

Impact of Globalization on Poverty in India

T.V. Sundaramma

Asst. Professor, Dept of Economics, Govt. First Grade College (Autonomous), GUBBI-572216, TUMAKURU-District, Karnataka.
Affiliated to Tumkur University (India).

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*Corresponding Author

Email: [sundarabindu\[at\]gmail.com](mailto:sundarabindu[at]gmail.com)

ABSTRACT

The growing integration of economies and societies around the world – has been one of the most hotly-debated topics in international economics over the past few years. It is going to be 25 years since India embarked on big-bang economic reforms in 1991. What are the achievements in terms of growth and inclusive growth in the post-reform period? What are the issues in poverty measurement? Has poverty declined faster in the post-reform period? What are the determinants and policies needed for reduction in poverty? Has inequality increased in the reform period? What should be done to reduce inequalities? This paper addresses these questions relating to economic reforms, poverty and inequality. There has been visible change but some failures in the processes and outcomes in the post-reform period. Poverty declined faster in the second half of 2000s as compared to that of 1990s. Inequality increased in urban areas. The paper discusses the ongoing debate about the effect of globalization on Indian poverty level. Among other things, creation of productive employment is crucial for reduction in poverty and inequality. New generation wants equality of opportunity rather than just rights based approach. India aspiring to be a global power should invest in rural area and improve agriculture. It has been concluded that the absolute poverty in India with the increasing globalization has fallen significantly but at the same time inequality has increased.

1. Objective

To assess the impact of globalization on poverty and inequality in India using qualitative analysis method.

2. Data collection

The secondary data has been collected. For this purpose, various magazines and journals have been used as it is a conceptual paper. Thus, the focus is to know more about the concept, its application and the impact on economy via other parameters. Therefore, qualitative and quantitative data have been used.

3. Introduction

Globalization as a term and concept has become popular since the last phase of past century and beginning of the new millennium, a revolution in IT, opening unprecedented doors of communication smashed the national boundaries replicating the world as global village. Ideologies too got mingled along with culture, expediting cross border movement of capital, labor & technology. It has encouraged the use of more efficient technologies and imports of renewed sources of energy in place of domestic natural resources.

4. What is Globalization?

Globalization has many meanings depending on the context and on the person who is talking about. Though the precise definition of globalization is still unavailable a few definitions are worth viewing, Guy Brainbant says that the process of globalization not only includes opening up of world trade, development of advanced means of communication, internationalization of financial markets, growing importance of MNC's, population migrations and more generally increased

mobility of persons, goods, capital, data and ideas but also infections, diseases and pollution.

The term globalization refers to the integration of economies of the world through uninhibited trade and financial flows, as also through mutual exchange of technology and knowledge. Ideally, it also contains free inter-country movement of labor. In context to India, this implies opening up the economy to foreign direct investment by providing facilities to foreign companies to invest in different fields of economic activity in India, removing constraints and obstacles to the entry of MNCs in India, allowing Indian companies to enter into foreign collaborations and also encouraging them to set up joint ventures abroad; carrying out massive import liberalization programs by switching over from quantitative restrictions to tariffs and import duties, therefore globalization has been identified with the policy reforms of 1991 in India.

5. Poverty in India - the statistics

- 50% of Indians don't have proper shelter;
- 70% don't have access to decent toilets (which inspires a multitude of bacteria to host their own disease party);
- 35% of households don't have a nearby water source;
- 85% of villages don't have a secondary school (how can this be the same government claiming 9% annual growth?);
- Over 40% of these same villages don't have proper roads connecting them.

6. Economic reforms and causes of poverty in India

1. Impact of economic reforms on poverty in India, Neglecting the poor, once more.

Manufacturing, when well-handled, can literally provide hundreds of millions of jobs to workers coming from the rural exodus. However the manufacturing sector is finally growing, so there are good prospects to reduce the mass unemployment. But... that leaves the problem of rural poverty. To compare once more with China, the Chinese government has the merit to have very gradually opened its country and markets to the outside world rather than a "shock therapy." This means that it kept for more than a decade its rural safety nets, giving time to people to adapt to the transition and changes. On the other hand India just left its rural poor on their own, and their opposition to globalization is in fact very typical: every developing country where social safety nets were quasi-absent has in general a defiant population to the global process.

2. Lack of decent housing

On the bright side, as manufacturing develops, so does the tertiary sector which now provides services supporting the former such as better infrastructure, transports, and personal services. Plus, the services sector has a much greater impact on poverty than manufacturing, so its growth and expansion is but good news for tackling poverty in India (unemployment, quality job and income in this case).

Despite that and the development of real estate sector, hundreds of millions still lack a decent home, so there should be incentives for the market to cater to the needs of the poor with social housing so that the country gets a chance to solve the problem of its gigantic slums.

3. Market liberalization and globalization

If you were to believe what international organizations have professed for years in the context of the "Washington Consensus" , then you'd say (among other things) that pure economic growth systematically leads to less poverty.

However plenty of examples now prove that (partly) wrong, including in this case where growth and liberalization have contributed to the causes of poverty in India. They have exacerbated inequalities within the population and reduced the role of the state while it was direly needed to develop the country. In this sense growth itself risks stirring some tensions within a country between those who got rich and those who were left out.

There's nothing wrong with market liberalization in itself but in a developing country it can be disastrous because market forces will only invest in profitable areas which leaves plenty excluded in the country. The role of the state here is thus one of empowering citizens and making sure they can participate in the economy and growth of the country.

4. Faith in GDP vs. reality

The example of India has shown many that if growth does give opportunities to some to get out of poverty, it's also true that it doesn't prevent people from falling into poverty. The two trends – getting out and into poverty – seem completely unrelated, or at least becoming poor is not connected to growth. Thus many experts have argued that to make the most out of economic growth, the government at all levels should have invested in protecting the people, that is to say invest in public services, for instance in health care.

Diseases are one of the main causes of poverty in India, creating a major public safety disaster in India that contributes

to keep and make millions fall into poverty. It's estimated that each year, "the cost of health care pushes some 39 million people back into poverty", according to a recent CBS News report.

5. Land inequality and social justice

The issue of land inequality is an important bone of contention that if resolved could substantially alleviate poverty. The fact is that for each village, a few land owners have most of the land which they rent to other people to work on, at ridiculously high prices. It's a bit like the rent seekers in feudal societies: they prevent any real growth from happening and just suck up all the money - which they don't reinvest since they don't care all that much about the land itself. Not only is the situation stuck because of this, but land inequalities also reflect the huge imbalance of power carved in the rural society.

6. Land distribution - a marker of development

Nearly all the developed countries have shown at some point a pattern of very well-distributed land ownership (at least within the rural population), where up to 70 to 80% of the population would own the land (rather than 5% for example). From then on, economic development happened on the basis of more equal societies. But owning land also has a huge impact on agricultural productivity as people are generally willing to invest only in land they own and exploit for themselves. This increase in agricultural productivity then means more growth and less poverty at the same time.

After that, people start nurturing their physical and human capital, their kids can afford school, and the household gains higher social status, thus reducing social inequalities and problems of access to resources. So as you can see, land distribution is closely tied to economic power, social power and social status. The only little snag is that it takes a decade or two for the effects of land reforms to be felt in the economy, and long term prospect is usually a poor incentive in modern politics.

7. Landowners and powerful pressure groups

In fact there's another great hurdle: landowners. Ever since India's independence, land reforms have been on and off the political agenda and every time successfully thwarted by the efforts of landowners, although sometimes rightfully as the state had plans to strip them of their land without any compensation. Then again local officials, working hand in hand with property developers, have often achieved to expel countless poor farmers of their house without compensation, or pay, or notice. It just happened overnight. But doing that to richer farmers would of course upset the power structure in the society, which remains one of the causes of poverty in India by creating systemic discrimination.

8. Land grabs, another reason for poverty in India

In any case, big land owner or small poor one, you just don't go and take people's land without paying compensation for what you're doing. And it's not about paying a few symbolic rupees as it happens so often. It should be something more significant, up to an annual compensation - a real and fair incentive.

In the end you're taking the land to generate a great deal of wealth, so you could at least pay it fair. In a so-called

democracy, if private property is not respected, if there's no law, then people have very limited incentives to invest in their land and make it more profitable. They distrust their government and politicians and make it even more difficult to implement any policy at the end of the day. Today India still lacks the basic administrative and legal frameworks to make property transfers possible, or easier, in order to keep on implementing decades old land reforms.

9. Lack of sound institutions

The state is one more time responsible for contributing to poverty in India. It has failed to look beyond growth by leaving the rural exodus happen on its own, without planning whatsoever. That is to say, that even while Indians came to the city by tens of millions, there was hardly any institution present to help them make the transition and find a job in this whole new world. Or a house rather than some makeshift accommodation in the slums (but that would have implied planning housing for everyone, which requires a lot of work, so...).

Overall those who have been doing better than others are overwhelmingly Indians who received help from personal connections from the city. Having a friend or a parent, someone who knows his way around the city is invaluable help for any newcomer and a life-changing advantage. As for the rest of the people... that's just too bad for them.

7. Discrimination & cultural causes of poverty in India

1. Caste-based segregation

The Constitution of India has officially abolished the system of caste in the country a while ago (1950), and yet it's hard to get rid of an age-old system that organizes society. It's particularly for the Dalits (150 million people) – aka the Untouchables or Harijans – that things prove difficult. Being the out-caste “caste” (i.e. so low in the social hierarchy that technically they don't belong to any caste), they've never even got a chance to work in agriculture. Everyone from landowners to local farmers look down on them and refuse them jobs on the ground of stereotypes such as “they don't work, they steal”.

Segregation can become quite intense when the whole society puts its mind to it. Indians are obviously not evil, but as in any society that struggles with huge poverty, social classes vie for resources. And the existence of very specific classes in India helps this process. Of course, the picture is not all black & white. Ever since the Constitution was introduced, huge efforts have been made to provide the Dalits with jobs and education, while certain groups lobby for their civic rights. But once again, given the size of India, it would really take the help of the whole population for things to change for good.

2. Social, institutional discrimination

In a way, the causes of poverty in India partly rely on social structures and relations. This creates a discrimination that generates an “artificial” poverty: between castes and genders, between religions and tribes. Likewise, in many cases the situation of women and their bottom-low participation in the economy among Asian countries counts as one more issue among the causes of poverty in India. Their restricted access to education in rural areas also makes any kind of family planning

and educative campaign on child diseases or education quasi ineffective.

8. Suggestions and Recommendations:

1. Access to markets and education for everyone:

Liberalizing the system of exports, imports and trade, along with the development of higher education in larger cities has been the major factor leading to the rise of the middle class and reduction of urban poverty in India. However, considering the scale of the country, it means that trade reforms and education should penetrate all layers of society if poverty is to be tackled substantially.

2. Investing in India's infrastructures and nascent sectors

As over 2/3rd of the population lives in rural areas, public investment should focus on developing agriculture and basic infrastructures, but “for real” this time. It is the role of the state to provide at least the most basic infrastructure and roads to connect villages. Finding these funds won't even be that hard if the government considers the ineffective subsidies given elsewhere for fertilizers and such. Plans to reintroduce or reinforce social safety nets have yet to be implemented.

3. Neo-liberalism, the state and poverty in India:

If a government is really serious about promoting grassroots growth for everyone, then market forces must be spurred; a legal framework is necessary to protect citizens and entrepreneurs and more support at the local level is needed (through technology investment and education).

4. Effective tax system:

India also needs a more effective tax system as its private sector grows. This will give it enough to finance the right pro-poor policies and review their efficiency. The economic reforms of 1991, despite spurring a huge growth of the economy, have left the country with terrible inequalities, within cities as well as between urban and rural areas. Effective tax system is a must to seriously tackle the causes of poverty in India and more specifically rural poverty.

5. Agriculture is the key:

This means that the government should have in priority overhauled the agricultural sector. By improving agricultural productivity it would have directly alleviated poverty by the hundreds of millions (just like in China did in the 1990s).

6. Attention to Industrial Development:

Expanding industry fast, by at least 10% per year to integrate not only the surplus labour in agriculture but also the unprecedented number of women and teenagers joining the labour force every year.

7. Application of ICT:

Empowering the population through universal education and health care, India must maximize the benefits of its youthful demographics and turn itself into the knowledge hub of the world through the application of information and communications technology (ICT) in all aspects of Indian life.

9. Summary and Conclusion

From the above analysis, it is clear 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. 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 favor 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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