still bear some good tidings, since they represent a decline in the poverty ratio. But for the Indian government, which has under fiscal pressure, been seeking to narrowly target its many social welfare commitments and confine them exclusively to the poor, this comes as unwelcome news. The intended savings on the fiscal front are unlikely to materialise, since there is no warrant in the poverty figures to cut budgetary subsidies in – for one thing -- the distribution of foodgrain for the poor.

**Fiscal difficulties and public welfare commitments**

How India sorts through these fiscal difficulties in the years to come, will be an important indicator of its commitment to making life more meaningful for well over a third of its citizens. Will India go by the mantra that growth rate is all that matters and that the poor will be adequately looked after in any high-growth regime? Or will it go back to the older wisdom that the poor hold the key to growth – that rather than depend on the fickle favours of “trickle-down”, the greater assurance of economic development with justice and equality, lies in recognising the poor as the primary agents of the growth process.

From all that is available in the public realm, it seems clear that the government is backing growth as the antidote to poverty, rather than a direct attack on poverty as the pathway to growth. The official Economic Survey of the government of India, released every year just prior to the presentation of the Union Budget, sums up these philosophical dilemmas in its most recent edition, when it speaks of the improvement in human development index being “powered by per capita income growth” and then admits -- rather implausibly and within the same paragraph -- that India’s “human development effort still needs to catch up with the progress made in GDP per capita”.

There is an opinion that persistently surfaces in the daily referendum on the government that the media conducts: what is good for the economy is often bad for party politics. The economy in turn is assessed by the sole parameter of the aggregate level of growth. Parties often feel tempted to adopt fiscally irresponsible strategies when in power, especially when the electoral cycle is at a decisive moment. The media though has concluded that these efforts to abridge the natural course of economic growth and turn it to political advantage, serves little purpose. It only wrecks the opportunities for growth inherent in India’s liberalisation drive.

The financial press and the news channels convinced themselves in 2004 that India was “shining” when few others seemed inclined to that belief. And the party that had made “shining India” its claim for a renewed mandate to govern, went down to a momentous defeat in nation-wide general elections. It then became the accepted wisdom that despite the lustre that certain parts of India were displaying, a large part of the country remained in a slough of despond.

What could be done to restore the semblance of social and economic equity that a democratic polity depends upon? The government that took office in 2004, led by a party that had suffered a mortifying decade-long shutout from the corridors of power – when its self-belief in being the natural party of governance for all India was rudely shattered -- saw the answer in revisiting the populist commitments of the 1970s and early-1980s. This meant providing a stimulus to the rural economy in an effort to directly address poverty, though within the overarching compulsions of fiscal prudence.
The National Rural Employment Guarantee Act (NREGA) was passed in 2005, assuring every willing individual a minimum of a hundred days of manual unskilled work, in the 200 poorest districts of the country. The fiscal year 2006-07 was the first full year of implementation of the National Rural Employment Guarantee Plan (soon named after Mahatma Gandhi and now known as the MNREGP).

RTI and the new regime of transparency

The programme was in 2008-09 extended to the entire country at the urging of the Congress Party's youth leader, Rahul Gandhi. The four years in which the MNREGP has been operative have also been professedly, an era of accountability in politics and transparency in bureaucratic functioning. This was the promise inherent in the Right to Information Act (RTI) that was among the first major legislative initiatives of the government that took office in 2004.

As with right to work legislation, RTI had been top priority for numerous civil society groups and left-wing political parties for at least a decade prior. But all campaign efforts had only succeeded in bringing forth a host of state-level laws, none of which had disclosure norms strong enough to be an effective tool of public accountability. The RTI law that was finally adopted by the Union Government in 2005 and given application over all of India, was swiftly recognised as a truly ground-breaking law. There have since been numerous efforts to reassert bureaucratic privilege and whittle down some of its provisions. These have all been defeated by effective civil society mobilisation.

Because of the environment of information transparency in which it has been implemented, the MNREGP enjoys chances of success that were denied its predecessors. Indeed, the processes through which the MNREGP would function, particularly in relation to the public information function, the notification of beneficiaries, and payment of wages, were formulated by civil society actors who had been for years engaged in the RTI campaign, and had identified the precise vulnerabilities in earlier such welfare programmes. The MNREGP was in its basic design, programmed to avoid these pitfalls and to deliver maximum value to its intended beneficiaries.

A number of assessments of the MNREGP have been made in its first few years of operation, notably by the economist Jean Dreze and his associates. These have provided an encouraging early portrayal of the impact the programme has had on rural lives and livelihoods, and pointed to vital areas where improvements are necessary. Among the deficiencies, particularly noteworthy are the arbitrary process of fixing wages and the persistence of leakages through corruption. Again, though women have according to official data reviewed by Dreze, been between 40 and 44% of the beneficiaries of the MNREGP countrywide – and no less than 81% in the state of Tamil Nadu - the absence of childcare facilities has been identified as a serious impediment to more meaningful female participation.

Most of these failures as also all others, could be understood as arising from the evasion of bureaucratic accountability, which in turn is made possible by a collusive relationship between administrative staff and local power elites.

A formal evaluation of the MNREGP, conducted by an independent research institution on a mandate from the Planning Commission, has found a similarly mixed picture, with ample
grounds for hope. A big worry from the perspective of this exercise, is the failure of the MNREGP to create embedded opportunities for work in the rural areas. The programme has contributed to improved nutrition levels in the target areas. But it has not contributed in durable fashion to long-term work opportunities. This has in turn created two conditions, one of which – the failure to stem the tide of migration towards already choked urban India – is specifically identified as a concern. In the interests of the long-term viability of the MNREGP, another implication needs to be taken into account: the purchasing power it has created has not been matched by an accumulation of productive assets in the rural areas.

This issue has not yet begun to crease brows within the Indian policy establishment, but it could soon begin to impinge on the viability of the rural jobs growth strategy. For long years since liberalisation kicked in as official policy, the Indian government refused to countenance any serious increase in rural welfare spending, simply because the priority was to reduce the budget deficit. The deficit was seen to be the principal cause of the twin evils of national indebtedness and rampant inflation.

There was a viewpoint articulated then, that fiscal investment in rural public works programmes would not engender inflationary pressures, and that the budgetary pressures generated, would if at all, be minor and transient. All through the 1990s, buffer stocks of food with the government and its agencies were a veritable embarrassment of riches. Far in excess of prescribed norms, the carrying costs of these foodgrain stocks were beginning to seriously burden the public exchequer. An argument was advanced that in the circumstances, an increased outlays in rural public works, paid through the issue of foodgrain, would serve the welfare purpose of improving nutritional standards, while being consistent with fiscal pragmatism. Far from rising, the food subsidy bill would likely decline from an augmentation of rural public works programmes, since the enormous accretion of food stocks would be substantially drawn down. What was spent as a fiscal transfer to the rural poor would in other words, be more than made up by the savings effected in cutting the volume of food storage.

As with food, so also in several others sectors catering to the consumption demands of the poor, there was substantial excess capacity available in the economy through the 1990s. This in turn, led to realistic expectations that rising mass consumption demands, could easily be met by merely ramping up production, without the slightest risk of inflation.

Dealing with inflation

If the fiscal deficit was the reason why official India resisted this seemingly irresistible demand, there were also warnings made from other quarters, less constrained by dogma, that the growth experience of the 1990s, continuing right till the early years of the 2000s, held quite a different message, with contrary welfare implications. It was a paradox of those years that an enormous accretion to food stocks with the government occurred despite a steep decline in the growth rate of agriculture. The excess of supply in other words, could have been achieved by suppressing the demand for food amongst the poor. Low growth rates in agriculture have been a feature of the years of liberalisation right till the current conjuncture. Yet these have also been a period of low inflation.

There is yet no credible economic theory that can explain the triple conjunction of declining per capita availability of essential food grain, rising inventories and low inflation in these
mass consumption items. The low inflation experience of the years of liberalisation seek another explanation, which may lie in the possibility of a harsh suppression of living standards at the lower end of the scale of income and wealth.

For ensuring its viability the rural jobs programme required that another serious complication in the labour market be attended to. A vast sea of unemployed workers was an assurance for agricultural capitalists who hired in farm labour, that the wages they paid would remain low. An employment guarantee would provide other options to the working population, forcing agricultural capitalist to hire in labour at likely higher wages. This would be transformed into a demand for higher support prices for the farm sector’s surplus producers, creating a quite different dynamic in terms of the budget deficit, the prices at which food items are sold through the public distribution system and - through the exertions of the various pressure groups involved - a massive upward spiral of inflation.

Have these factors begun to work within the macro-economy of rural India? The jury is still out on the question, though there is little doubt that inflation, especially in food and other mass consumption items, has begun to be a serious worry. The Economic Survey for 2009-10 speaks of “high double-digit food inflation” during the year, “especially in the second half”, as a “major concern”. Elsewhere, it attributes the rapid rise in prices of food items to “a deficient monsoon and expectations of shortage”.9

Monsoon failure is a reflexive explanation for high food prices in a country where most crops are grown under rain-fed conditions and the majority depend for their livelihood on agriculture. In current circumstances, it is necessary to assess how credible this explanation is, by referring back to two recent years when rainfall deficiency was of a comparable magnitude.

In 2009, rainfall readings by the India Meteorological Department (IMD) put overall precipitation in the country at 77% of the long-period average. It is not quite easy to correlate rainfall deficiency with agricultural output and still less with inflation. But just to make the point abundantly clear, a comparison could be made with 2002, when country-wide rainfall was just 81% of the long-period average. Reaching back further, monsoon failure on a similar scale occurred last in 1987, when the national average was again, just 81% of the long-period average.

To take this comparison a little further, the official figure of inflation registered for the category “primary commodities” was 9.7% in 1987-88 and 2.6% in 2002-03. Addressing the theme of “Drought and Inflation”, the Economic Survey for 2002-03 made the claim that: “In recent years, the agricultural economy has by and large moved from a shortage to a surplus situation and is thus more insulated against the vagaries of nature. Therefore, despite the failure of monsoon, average inflation rate remained low thanks to surplus stocks of foodgrains during the last three years”.10

Yet, for 2009-10, the rate of inflation for “primary commodities” stood at 8.8%, considerably above the figure for 2002-03 and very close to, though on the lower side, of the 1987-88 figure.

Sticklers for statistical accuracy may seek to explain these discrepancies in terms of four percentage points in rainfall – 81% versus 77% of long-term average – between 2009 and both the earlier years of comparison, i.e., 2002 and 1987. The problem here is not just that
the correlations are not one bit evident, but also that no relationship – even an approximate one – has been devised yet between rainfall deficiency, agricultural production and the behaviour of the market in grain.

Neither is the storage situation in grain a viable explanation for this seeming paradox, since the surplus – indeed the embarrassment of riches – has been a feature of the aftermath of the 2009 drought, as much, if not more so than before. Illustratively, the total volume of stock held by the Food Corporation of India (FCI) and other official agencies on July 1, 2003 – roughly a year after the monsoon failure of 2002 – was 35.2 million tonnes. Comparing like for like, the total grain stock held by the same agencies on July 1, 2010, was 57.8 million tonnes.

The recommended norm of stockholding for July 1 – which is a point in the agricultural cycle when growers all over India are preparing for their main sowing operations of the year – is 26.9 million tonnes. Since the world food price crisis of 2008, a “strategic reserve” of 2 million tonnes of rice and 3 million tonnes of wheat has been created in addition to this basic recommended stockholding. All told, the volume of stocks held on July 1, 2009, was almost twice the recommended norm for that point in time. The reality that has come to light since then is that foodstocks are rotting for want of storage space.

Figures, especially if they are drawn from arid official statistics, can never provide an adequate explanation for the multitude of real life situations and choices that farmers – who depend on local precipitation, soil quality, protective irrigation, and a complex of other factors – have to confront. But from merely looking at the inconsistencies between the official claims and the data put out in successive editions of the official Economic Survey, it becomes evident that the grandiose claim made in 2002-03, that the economy had been monsoon proofed, has proved rather hollow.

If the Economic Survey could characterise the post-monsoon scenario of 2002 as a “surplus situation”, the same should apply to 2009, if anything with greater force. But if the “surplus” in 2003 was an adequate safeguard against inflation, an even greater surplus in 2010 is proving thoroughly inadequate. The Economic Survey in other words, is being reflexively lazy and intellectually dishonest in attributing the food inflation of 2010 to monsoon failure.

It can at this time only be offered as a hypothesis, but it needs to be inquired, if food price inflation is the consequence of the MNREGP unleashing long repressed consumption needs among the rural population. With the fiscal investment in rural employment yet to contribute substantively to asset productivity, this boost in purchasing power has not been matched by an increase in social product. And the wage employment opportunities afforded the rural poor through the MNREGP have increased bargaining power, allowing them to bid up the wages that the bigger farmers who hire in labour would pay.

The figure below provides some indication of how rural development expenditures have moved over the last many years. Clearly, after the drought of 2002, the total outlay did not increase significantly, as it should have, if defending the purchasing power of the rural poor were at all a priority for the government of the day. In contrast, since the enactment of the MNREGA, the total budgetary commitment by both central and state governments in rural development has been stepped up a notch. It is an obvious inference then, that the
MNREGP has fulfilled some part of its intended effect of creating greater purchasing power in the rural areas.

Productive capacity though, may not quite be keeping pace, which means that the inflationary genie, bottled up through the early years of liberalisation, is now unfettered. If past is prologue, then the official response to this inflationary threat would most likely target the budget allocated in rural public works programmes for the first cut.

The Food and Agricultural Organisation (FAO) has found that successful strategies to cope with poverty and undernourishment have invariably involved a high rate of growth in agriculture, increasing per capita food availability and significant official spending on public health. None of these conditions has been met in India since the onset of liberalisation. Indeed, the record has if anything, been the reverse.

So where does India’s confidence that it is making substantive progress in the battle against poverty come from? There is no official explanation forthcoming - for obvious reasons - on what underlies the new mood of sunny optimism in the Indian policy establishment. Official spokespersons though are quick to question contrary information, even as they ignore inconvenient findings. Undeniably though, the most important contribution to the brash new mood, has been India’s own growth record over the two decades of liberalisation. And if the first decade was ambiguous in terms of its outcome, the second has tended with seeming lack of equivocation, to underline the message of a “shining India”.
If the sources of growth were to be analysed, it would become apparent that the principal impetus has come from an increase in capital formation rates. Total consumption expenditure has declined as a percentage of GDP. Government's consumption expenditure has stayed at a relatively high proportion of GDP, and private final consumption expenditure (PFCE) has shown important compositional shifts, with the traditional staples of subsistence – food, clothing and shelter – cumulatively showing a sharp fall in relation to the total. The growing segments of private final consumption indeed are those of special interest to the upper and middle strata, such as transportation equipment, communication, health care services and recreational, cultural and education services.

This particular pattern of growth is to be viewed in the context of the increase in income and wealth inequality in the Indian economy. The two indeed are intimately linked. This is an obvious inference from the age-old verity that the rate of growth of an economy is inevitably correlated to its structure. The economist Kaushik Basu puts it thus in a recent paper: “The outstanding average figures of GDP and growth are being achieved largely by a small segment of the well-off population growing at phenomenal rates, the middle-income group growing well but less rapidly and a bottom segment of around 20 per cent of the nation growing at snail’s pace. What this suggests about poverty is true. Poverty, as measured by the percentage of people below the poverty line is declining but at a rate that is unacceptably low”.

Could growing inequality itself be part of the key to understanding the relatively modest decline in poverty figures since globalisation became official policy? There is perhaps a strong case to be made here. As inequality has increased in the Indian economy, there has been an undeniable improvement in employment opportunities trickling down the scale of income and wealth. More will be said on this at a later stage, but it is vital to understand that this pattern of growth, with all the implications it holds for social and political stability, has had an undeniable impact on India’s evolving relationship with the global community.
One implication has been a reluctance to stand up for the values of equity and fairness in global councils, since the enforcement of these norms – as for instance the demand for transparency in global capital flows -- could in the short term, damage India’s growth prospects. A second has been the export of the “every man for himself” attitude to the country’s moral and political engagement with the global community. India’s leadership of the developing world in most key global negotiations, now comes qualified by its ambition to be not merely first among equals, but unquestioned hegemon.

This change in attitude shows up in most engagements that India has undertaken in world affairs, but most so in neighbourhood affairs. There is frequently an argument advanced within the country, that India should forget about its global ambitions and engage within the neighbourhood in a constructive manner, with honest intent to put behind the numerous burdens that its unique history has imposed. This line of thinking is a minimal strain within the mainstream of the “Shining India” doctrine.

First steps for credible and meaningful global engagement

India has been in recent times, increasingly active as a player in global pressure groups such as IBSA, BASIC and BRIC. These have helped cement a common position within multilateral forums that puts developed country interests first and limits the susceptibility of each to the pressures that industrialised countries are known to exert, often leveraging bilateral trade and donor relationships to ensure that opposing views are banished from the negotiating table. The foundation for these groupings was perhaps laid in the build-up to the fifth ministerial conference of the World Trade Organisation (WTO) in Cancun, Mexico, in September 2003. Confronted with the familiar spectacle of the industrialised countries seeking to run away with the ball by putting out pre-conference statements and proposals that reflected their exclusive concerns, India, Brazil and South Africa came together to draw up a detailed and specific list of conditions that the U.S. and the E.U. needed to fulfil in the agricultural realm, if the global trade talks were to make any meaningful progress.\textsuperscript{16}

The coalition held firm at the Cancun trade summit that followed and indeed, drew in a number of other countries with strong interests in terms both of protecting vulnerable smallholding peasants at home and capturing agricultural export markets. Inherent differences between Brazil, South Africa and India – not to mention Thailand, Argentina and other countries that made common cause at Cancun – made the coalition an unstable one, prone to fracture at the slightest hint of a concession to its minimum bargaining position. Yet, the obduracy of the U.S. and the E.U. on agricultural subsidies proved a powerful adhesive. The coalition of India, Brazil and South Africa came through that encounter with greatly enhanced image and credibility.

The team has since gone forward to expand its range and sharpen its focus. IBSA is now a grouping that articulates far-reaching positions of consequence to the developing world at a number of global forums. It has also become a quasi-formal political grouping with regular summit meetings at which issues of mutual interest are discussed. At its most recent summit in the Brazilian capital, IBSA agreed to jointly develop a satellite and to closely coordinate national positions on a range of issues, such as U.N. reform, climate change and the world trade negotiations.
Another grouping with quite different scope and focus emerged quite fortuitously from a far-fetched forecast by an economist in the Goldman Sachs brokerage firm in 2001. The forecast that four nations – Brazil, Russia, India and China – between them accounting for 40% of the global population and a quarter of the land area, would by 2050 be the dominant economies, supplanting all the powers of the day, proved to be irresistibly attractive. And it came at a time when countries that had been mute spectators to the unilateralist rampage of the U.S., intent on invading a country on false pretexts, were beginning to articulate their deep misgivings.

Soon after the U.S. invasion of Iraq, the Shanghai Five -- a grouping promoted by Russia, China and three former Soviet republics from Central Asia, in the wake of the Taliban takeover of Afghanistan in 1996 -- was expanded to bring in Uzbekistan, and formally given the title of the Shanghai Cooperation Organisation (SCO). Though India remained tepid to begin with, in part because of the SCO’s barely concealed strategic purpose of checking U.S. hegemonic power, it has since (in 2005) signed up as an observer, to ensure that its concerns in regard to Afghanistan and Pakistan gain reasonable traction.

BRIC involved a bit of the SCO and a bit of IBSA coalescing around a nucleus of shared objectives, which have not proved very easy to identify or define. This has especially been the case since India has been cast – in its new strategic partnership with the U.S. – as a countervailing force to China’s growing regional and global influence. But in large part as a consequence of Russian initiatives, discussions among the four BRIC nations began in 2006 towards forming a formal grouping, culminating in the first official summit of the four in Ekaterinburg, Russia in 2009.

A 16-point statement adopted at the end of the summit spoke of the reform of international financial institutions as a high priority item for a more stable global order. It spoke of the imperative need to enhance the voice of the transition economies and the developing countries in the constitution of the top management councils of these institutions. And in a barely concealed reference to the unviability of continuing with the U.S. dollar as *de facto* world reserve currency, it called for a “stable, predictable and more diversified international monetary system.”

Given the complexity of global issues that India faces, a bit of BRIC soon attached itself to IBSA, with China teaming up with that three member grouping to constitute yet another ingredient in the teeming alphabet soup of regional and inter-regional groupings, this one referred to as BASIC.

All three groupings were in play in April in Brasilia when IBSA first conducted its deliberations and drew up an agenda for future action in the realm of development. This was followed immediately afterwards, by BRIC which expatiated upon its concerns on the global economic order. And then was the turn of BASIC. South Africa came back into the meeting room while Russia packed its bags and left, to make space for China as the player that matters in the global dialogue on climate change.

**Achieving coherence between multiple forums**

India has a clearly stated interest in keeping these forums distinct from each other. It has styled IBSA as the democratic forum where an inter-continental grouping speaks for a wider constituency. The hidden sub-text here is clearly that the three democracies, each with a
claim to speak for its wider continent, would have greater credibility in any direct engagement with the western powers that largely dictate global economic affairs. India is also unconvinced that BRIC would be a suitable vehicle for its larger geopolitical ambitions, simply because of the presence of China. Though the 16-point statement adopted at the first BRIC summit did make the appropriate noises about U.N. reform and ceremonially bow towards India’s ambitions to be seated at the high table, it stopped short of explicitly endorsing India’s case for permanent membership in the U.N. Security Council. China evidently believes that a permanent berth is not something that can be granted as long as India has unfinished business with itself and Pakistan.

When asked after the April conclaves if this multiplicity of inter-regional groupings could operate with enhanced efficacy if some were to write themselves out of business and the others were to define clear membership norms, Indian Prime Minister Manmohan Singh was quite categorical about the need for each to maintain a separate existence: “IBSA has a personality of its own. It is three separate continents, three democracies. BRIC is a conception devised by Goldman Sachs. We are trying to put life into it”.  

What purpose though is being sought through these multiple forums? The WTO has receded from public attention since the Hong Kong ministerial meeting produced an agreement that was the most modest of all time in terms of ambition, since it stayed deliberately clear of every member country’s deepest sensitivities. Since then, the WTO has missed one biennial deadline to hold a ministerial conference, its highest deliberative forum and seemingly roused itself into holding one in its headquarters city of Geneva in December 2009, only in order to be in formal compliance with an important commitment to its membership. It was made clear then that the conference would not be a negotiating forum, but merely an occasion to review progress and reaffirm faltering commitments.

In September 2009, India hosted a meeting of the WTO’s heavy-hitters, in a signal of solidarity with the aims of free trade as also a symbolic gesture of the developing countries’ willingness to assert their status as stakeholders in the multilateral trade negotiations.

Expectedly, the WTO talks have made little progress since proposals drawn up in July 2008 in the three most contentious areas of agriculture, non-agricultural market access (NAMA, or industrial tariffs, in simpler language) and services, led to a sputtering start to the negotiations over a year later. It has been an arduous process getting the balance right in a negotiating process where nothing is agreed until everything is. The industrialised countries are tenacious in holding out on subsidies and other measures of support for agriculture, while India and the developing world are ruling out any further tariff cuts on industrial goods till substantive progress is achieved in improving agricultural market access. As long as the stalemate persists -- and the chances now are that it will, since the global economic recession has energised protectionist voices -- the unity of the IBSA forum will hold. Unless, that is, any one member chooses to strike a deal on the side.

The proposals on agriculture submitted by India and other countries at Cancun, were remarkable in seeking to harmonise the interests of developing country exporters and large peasant economies that have a strong defensive interest in protecting their markets. India counted itself quite decisively in the second category, whereas Brazil unequivocally was in the first. The common element that bonded the two and brought South Africa in as a player on the same team, was the relatively diversified industrial base that these countries have
built up, which endows them with a strong interest in holding out on the NAMA negotiations till they get what they want in agriculture. That the unity forged in Cancun has, despite a potential divergence, lasted right till the Hong Kong conference and beyond, speaks of a determination to ensure that the errors of the Uruguay Round are not repeated.

Expectedly, very little came out of the September 2009 mini-ministerial in Delhi. The most recent news-flash from the WTO is that eleven panels have been set up with five countries (or trading blocs) participating, to consider how to cut through the logjam, particularly in relation to the three areas of agriculture, NAMA and services trade. India is one of the five, along with the E.U., the U.S., Brazil and China. India’s alliance with Brazil within the WTO arena will be tested in this round of bargaining, though China’s presence adds an imponderable.

India and other developing countries forced agriculture onto the multilateral trade agenda during the Uruguay round of negotiations, as part of a deal which included the dismantlement of quotas in the textile trade and the enactment of new rules on intellectual property rights. Concessions rendered by the industrialised countries on agriculture have remained illusory at best. Gains in this sector have been slender to the developing countries in general, and negligible to India in particular.

Far from flourishing in the new environment of global trade, Indian agriculture in the years since the Uruguay Round agreements came into effect, has fallen into a slough of despond. Appropriately enough for a body with intrusive jurisdiction over diverse economic activities, the WTO came to be a natural focus for livelihood anxieties and grievances in a time of great uncertainty for agriculture. Over the first decade of its existence, the WTO was ascribed with direct responsibility for the crisis of livelihoods in agrarian India.

This story is not heard with quite the same stridency any more, since the prolonged negotiating stalemate has seen the WTO receding from public attention. But even in the glory days of the WTO, the story was, as with all others that originate in the realm of demonology, highly overdrawn. The WTO did of course have the potential to bite deep into the material well-being of the Indian agricultural sector, but its main impact still remains to be played out. Following prolonged and often acrimonious negotiations with major trading blocs under WTO auspices, India agreed early in 2000 to phase out all quantitative restrictions (QRs) on imports on an accelerated schedule. With effect from April 1, 2001, India had no QRs operating in its foreign trade, only protective duties.

The dismantling of QRs came with an explicit assurance that India would retain flexibility by way of tariffs to offset any unsettling surge in farm sector imports. India has so far managed to keep its “bound” tariffs – the maximum duties it can charge – at among the highest within the WTO membership. So there is little substance in the argument that the WTO disciplines have been responsible for the crisis in Indian agriculture.

Going beyond the emotional rhetoric about the WTO, the most cursory examination of the disciplines it imposes would show that India is well within the envelope in fulfilling its obligations. An exercise done when the WTO negotiations were reaching a decisive stage in the mid-1990s, found that India’s agricultural subsidies were firmly in negative territory, i.e., with international price levels as the datum, Indian agriculture in the aggregate was taxed...
rather than subsidised.\textsuperscript{20} There is no basis to believe since then, that the picture has changed in any significant respect.

The troubled state of Indian agriculture in short, is entirely a home-grown creation, born in years of under-investment and in particular, a shocking retreat of the public sector from its role as the agency that creates the enabling conditions and incentives for private sector commitment to productivity augmentation. With occupational diversification in India being an extremely slow process and over half the country still dependent on agriculture for livelihood, inter-generational fragmentation of land-holdings is rapidly eroding the viability of individual farms. This makes the active involvement of public agencies in the creation of overhead capital especially vital, if productivity improvements are to be sustained. This however, has been an area of continuing default by the Indian state.

**Second wind for the Indian growth process**

It is accepted by wide consensus that the Indian economy acquired a second wind in 2003-04 and moved to a new trajectory of near double-digit growth.\textsuperscript{21} There is also general agreement that one of the most significant contributions to the new growth momentum came from the rise in gross domestic savings. After being in negative territory for years together, public sector saving turned positive in 2003-04 and has since continued to increase strongly. Also turning in a strong performance in the early part of the decade was private corporate saving, which increased from between 3.75 and 4.75 percent of GDP in the first four years, to over 7 per cent in 2004-05 and all subsequent years. The year 2008-09 brought about a partial reversal of both these trends, since private corporate sector earnings were deeply eroded by the global economic downturn, and the compulsion of fighting the recession through a fiscal stimulus obliged the public sector to undertake a number of fresh expenditure commitments. Household savings also increased in the years beginning in 2003, though after a relative lag in relation to the public sector and private corporate sector.
The public sector began to boost its total savings after the enactment of the Fiscal Responsibility and Budget Management Act of 2001. From the financial year 2002-03, there has been an effort to restrain the growth of expenditure, that has fetched results in the following years. And to silence the critics, the burden of adjustment has been borne in the main by what are classified as the “non-developmental expenditures” of central and state governments. The softening of interest rates, which led to smaller debt servicing obligations on accumulated public sector borrowings, had a role to play here, as did the relative moderation in the growth of the defence budget over the relevant years.

On the other side of the story, revenue receipts of both the central and state governments grew rapidly through these years. As a percentage of GDP, tax receipts at these two tiers of the government showed signs of regaining the levels they were at, prior to the inauguration of the economic reforms in 1991.

There are few comprehensive studies of the growth of private sector profitability in the first decade of the 2000s. But evidence points to robust growth in sales and good earnings under the head “other income”, suggesting good returns on corporate investments in shares through this period of a virtually uninterrupted bull run in the country’s stockmarkets.

Another notable change occurred in the country’s growth profile in this period: the growing interest of foreign investors. After a decade-and-a-half of fairly indifferent or only sporadic interest in the Indian market – as a destination for both direct and portfolio investment – foreign capital began flowing in to Indian stockmarkets in significant magnitudes from about 2003-04. Direct investment though, remained modest even through these years, but registered sharp upticks in 2007-08 and the following year.

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![Graph of FDI and Portfolio Investment](image)
Portfolio investments though large in volume, have remained volatile, with large inflows typically being accompanied by large withdrawals. Thus after registering a historic high of 2.52% of GDP in 2007-08, net portfolio investments (i.e., inflows less outflows) fell to a negative figure the following year as investors pulled out in the wake of the global economic meltdown, to put their money into shoring up faltering stockmarkets in their home countries.

What is classified as FDI too is a very ambiguous entity. Research by the economist Chalapati Rao indicates that over half the inflow of FDI in the period of interest originated in known tax havens, especially Mauritius. A large part of the inflow was for acquisition of shares in existing companies and cannot be deemed to have added to productive capacity. And over 70% of the inflow was in the services sector—notably real estate and construction and financial services—as against just over 20% in manufacturing.

As interesting as the Indian growth story since 2003-04—perhaps more so if the connection between the two were to be drawn out—has been the huge appreciation in asset prices since then. Stock values for instance, multiplied manifold. Taking just the one indicator of the market capitalisation on the Bombay Stock Exchange, i.e., the total value of shares listed on this most active of India’s bourses, went up from just over 23% of GDP in 2002-03 to over 100% in 2007-08. The following year, the figure collapsed though it was still many times higher than before the escalation began.

Anecdotally, note could be taken of similar trends in the real estate market too. The absence of a reliable index of real estate values makes a definitive assessment of this phenomenon difficult. From RBI data, though, we do know that bank advances for house purchases increased vastly in the years under consideration. “Personal loans” were the fastest growing component of overall bank credit in the period 2000-01 to 2006-07. And of these, housing loans had by far the largest share.
Bank credit, liberally extended, could have fuelled the speculative rise in house prices in this period of high economic growth. Official explanations put the rise in prices down to the growth in disposable incomes attendant on high income accruals to those professionally employed in the major cities. This in itself does not constitute a sufficient explanation, since it does not offer any estimate of how far current incomes within the professional upwardly mobile sections benefited from the acceleration of growth rates. It also fails to address the key determinant of the banking sector and its role in aggressively pursuing a line of business opened up in the new environment of liberalisation, and financing multiple home purchases by the upwardly mobile professional classes.

Another aspect of the asset price boom of the years between 2003 and 2008 needs to be taken note of. This was a period of easy credit availability, low interest rates and high liquidity in the economy. Conditions that could have resulted in a commodity price inflation contributed instead, to an asset price inflation. This rise in asset prices beyond what the "fundamentals" may warrant, could contribute in the short-term to economic growth by providing a stimulus to personal consumption by asset holders. In conditions of high liquidity, banks and financial institutions are often willing to refinance asset purchases, allowing the asset owner to cash in on the growth of his ownership equity. Very little work has been done towards identifying the role played by this so-called "wealth effect" in the recent Indian growth story. But it is a feasible hypothesis that such a contribution has indeed been made. In that case, a reverse wealth effect should be anticipated when asset values start contracting and credit institutions start providing for bad advances made against fickle asset values. By the same criterion, the slide in property values could affect bank solvency seriously if it continues for much longer.

Following a year of serious worry, capital inflow into the Indian economy revived in 2009-10. As with all such matters, there is no clear or coherent explanation available, except that international investors after the phase of panic when they were repatriating capital home to defend against inclement winds, are now in a frame of mind to venture forth again. And the
story runs, India occupies prime position among the overseas destinations that investors have regained interest in, on account of its immense growth prospects. Since that explanation was advanced in the Economic Survey for 2009-10 -- released in February 2010 -- things have changed dramatically. The following prognosis of the Economic Survey now seems decidedly askew: "...there are signs of recovery in the global economy with the U.S., Euro Zone and Japan already out of recession and the momentum of growth picking up in emerging economies." Since it was made, there have been contrary developments in the Euro Zone, the U.S., as well as Japan.

Greece plunged into a deficit induced crisis that put Euro-zone unity and monetary coherence in jeopardy, prompting a bailout of record magnitude, pushed through in the teeth of immense resistance from the lower and middle-income groups. The U.S. has registered several successive months of aggregate economy-wide job losses and political discord over the fiscal commitments that the Barack Obama administration has made to lift the economy out of recession, is plunging the country towards policy gridlock and potentially, the most counter-productive response possible in a crisis situation. Japan went through a wrenching political change, forcing out of office a Prime Minister installed with expectations that he would pull the economy out of its two-decade long slump. But his successor is under challenge from within the ruling party and the appreciation of the Japanese yen, seen as a necessary ingredient for global recovery in both the U.S. and the Euro-zone, is viewed quite unequivocally as the source of all misfortune in Japan.

What is the policy response that would be best designed to pull the global economy out of recession? The reality is that very few answers are available, whether easy or otherwise. What seems the most logical course of action for the U.S., is seen to be deeply damaging by the Euro Zone and Japan. If the U.S. and the Euro Zone are convinced that Japan bears principal responsibility to pump up its economy and bring in much needed vigour into the global recovery, Japan itself sees that it is being made to bear a disproportionate burden for remedying a situation brought into existence by U.S. profligacy and the subtle mechanisms of protectionism that the Euro Zone has put in place.

Discord between the heavy-hitters is running high and smaller players are unlikely to get much of an audience for any opinion they may have on what it would take to get the global economy moving. After years of confining the discussion within the rich club -- first the G-7 and then in recognition of the strategic clout that Russia brought to the table, expanding it to the G-8 -- global power brokers have now conceded that other stakeholders too need to be given a place in the privileged conference halls if there is to be meaningful progress towards setting right the grievous imbalances in the world economy. The G-8 retains its separate existence, but every summit now is conjoined with the broader deliberations of the G-20, at which India, Brazil, South Africa and a number of other countries are heard.

The G-20 Forum and its Potentialities

For the record, at the last summit of the G-20 in Toronto, Canada in June 2010, India opposed the proposal to tax speculative capital flows that have been causing undue volatility in developing countries.

This is consistent with domestic tax policy in India, where capital gains earned in the stockmarket go untaxed, as too do dividends earned from equity ownership. India’s posture
on a global policy issue of concern in these times of capital volatility, is defensive of its short-
term interests and hamstrung by its own recent growth record, which is perhaps highly
dependent on short-term capital inflows and fleeting upticks in asset values that create an
illusion of durable wealth creation. Without having ever ventured to institute any substantive
taxes on speculative capital flows, India’s policy establishment has learnt the hard way that
verbal concessions to the need of such a levy, are likely to be severely punished by global
investors.30 With India’s growth record now seen to be in a precarious state, official
spokesmen are likely to be extra cautious in terms of the options they are seen to be
considering.

India’s official posture towards the G-20 is, judging by the tone of the commentary offered in
the most recent Economic Survey, highly positive. This is a forum that has become more
active than before, ramping up its annual gatherings from one to two in 2009 and resolving
to do likewise in 2010. The Toronto summit of June will be followed in November by one in
Seoul.

The G-20, has according to the Economic Survey for 2009-10, agreed among itself, that it
will be “the premier forum for international economic cooperation”.

Intentions aside, it needs to be asked if the G-20 has the internal coherence to provide the
clear-sighted leadership the world needs at this time. The deafening political discord that the
U.S. – still the singular fulcrum of the global economy – is experiencing, does not carry the
faintest suggestion that it can show the breadth of vision to carry the rest of the world
forward in concerted action to remedy collective economic ills.

On December 31, 2010, the massive tax concessions introduced by the George Bush
administration in 2001 are due to expire. That they were introduced just as the U.S. was
entering into international military engagements that called for greater resource mobilisation
efforts, showed that the tax cuts were ill-conceived to begin with. A so-called “sunset clause”
on the tax cuts was an opportunistic compromise between the opposition Democrats and
Bush’s Republican party, since none among them was really sure where the measure – the
quintessential triumph of ideology over commonsense – was taking the country.

As President Barack Obama nears his moment of decision on whether to retain the Bush tax
cuts or not, he is besieged by the Tea Party movement which has likened the slightest
retreat to a form of treason. Obama’s instinct, consistent with the advice of all but the fiscal
fantasists, is to do away with the tax cuts for the upper-income groups, i.e., those earning in
excess of a quarter-million dollars a year, and to stimulate the economy by cutting taxes for
the lower and middle-income groups.

Prescriptions for the current paralysis of the world economy, devised by well-regarded and
socially responsible economists, provide an indication of how deep the policy dilemmas are.
Raghuraman G. Rajan of Chicago University – a former chief economist of the IMF –
believes that the U.S. would have to cut its deficit by slashing expenditure and if necessary,
raising taxes selectively. He also insists that the Chinese and Japanese governments, which
hold enormous accumulations of dollar bonds, should revalue their currencies.

These are themes that have been sounded at various times over the last many years,
without ever eliciting the cooperative responses required. The reasons are fairly clear. In the
mid-1980s, the U.S. economy was about to suffer seizure on account of the value of the
dollar, then ruling at record highs, despite chronic and growing trade deficits. The deficits in turn, were a direct consequence of the voodoo economics introduced by the hugely revered Ronald Reagan, who cut taxes, raised defence spending and promised that he would balance the budget at the same time. There was obviously no way that this circle could be squared. But the external account deficits that the U.S. economy then began to run, proved limitlessly expandable, simply because the U.S. dollar was the world reserve currency.

As chief economist of the IMF, Rajan was at the centre of an effort in 2006 to bring the five economies that had the greatest stake in remedying the growing global imbalances to some semblance of concord on the best strategy available. The U.S., the E.U., China, Japan and Saudi Arabia were involved in this round of extensive consultations under the aegis of the IMF. The upshot as described by Rajan is worth reproducing in his own words: “The response from our interlocutors was .. pretty uniform. Countries agreed that the trade imbalances were a potential source of instability and economic reforms were needed to bring them down before markets took fright or politicians decided to enter the fray with protectionist measures. But each country was then quick to point out why it was not responsible for the imbalances and why it would be so much easier for some other country to push a magic button to make them disappear”.31

Rajan abandoned the effort and returned to his university job a dejected man. When the consultations had run their course, the IMF put out an anodyne statement claiming success: they talks, said the IMF , had provided room for a “free and frank exchange of views”. As Rajan acidly notes, this is little else than diplomatic-speak for “total disagreement”. The U.S. sees its external debt as a consequence of excessive savings in China and Japan – and various other countries – and their willingness to build up an infinite store of U.S. treasury bonds. In this reading, the principal onus for correcting the global imbalances rests on China, which has for far too long, pegged its currency at a value far below what fundamentals would dictate.

On the other side of the fence, China sees the U.S. consumption binge of the last two decades as the principal cause of global imbalances. It denies that its currency policies have anything to do with the problem and insists that it will follow its own gradualist path in realigning the Chinese yuan with other major world currencies. China also points out that if it were to revalue its currency to appease U.S. sensibilities it could well fall into the kind of long-term economic paralysis that Japan has suffered since 1986, when it relented under insistent pressure and adjusted the yen value upwards against the U.S. dollar.

Changing demographics will also play a role in the years ahead. China’s demographic “dependency ratio” – i.e., the ratio of the population below 14 and above 65, to the population between these ages -- has been rapidly falling but will bottom out in 2010 and increase in the years ahead. This has obvious implications for its savings rate and could induce it to prioritise current savings rather than consumption in preparation for the likely demographic scenario of the 2020s, when it would have a larger dependent population to care for.

Adjusting currency values upwards will also have to be assessed as an option, against the compulsion that the world’s surplus economies face, of sustaining the value of their holdings of U.S. government bonds. And if the bonds were to decline in value, the U.S. would have to
raise interest rates to keep the world interested in financing its still unbridged deficit. That in
turn would cause immense distress in an economy steeped at all levels in debt.

The Nobel laureate economist Paul Krugman is among the most vocal in calling on China for
credible currency reforms. But in terms of the antidote for the U.S. economy’s current ills, his
prescription runs along conventional Keynesian lines: stepped up public spending financed
in part by fresh taxes and an interventionist Federal Reserve that would buy up debt
instruments such as mortgage backed securities to inject much needed purchasing power
into the economy. How far such a strategy would be consistent with the depreciation of the
U.S. dollar’s value against other major world currencies, is a matter that he does not go into.
But the credibility of the U.S. dollar and the sustenance of its value are of obvious
importance if the Keynesian strategy is to stand even a halfway chance of success.

As Rajan records, policymakers in China are dismissive of accusations that they manipulate
currency values and see them as a very lame alibi for the failures of U.S. economic
competitiveness. The scenario as they see it, is simply that if Chinese exports were taken
out of the equation by an appreciation of the yuan against the dollar, their place would be
taken by Cambodian and Vietnamese exports. The U.S. deficit would remain a constant in
all scenarios. Only the countries that run the counterpart surpluses would change.

There is undoubtedly a point here, since the U.S. began life as a deficit economy in the
1980s when the counterpart surpluses were run by Japan, the oil exporting states of the Gulf
and Germany (or West Germany as it then was). German unification took West Germany out
of this equation and the appreciation of the yen beginning in 1986 and the opening up of
major Japanese manufacturing locations in the U.S., mitigated some of Japan’s bilateral
imbalances. But the U.S. deficit continued to soar, with China, certain Latin American states
and several East and South East Asian countries clocking up the counterpart surpluses.

The U.S. dilemma is deep seated and structural. And like all such malaises, it calls for
structural remedies. Mere cosmetic changes to exchange rates can do little to redress the
loss of U.S. manufacturing competitiveness, which has been evident since the 1960s but
became an irreversible fact with financial services literally taking over the economy in the
Reagan years.

**The challenge of climate change and India’s response**

Economic growth is driven by inanimate sources of energy and developing countries, as they
embark on the pathway towards securing standards of living comparable to the west, face
irksome constraints from the depletion of the global environmental commons. If all countries
were to go about their economic growth strategies in the “business as usual” mode, planet
earth could soon sink rapidly towards the catastrophe of irreversible climate change.

Climate change is a global challenge that nations are called upon to confront with a common
sense of purpose, without allowing nationalist ideologies and transient advantages on the
geopolitical checkerboard to detract from longer-term goal. But this is precisely where
inflexible national interests have most obtrusively come into play, causing bitter acrimony in
all global negotiating forums.

Equity demands that the industrialised countries which together bear direct responsibility for
an estimated 80% of the accumulation of greenhouse gases (GHGs), should bear a
proportionate share of the burden of averting the looming environmental catastrophe. At the same time, the industrialised countries have the responsibility of evolving an alternative to the highly carbon-intensive developmental paradigm that they have adopted and to make the underlying technologies and processes available in an affordable format to the developing world.

Industrialised countries (IC’s), with a few exceptions such as Germany and the U.K., have resisted this common sense with an obduracy that has brought global climate change negotiations to a virtual standstill. IC’s continue to be in default on their obligations to cut GHG emissions, as agreed under the Kyoto protocol of 1992. Even the commitment to partly offset IC emissions by developing and funding mitigation strategies in developing countries, remains unmet in most part.

Kyoto was a partially successful agreement in that it imposed binding obligations on all the countries that have contributed to looming environmental catastrophe. It also enshrined the principle of “common and differentiated responsibilities” in accordance with the unmet developmental aspirations of particular countries and the historic role of the IC’s in the atmospheric buildup of GHGs. But in making the shrinking space of the global environmental commons a tradeable commodity that could be bought and sold – typically in a manner that would suit the compulsions of the industrialised countries – Kyoto set a very poor example for future negotiations.

A review of how far industrialised countries had met emissions reduction targets, conducted just prior to the Copenhagen climate summit in December 2009, revealed serious defaults by virtually all. Yet the negotiations at Copenhagen failed to show any seriousness of intent and the yawning trust deficit between the IC’s and the developing world was if anything, enhanced by the procedures adopted. The declaration that finally emerged had nothing more substantive than an affirmation that the world’s poorest countries deserved added financial support to face the imminent challenges of climate change. This was regarded, rightly, as a betrayal of the mandate that the conference opened with, since the IC’s were expected at Copenhagen, to accept a measure of responsibility commensurate with their historic role in creating the atmospheric burden of GHGs.

India was among the countries press-ganged into a last minute compromise which proved a figleaf too paltry to cover the evidence of gross failure. Since Copenhagen, India has shown some signals that it is willing to move beyond its insistence that the developing countries’ obligations will begin to kick in only when the industrialised world has fulfilled its side of the bargain.

Policy circles in India are awakening now to the fact that the absolute volume of carbon emissions the country puts into the atmosphere is substantial. Though modest on a per capita basis, it is still a considerable addition to the GHG burden at a time when scientific research has found that the earlier target of reducing carbon concentration to 450 parts per million by volume (ppmv) by 2020 is over-generous. Though yet to be accepted within official multilateral forums, the call for a reduction to 350 ppmv by 2020 – made by James Hansen, who has reasonable claims to being the world’s most respected climate scientist – cannot be ignored.
The only firm quantitative commitment that India has made is in terms of per capita emissions. Prime Minister Manmohan Singh has reportedly assured German Chancellor Angela Merkel that India’s per capita emissions will never exceed IC levels. This remains a covenant of uncertain validity and enforceability, but calculations by the Delhi Science Forum, an independent policy research group, have shown that if India were to follow a “business as usual scenario” and the western countries were to live up to commitments on emissions reduction, then India could well exceed the industrialised world in terms of per capita emissions at a not too distant point in the future.33

A strategic choice is clearly called for. Continuing insistence on the norm of equity and “shared and differentiated responsibility”, will mean that the IC’s will continue to use India’s inaction as an alibi for their own. India’s strategy in turn is seen as one of “hiding behind the skirt of western inaction”.34 The two in conjunction have become a recipe for a complete paralysis of the global negotiations.

India’s newfound awareness that it has to initiate credible action on its own, comes even as several developing countries and small island nations show increasing signs of restiveness at the stalemate. The matter is especially important for South Asia, which lives in the shadow of the Himalayas and has two countries, Bangladesh and the Maldives, that suffer an existential threat from global warming.

India’s National Action Plan on Climate Change, adopted in June 2008 drew some criticism on account of its timing – just a week prior to the G-8 summit in Tokyo, when a stocktaking of progress in the fight against climate change was expected to be undertaken. One of the critiques was the absence of baseline data, since the last year for which complete data were available was 1994.35

This lacuna has since been remedied with the Ministry of Environment and Forests (MoEF) in May 2010 issuing an updated inventory of India’s GHG emissions.36 The results show that India ranks fifth in the league of GHG polluters, behind the U.S., China, the European Union and Russia. Both the U.S. and China have four times India’s volume of emissions. The study also points to a decline in the emissions intensity of India’s GDP growth by more than 30% between the two reference periods, i.e., 1994 and 2007. The official target now is to reduce emissions intensity of GDP growth by another 20 to 25% by 2020.

The claim of a decline in emissions intensity needs to be seriously interrogated. Is this real in the sense that the techniques and processes that India has adopted are inherently less extravagant in terms of carbon emissions? Or does this supposed decline originate in the disequalising pattern of growth that India experienced through the two decades of liberalisation? Would this reduction in GHG emission relative to GDP have been achieved if all economic strata and social classes had partaken of the growth process in this period? In other words, is India anywhere near discovering an alternative paradigm of development that all sections of the country could benefit from, without unacceptable – and potentially catastrophic – environmental consequences?

India’s ardour in embracing the Clean Development Mechanism (CDM) process created under the Kyoto Protocol, does not testify to a deeply held faith in the viability of the low-carbon growth path it has putatively embarked on. The most recent annual report of the Ministry of Environment and Forests (MoEF) records 1,551 approvals by the national
authority empowered to certify CDM projects. Not all these have been registered by the CDM Executive Board, but they are estimated to have the potential to generate 627 million units of what is the newly minted currency of global carbon transactions: the Certified Emissions Reduction (CER). The MoEF has priced this currency -- which is hard to touch and feel and has no existence outside the esoteric universe of the newly created tribe of carbon accountants -- very conservatively, at US$ 10 per unit.

India’s salience in the global CDM market is a matter of considerable satisfaction for the MoEF. As it puts the matter: “478 out of the total 2011 projects registered by the CDM Executive Board (as of January 2010) are from India, (which) is the second highest by any country in the world”.

Carbon trading as inaugurated under the Kyoto protocol, is an arcane process, considerably more difficult to comprehend for the average intelligence than the global financial markets. Its key attribute is counter-factuality. A project’s contribution to emissions reduction is assessed against what might have happened if it had not been established. If degraded forest land were to be allowed to remain as is, what would be the total mass of carbon added to the atmosphere? How would this compare to the emissions burden if that land were to be afforested? How much of a contribution to carbon containment would an urban solid waste processing system make, if it were to produce energy and soil compost, rather than allow the solid wastes to fester and decompose?

To be recognised by the CDM Executive Board, the project would have to demonstrate an “additionality” in terms of carbon containment and also establish that without CDM funds, it would make no economic sense. The project would also need to be one that is implemented voluntarily, not as a legal compulsion.

Thus a municipal wastes disposal plant, which should be a requirement in all urban centres, will under the CDM philosophy, become a source of carbon credits that could be sold in the global futures market and could indeed, be bought up by a polluting industry in the U.S. or China to evade obligatory caps on its own emissions. A power plant in Kansas city in the U.S., should its management feel disinclined to check emissions could instead, purchase the carbon credits created by an urban waste disposal plant in Kolhapur in India. The Kansas power operator evades its responsibility by subsidising the Kolhapur citizen’s evasion of his civic duty.

A serious approach towards climate change would focus on evolving alternate technologies and processes that are environment-friendly, supportive of mass livelihoods and relatively less resource-intensive. A country that is aware of its long-term interests would consider these options with appropriate seriousness, rather than immerse itself enthusiastically in a corrupt web of international transactions promoted by the world’s biggest polluters, in league with financial institutions with a record of sharp practices. There are ritualistic statements about reorienting India’s national science and technology system in a fashion that is more responsive to the new developmental paradigm, but few concrete moves to make that a reality.

**Nuclear deal and after: India’s diminished credibility**

It is an index of India’s priorities in this respect, that nuclear power is being pursued as the appropriate response to the challenge of climate change. This perception has in turn led to a
number of strategic choices, that have deeply impinged on the terms of India’s engagement with the developing world that it once had legitimate claims to lead.

In 2006, the Planning Commission in its mid-term appraisal of the Tenth Five Year Plan (X FYP) put out a rather bleak assessment of the performance of the nuclear power sector and attributed its shortfalls entirely to the failure to discover new sources of minerals that could be processed into nuclear fuel. This was the first that the public at large was hearing of a shortage of atomic minerals in the country, since the story that the Department of Atomic Energy (DAE) had been eagerly fostering since the 1950s was that India had sufficient resources to fuel an ambitious three-stage nuclear power programme that would go from first generation heavy-water reactors, to fast-breeder based on plutonium, to thorium-fuelled reactors, within a few decades.

The Planning Commission summed up its assessment of the prospects of nuclear power, with a telling observation: “Nuclear energy remains an important tool for de-carbonising the Indian energy sector”.40

It was far from agreed then that the nuclear fuel cycle was a viable remedy for all the ills of the carbon fuel cycle. But this perception, as also the security anxieties that followed India’s nuclear explosive tests of May 1998, ensured that much of India’s international diplomatic effort was devoted in the months that followed, towards building up nuclear energy capacity while retaining sufficient flexibility under international covenants to build up an infinitely flexible arsenal of destructive nuclear weapons.

In July 2005, Prime Minister Manmohan Singh visited the U.S. capital and agreed a joint declaration with U.S. President George Bush that seemingly injected India into the exclusive orbit of recognised nuclear weapons states. This was achieved through a diplomatic contrivance by which India and the U.S. created a point on the international geostrategic map that till then did not exist. The joint statement adopted by Manmohan Singh and George Bush referred to India as a “responsible state with advanced nuclear technology”, which should “acquire the same benefits and advantages as other such states”. In effect, this created a special niche exclusively for India, in the limbo between the nuclear haves and have-nots.

Bush’s visit to India in March 2006 was the occasion to put the finishing touches on the accord. If the deal that was agreed then succeeded in calming several of the anxieties suffered by unilateralists within the DAE, its international repercussions were something else. Pakistan’s Foreign Minister warned darkly that the whole Nuclear Non-Proliferation Treaty (NPT) would “unravel” since it was “only a matter of time before other countries [began] to act the same way (as India).”

India’s bonding with the U.S. also evoked deep suspicions in circles not known to be traditional bastions of hostility. The Guardian in London, for one, commented editorially, that the nuclear agreement between India and the U.S. was “about breaking rules and expecting others to abide by them”. More picturesquely put, it was about “preaching temperance from the barstool”. Indians may well delight in the bargain they had driven, said the newspaper, but there were likely to be some “thoughtful smiles” in Iran and North Korea as the “wider implications” sank in.41
In advance of the Bush visit, the New York Times observed that despite all the accompanying froth, the presidential passage to India was “built around a bad nuclear deal”. With the deal consummated, the newspaper commented rather acidly, that Bush was turning out to be Iran’s best friend. His adventure in Iraq, launched on flimsy and fabricated evidence, had only transformed that country into a satellite of the Islamic Republic next door. And his deal with India sent “exactly the wrong message” when Washington was scheduled to “refer Iran’s case to the United Nations Security Council for further action”. Iran’s hopes of thwarting a global consensus on its nuclear programme rested on “convincing the rest of the world that the West [was] guilty of a double standard on nuclear issues”, commented the New York Times. And in this respect, Bush “might as well have tied a pretty red bow around his India nuclear deal and mailed it as a gift to Tehran”.

Since then, India went through an arduous route to obtain a nuclear deal tailored to its particular mix of ambitions and anxieties. The Bush administration in the U.S. was well disposed but it took an extra effort to obtain the sanction of the U.S. Congress. This effort involved voting repeatedly against Iran in the councils of the International Atomic Energy Agency and defying the collective commonsense of the Non-Aligned Movement (NAM), of which India was a founder and one-time leader. In global disarmament negotiations, India is now considered an interloper, a nation willing to sacrifice long-held principle in pursuit of national security chimeras.

A problem of image

Visitors to India in current times are unlikely to miss a pervasive new mood of aggressive self-assertion among the people who matter, a certain supreme complacence that “we” have arrived on the world stage and cannot any longer be denied a merited place at the high table in global councils. Suggestions that the celebration might be premature, are brusquely dismissed. Observations that a country with quite widespread evidence of human deprivation and numerous social fractures could not afford complacence on this scale are dismissed as voices from the past, born in minds still shackled by outmoded habits of thought.

Civil society groups in general have remained critical of this aggressive new mood. But little heed was paid to these dissenting voices within. India is now nearing the end of what can only be called a grand coming out party. After much heartburn in the run-up, the final accounts tally from the 19th Commonwealth Games hosted in the national capital city of Delhi, seems to indicate a small positive balance in terms of national prestige. The economic impact though is another matter since there is yet no indication that the enormous public investments that went into hosting the games will engender any of the expected positive spinoffs in terms of private sector gains. The human and social cost at which the CWG was brought to India still remains to be tallied. Recent action under the RTI law has revealed that the government both in Delhi and at the Union level, diverted funds meant for social welfare spending of benefit for the disadvantaged, to preparing facilities for the CWG.

Just a month ahead of the CWG, the Indian administration was riven by a blame-game over the evident mess that has been made of the preparations. Allegations of serious malfeasance flew thick and fast. The clear and present danger was seemingly averted, that the debutante ball marking India’s emergence on the world stage, would be transformed into
a testament of overblown ambitions failing the encounter with harsh realities. But many hard questions still remain unanswered.

Sukumar Muralidharan

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1 A “millionaire“ here is defined as an individual with personal disposable wealth in excess of US$ 1 million, apart from his or her primary residential property.


3 An interview with the principal author of the OPHDI study is available in “Media Hype and the Reality of the New India”, The Hindu, Delhi, July 20, 2010, page 12, extracted on August 28 from: http://www.thehindu.com/opinion/interview/article523817.ece. Further details are available through the website of the OPHDI: http://www.ophi.org.uk/policy/multidimensional-poverty-index/.

4 Some of these issues have been presented in a useful summarised form, though one that is partial towards his own viewpoint by Angus Deaton. See Angus Deaton and Valerie Kozel, “Data and Dogma: The Great Indian Poverty Debate”, at: http://papers.ssrn.com/sol3/papers.cfm?abstract_id=593864.

5 The report of the expert group chaired by the economist Suresh Tendulkar is available at the website of the Planning Commission: http://www.planningcommission.nic.in/eg_poverty.htm.

6 Government of India, Ministry of Finance, Economic Survey 2009-10, Delhi, March 2010, pp 270-1. Obviously, if the physical analogy were to be extended, growth has proved a very poor power source for human development. All prime movers suffer some losses in efficiency when converted into final usable energy output. But all prime movers have clearly quantified indices of efficiency, such as a diesel engine that runs a locomotive will have an efficiency of 50% in the best conditions. If economic growth is the power source behind human development, we are yet to obtain an adequate index of its efficiency in providing this final output.


9 India, Ministry of Finance, Economic Survey, 2009-10, pp 3, 64.


12 See “Abandoning godowns, FCI opts for the open”, Mint (Delhi Edition), July 28, 2010, page 6, available at this writing at: http://www.livemint.com/2010/07/27193718/Abandoning-godowns-FCI-opts-f.html?atype=tp. Foodgrain rot on account of poor storage, corruption and negligence by the Food Corporation of India (FCI) is surely not a new story. But it is important to note the media’s most recent effort to highlight an issue of vital consequence for the country’s poor, that often goes unreported.

13 See for instance, the 2009 version of the annual publication of the FAO, State of Food Insecurity in the World, chapter titled “Towards Eliminating Hunger”.

14 There is by now a fairly well-established scholarly consensus on this. For an empirical analysis, see Himanshu, “Recent Trends in Poverty and Inequality: Some Preliminary Results”, Economic and Political Weekly, February 10, 2007, pp 497 to 508.


21 Kaushik Basu, op. cit.,

22 There is an element of ambiguity about this mode of classification, which is one among three schemes used to report public sector spending, the others being capital versus revenue expenditure, and plan versus non-plan.

24 K.S. Chalapati Rao and Biswajit Dhar, “Accelerating India’s FDI Inflows: Conceptual and Definitional Issues”, Working Paper, Institute for Studies in Industrial Development, Delhi, April 2010. I am grateful to Dr Chalapati Rao for providing me access to a pre-publication draft of this paper.

25 The data are drawn from relevant volumes of the RBI Handbook of Statistics on the Indian Economy. The market capitalisation figures used are for the terminal date of the relevant year, i.e., March 31. To the extent that these are a stock magnitude and the GDP is an annual flow, the two may not be commensurable. The ratio of the two is used purely for illustrative purposes.

26 The National Housing Bank (NHB) introduced an index of nation-wide residential property prices in 2007. Called the NHB Residex, the index has been updated till December 2009 and shows that beginning with the second half of 2008, there has been an erosion of housing values in several major cities, and most especially so in Bangalore and Hyderabad. Values stagnated through 2008 in Delhi and Mumbai, before resuming a moderately-paced increase in 2009. Kolkata and Chennai values have continued to rise, as also in the lower rung urban centres of Bhopal and Faridabad. The second-rung metros like Pune and Ahmedabad, and major urban centres like Jaipur and Kochi, all had sharp downturns in real estate values in 2008, followed by a year of indifferent performance in 2009. (See the most updated statistics at: http://www.nhb.org.in/Residex/Data4Graphs.php). Unfortunately, figures are not available for the peak of the boom, but various informal estimates, based on surveys of housing market players, put the rate of growth of prices in Delhi and Bangalore of about 26 to 28% between 2003 and 2006 and between 10 and 15% in 2007. (See: http://www.globalpropertyguide.com/Asia/India/Price-History).


30 An instance that comes readily to mind is the aftermath of the 2004 general elections to the Indian parliament, when it became evident that the new coalition that would soon take office, would be dependent on the parties of the left for its parliamentary majority. A remark by a left political leader that his party opposes the disinvestment of shares in public sector enterprises, led to a sharp fall in equity values that had
captains of industry calling for an explicit disavowal from all the other main coalition partners.


33 The study, as also much other relevant material on climate change, can be found at the Delhi Science Forum website: http://www.delhiscienceforum.net/.


35 Praful Bidwai, An India that can say Yes: A Climate-Responsible Development Agenda for Copenhagen and Beyond, Heinrich Boell Foundation, New Delhi, 2009.


38 Ibid, p 270.

39 See the very important article by Mark Schapiro, “Conning the Climate”, Harper’s, February 2010, pp 31-9.


