Globalization and Economic Disparities in India

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Abstract

This paper uses qualitative analysis for assessing the impact of the globalization on distribution of income, poverty and inequality in India and arrives as different conclusions. It has been concluded that the absolute poverty in India with the increasing globalization has fallen significantly by at the same time inequity has increased.

Keywords: Assessing, significantly, Globalization.

Introduction

In the previous few years, most nations have encountered the impacts of monetary globalization which has brought about expanding financial development (Baddeley 2006; Rao and Vadlamannati 2011). Be that as it may, the level of monetary globalization and its outcomes is heterogeneous across nations and areas with differing levels of advancement (Heshmati 2007; McMillan and Rodrik 2011). The ascent of financial globalization has helped monetary development at the expense of pay imbalance inside nations (Bergh and Nilsson 2010). Extending pay imbalance is the most characterizing challenge within recent memory as the advantages of rising pay are not shared similarly across every one of the fragments of the populace. The issues presented by pay disparity have brought about a discussion about its suggestions inside, and between nations (Dabla-Norris et al 2015). The counter globalization contention is augmenting the hole among haves and haves-not (Mazur 2000). The supportive of globalization contention guarantees that globalization has advanced uniformity and decreased destitution (Dollar and Kraay 2002).Globalization today is identified with the opening up of markets, an institution which has over-powered the state or other public organization in the majority of countries. For developing countries the new mantra of the market has pushed the state to the back-stage, thus limiting state spending in the social sector.It has re-surfaced during the early eighties with a zeal for market. The aim was to achieve 'growth with efficiently as follow from the logic of neo-liberal economic policies. The drive for markets has continued to impact policies in developing and advanced countries alike. The evolution of human civilization is the Sequence of economic and technological changes. The progress of civilization witnessed new ways of living and there came the element of 'efficiency' with which 'people of a 'region' utilized its productive. natural as well as human/physical resources. This expanded the scope of comparison in the levels of development across regions. While the stock of flora and fauna determined migrations, the efficient use of resources promoted transactions of articles (goods and weapons).

Achievements and Challenges during Post-Independence Era- A Synoptic View

Economy of India has completed more than sixty years of her independence and about 60 years of central planning with various degrees of rigours. This period saw India registering impressive results on many a fronts. In spite of many odds India has managed to achieve about 4.5 per cent average annum growth since 1950-51, create world's second largest pool of scientific and technical manpower, register eighty-eight fold increase in power generation, four fold increase in total output of food grains, over twenty-six times increase in the export value in dollar terms, eighty eight fold increase in foreign exchange reserves, sixteen fold increase in the index of industrial production and four fold increase in the index of agricultural production, which is undoubtedly a matter to be proud of. Such marked achievements are largely attributed to the progressive economy policies and exhaustive planning in India." Indian economy is surging a head with market-oriented economic reforms that began with a gradual change in the economic policies in 1991. Though the comprehensive structural transformation and economic stabilization programme by the then new government, posed new challenges, it also created new opportunities for development. The high performance of software sector in the late 1990s is boosting service exports and modernizing, the India's economy with e-Governance and fast connecting electronic gadgets." The personal computer penetration is 14 per 1.000 persons and cellular mobile market is expected to surge to over 100 million subscribers by the end of August 2006. India today offers a paradox, enjoying remarkable social and economic progress on the one hard and trying to cope with its more than 300 million.

Regional Disparities in India A Brief History

For any nation, regional differences may be attributed to differences in its natural endowments. It is important to make distinction between Diversity' and 'Disparity in order to avoid confusion in our understanding of the concept of regional disparities. The following paragraphs attempt just to do that. The single that or 'Nature' has been the most dominating factor in human history to deliver a diversified economic structure over the years. Endowed with huge mountains, vast plains, big deserts, dense forests and big rivers, India, since is divided into various physiographic regions. The discriminating behavior of the huge Himalayan Rivers making northern soul extremely productive, adds an economic element to its geographical diversities. ages. The differences in the levels of prosperity and wealth across regions due to differences in the physical, geographical and ecological conditions may denote diversity. Diversity in Resource Endowments. "Considering the physical, geographical and ecological conditions, as given the inter regional disparity manifests the differences in the retention power, the transformation processes. The inheritance of linguistic. religious and cultural diversities over time culminated in striking social and economic Interpersonal and interregional imbalances. Independent India inherited a troubled legacy with distorted and scarce Industrial base, unhealthy agrarian structure, submissiveness to the authority, incessant fear and insecurity, a vast majority of poor population but did not loose out on its traditional values of respect for age and customs. This was the only strength with which independent India faced the challenges of individuality.

The weak and uneven foundations set during the pre-Independence period neither discouraged India to move further and nurture the dream of a strong, united and prosperous nation nor could it derail her from its pre-independence efforts for development planning that placed ambitious targets for income growth to cure all adversities.

Regional Imbalances and Economic Planning in India since Independence

The concept of planned development held out a promise that society can develop as an integral whole and the position which particular classes occupy at any given time - a product of various historical forces for which no Individual or class as such could be held responsible, can be altered without reliance on class hatreds or the use of violence. In order to meet the ambitious desires of the plan, the new Indian administration called for a dual Polly with the union at the centre and the states at the periphery. While the union earmarked some developmental tasks exclusively for itself, the States were entrusted with the responsibility of looking after some sectors. Taken as a whole. the state had a decisive role to play in the functioning of the economy. The First Plan stated whether one thinks of the problem of capital formation or of the introduction of new techniques of the extension of social services or of the over-all realignment of the productive forces and class relationships within society.

Review of Related Literature:

The empirical research on the impact of economic globalization on income inequality is divided into two strands; one, which looks at the impact of economic globalization on income inequality using decomposition techniques and the other looks at the relation between economic globalization on inequality using decomposition techniques empirically. There are some studies which look at the impact of economic globalization on income inequality directly (Dreher and Gaston 2008; Ezcurra and Rodríguez-Pose 2013; Heshmati 2007; Wade 2004). Wade (2004) finds that economic integration has widened the absolute income gaps. Dreher and Gaston (2008) and Ezcurra and Rodríguez-Pose (2013) study the impact using KOF globalization index and support the evidence. However, Heshmati (2007) uses A.T. Kearney index and relates low-income inequality with high globalization. Thus, the results are mixed and inconclusive. To get a clear picture, the literature which explains the impact at varying levels of economic development and also looks at the sub-components of economic globalization separately is discussed below. Jaumotte et al (2013) and Milanovic (2005) have analysed the impact of globalization on income inequality at various stages of economic development. Milanovic (2005) studies the effects of globalization on income distribution within rich and developing countries and finds that at low average income level, it is the rich who benefit from openness. Openness makes income distribution worse before making it better and that the effect of openness on country's income distribution depends on initial income level. Jaumotte et al (2013) find that lower income inequality is associated with trade liberalization whereas higher inequalityis related to financial openness. Few studies have looked at the different sub-components of economic globalization affecting income inequality (Asteriou et al 2014; Baddeley 2006; Jaumotte et al 2013). Baddeley (2006) studies 3 the impact of globalization on growth and income inequality in less developed countries and provides evidence that increase in global income inequality is related to globalization of trade and finance. Asteriou et al (2014) investigate the relationship between income inequality and globalization, with both trade and financial variables for the European Union countries. The results suggest that while trade openness exerts an equalizing effect, financial globalization through FDI, capital account openness and stock market capitalization is the driving force of inequality. The highest contribution to inequality stems from FDI. Several studies have looked at the impact of trade on income distribution (Anderson 2005; Meschi and Vivarelli 2009) in developing countries. Meschi and Vivarelli (2009) estimate the impact of trade on within-country income inequality in developing countries (DCs). Their results suggest that trade with high-income countries worsen income distribution in DCs. Imports and exports from/to industrialized nations significantly worsen income distribution in middle-income countries. Anderson (2005) suggests that increased openness affects income distribution within developing countries by changing factor-price ratios, asset inequalities and the amount of income redistribution. Greater openness reduces inequality in developing countries and increases inequality in developed countries. The results do not confirm Stolper-Samuelson Theorem as they obtain a positive sign for the effect of trade liberalization on inequality for the developing economies. There are some studies which have looked at the impact of FDI on income inequality (Chintrakarn et al 2012; Choi 2006; Herzer and Nunnenkamp 2013; Sylwester 2005). Choi (2006) finds a negative relationship between bilateral FDI and income inequality between countries. Outward FDI rather than inward FDI has a more detrimental effect on income distribution. Chintrakarn et al (2012) and Herzer and Nunnenkamp (2013) investigate the relationship between inward FDI and income inequality in the United States and Europe respectively. The results indicate that the short-run effects of FDI on income inequality are insignificant, or weakly significant and negative. In the long run, FDI exerts a significant and negative effect on income inequality in both United States and Europe. Sylwester (2005) examines the effects of foreign direct investment (FDI) on economic growth and income distribution in less developed countries (LDCs). FDI has a positive association with economic growth, but there is no evidence that FDI is increasing income inequality within this group of LDCs. Several studies have highlighted the role of financial development, knowledge, human capital, structural change in income inequality. Adelman and Morris (1973) and Ahluwalia (1976) have tested the cross-country evidence between development and inequality and have established inverted U curve. Jaumotte et al (2013) and Asteriou et al (2014) emphasize the importance of education and structural change for studying the relation between economic globalization and income inequality. While employment shares have mixed results, reduction of inequality is also subject to education as it improves the proportion of the high skill activities. Chu (2010) and Jones and Williams (2000) find that stimulating research and development investment increases the income inequality by raising the return on assets. The second strand explains the decomposition of income inequality. Different methods have been developed to decompose inequality (Fields and Yoo 2000; Morduch and Sicular 2002; Pyatt 1976; Shorrocks 1980, 1982 and 1984). Inequality is decomposed by various subgroups, income sources and 4 other socio-demographic characteristics and at different levels of aggregation. The modern inequality decomposition literature originates from Shorrocks (1980, 1982 and 1984). The decomposition of inequality is examined by income sources: by population sub-groups or by sub-aggregates of observations which share common characteristics. He shows that a broad class of inequality measures can be decomposed into components reflecting only the size, mean and inequality value of each population subgroup or income source. Fields and Yoo 2000; Morduch and Sicular 2002 proposed regression-based methods of decomposition of inequality by income sources. These methods involve estimation of standard income generating equations written regarding covariance. The size of the coefficient determines the contribution of the explanatory variables to the distributional changes. Of the two strands of literature review elaborated above, there are clear advantages of estimating of globalization on inequality empirically. At the outset, income inequality has both income and non-income dimensions. The above decomposition based methods explain income inequality by the factor sources of income. The non-income dimension of income inequality which could account for health, education, welfare, skills, etc., are equally important and drive inequality as can be seen in the first strand of literature are left unaccounted. The first approach gives the flexibility to choose variables which aid in determining the relation between globalization and income inequality. Secondly, several studies have established a non-linear relationship between globalization and development (Adelman and Morris 1973; Ahluwalia1976; Ezcurra and Rodríguez-Pose 2013) which cannot be done using the decomposition approach.

Methodology

The statistical procedures that are used to (i) measure growth (1) treat raw data on variables measured in different units (i) assign weights to the transformed variables for meaningful analysis (iv) construct a composite index with given set of variables (v) measure the extent of disparities across States (vi) test absolute and conditional convergence in development across States over time and (vii) identification of the main sources of development, are discussed here:

Objective of Study

- Testing neo-classical convergence (absolute and conditional) hypothesis for per capita net state domestic product and development levels of States during 1971-2008.
- Tracing the effects of spatial dependence of States on their growth prospects and estimating probable time to reach to their respect vye steady state paths:
- Constructing composite indices of development, based on four broad dimensions of development Le. for examining the levels and trends of development, across States, testing for any possible (statistically significant) changes in the levels of development over time:
- Measuring the extent of disparities in the levels of development across States, and the movement there-off,

Hypotheses:

1. Disparities in development have been on the increase in independent India,
2. The increase in inter-State disparities further accentuated in the post reforms period.
3. The States of India do not show ß-convergence in their development experience.
4. Plan expenditure mitigated developmental gaps across States,

Summary and Conclusion

From the above analysis, it is clear that globalization has yielded many results; some of them are positive but some of them are negative for India as a whole and this is applicable to all other countries across the world as well. It is true that globalization of economy leads to access to resources that leads to higher GDP growth rate that eventually results into higher per capita income for nationals and lower poverty headcounts. So globalization seems to be helpful in poverty eradication to some extent but at the same time globalization results into increasing concentration of resources into few hands. This results into higher inequality. The same trend across the world has been witnessed whether it is USA or Latin America or China or India. In India after globalization process started in 1991, there has higher GDP and income growth leading to lower level of poverty in the country but inequality has increased because of distribution of income tilted in favour of rich. This problem can be tackled by bringing some regulations relating to distribution of income and wealth that can bring equality in society but not hindering growth and entrepreneurship in economy.

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