

Economics from the Ground Up

The impact of globalisation on a developing country: India case study



Fast facts about India

- Location: Southern Asia, covering tropical to temperate regions
- Politics: World's largest democracy (former British colony, gained independence 1947)
- Population: World's second most populated country: 1.24 billion (2011) (China: 1.34 billion, 2011)
- Currency: Rupee (US\$1 = INR 54, November 2012)
- Human Development Index: 0.547 (2011) (ranked 134 out of 187 countries)
- GDP : US\$1.85 trillion (2011) (China: US\$7.3 trillion)
- Annual GDP growth rate: 7% (2011)
- GDP per capita: \$838 (2011) (adjusted for inflation – constant 2000 \$US) (China: \$2540)
- Consumer Price Inflation: 9% annual (2011)

Until the early 1990s, the impact of globalisation on the Indian economy was very limited. This was because, until then, the Indian economy had very high barriers to trade and investment. Since then, changes to economic policies, including the liberalisation of trade and investment, have allowed India's increased integration into the global economy. India is now one of the so-called "BRICs" nations – Brazil, Russia, India and China – which are often considered together to represent the emerging key players in the global economy.

Study tip/myth buster

The economic importance of India has been somewhat overshadowed by the other great economic and population powerhouse of Asia - China. One way to consider the effects of globalisation on India is to look at how its experience has been somewhat different to that of China, a country that has also been enormously impacted by globalisation. Throughout this section, some comparisons and contrasts will be made between China and India's experience of globalisation.

India before economic liberalisation and globalisation

Following India's independence from Britain in 1947, the economy was highly regulated, with a large amount of public ownership and high levels of protectionism. The post-colonial government saw international trade and engagement with the rest of the world, especially advanced western nations, as potentially detrimental to India. The government decided to model itself on a planned economy alongside capitalism – some private ownership of resources, with aspects of the economy under the control of government. They believed that high levels of protectionism would help India develop a thriving manufacturing sector. Consequently, from the 1950s, India pursued a policy of “self-reliance”, by maintaining a large public sector and high tariffs on imports.

Government policy limitations on the economy at that time included the points listed below.

- **Licensing system:** States and firms had to apply for licenses to set up industries. Licensing decisions were based on where the central government wanted development to occur, not on an efficient allocation of resources. Government, rather than the market, decided what would be produced, where and how. This included quantities produced, which were determined by licensing, rather than supply and demand (or the price mechanism).
- **High tariffs:** The government used high tariffs to close the Indian economy off from trade. This reduced the amount of foreign goods that could enter the Indian economy. By 1985, India's tariff rates were incredibly high. The lowest tariff was on the import of capital goods, which were taxed at 107%. The highest was on intermediate goods, taxed at 146%. This meant that, for example, if an Indian manufacturer wanted to import products to be transformed into something else in India, such as tins or packaging, the tariff would be one and half times the price of the imported product.
The government promoted a system of **import substitution**, encouraging local Indian companies to produce what was needed, rather than import it. It was hoped this would drive development by creating internal markets.
- **Limits on business size:** The government reserved certain areas of the economy for small firms only. There were 800 products that could only be produced by small companies – those with only one plant and capital investment below a certain value.
- **Import quotas and bans:** The government controlled imports via non-tariff barriers such as quotas and the issuing of import licences. Bans on certain imports also meant many industries were restricted. Some businesses could not import components and inputs required for production processes, or technology and machinery required to innovate production and improve efficiency. If you were a manufacturer trying to import the latest machinery and technology from Germany, for example, there was an enormous amount of

bureaucratic red tape to manage. The import of some consumer luxury items was banned altogether.

- **Fixed exchange rate:** India maintained a fixed exchange rate, with the value of the rupee pegged to the value of a basket of the currencies of India's major trading partners.

The negative effects on India's economy of these policies were enormous. They included:

- The stifling of competition and innovation;
- Limited production of goods (and services);
- Failure to produce in areas where India had a comparative advantage;
- Limits on the ability of companies to import new technology to improve productivity;
- Goods were sometimes poor quality or obsolete;
- Higher consumer prices;
- Lack of consumer sovereignty; and
- Corruption.

India opens up to globalisation

By the end of 1990, India was in serious economic crisis – the government was close to default on its debt and it had barely enough foreign currency to pay for several weeks of imports. That brought about major reforms which fundamentally opened up the Indian economy and allowed it to become part of the increasingly globalised economy. India's government had also seen the benefits experienced by the then-newly industrialised economies (the "tiger" nations) of East Asia, like Korea, which were reaping the rewards from opening up their economies.

The reforms included:

- Reducing the role of the licensing system, removing licensing from almost all types of products apart from those commonly regulated by governments (e.g. tobacco and alcohol);
- Rapid privatisation of some state-owned enterprises;
- Lowering tariffs, with average Indian tariff rates reducing sharply over the decade from a weighted average of 72.5% in 1991-2 to 24% in 1996-7;
- Floating the rupee;
- Removing subsidies on some exports; and
- Opening up the economy to international trade and foreign direct and portfolio investment.

Following the first wave of liberalisation and deregulation, the Indian government has also undertaken further policy reforms. These include:

- In 1995, India joined the World Trade Organisation. As was explained in section XX above, this has imposed an obligation on India to continue opening up its trade by reducing tariffs, and continuing to remove subsidies on exports and quotas on imports.
- India is now a member of the G20, which is a group of finance ministers and central bank governors from most of the world's twenty major economies.

- In September 2012, the Indian government further relaxed the restrictions on foreign investment, allowing foreign companies to open branches in India without needing a local (i.e. Indian) partner.

The impact of globalisation on trade and investment flows

One very substantial effect on India of globalisation and increased integration into the global economy has been a substantial increase in trade and investment flows over the past 20 years. These positive effects include:

- **Increased foreign direct investment (FDI):** By relaxing many ownership limits on inward foreign direct investment (FDI coming into the country), India has opened up substantial new opportunities. Currently, much manufacturing, infrastructure and mining is open to 100% foreign ownership. The main sector that has attracted FDI is the services sector, including banking, finance, telecommunications and computer software development. According to an OECD report in 2010, in the past two decades, the stock of inward foreign direct investment in India has been multiplied by a factor of 74. Despite this rapid increase, FDI in India is actually still quite low compared to other countries in the region. This is because of the persistence of limits on the amount of FDI allowed in some sectors of the economy and the infrastructure limitations. As was discussed in above, FDI in a developing country like India helps to increase the country's productive capacity, as well as promote the efficient use of resources by providing access to technology. One industry that has benefited from foreign direct investment is the automotive and automotive components sector. In 2010–11, more than 17 million vehicles were produced, and India's automotive sector now accounts for more than 5% of GDP and directly employs more than 5 million workers.
- **Increased exports and imports:** As soon as the Indian government began liberalising its trade regime and opening up its economy in the 1990s, flows of exports and imports increased. In the decade between 1991 and 2001, exports grew on average by 10.8% and imports by 9.1%. As a result, India's **Trade-to-GDP ratio** increased rapidly, to around 40% by 2008. These increases also led to an increase in India's share of global trade. As is clear from Table 1 below, in the two decades until 2011, India almost tripled the share of GDP it receives from exports, and its exports as a share of GDP now compare favourably with a country like Australia.

Table 1: The share of GDP from exports – selected countries

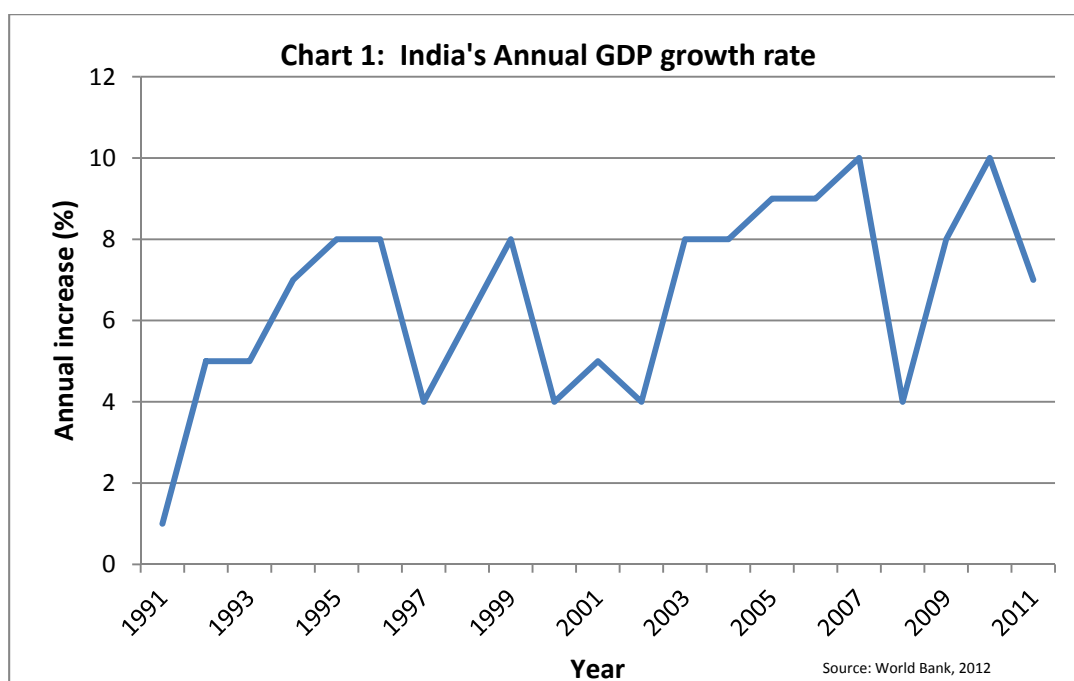
Country	Year	Proportion of GDP from export of goods and services.	Range over time
Australia	2011	21%	Ranges between 20 - 23%
China	2011	29%	Ranges between 27 – 38%
India	2011	25%	Ranges between 20- 25%
India	1992	9%	

The impact on economic growth, GDP per capita, poverty rates and material living standards

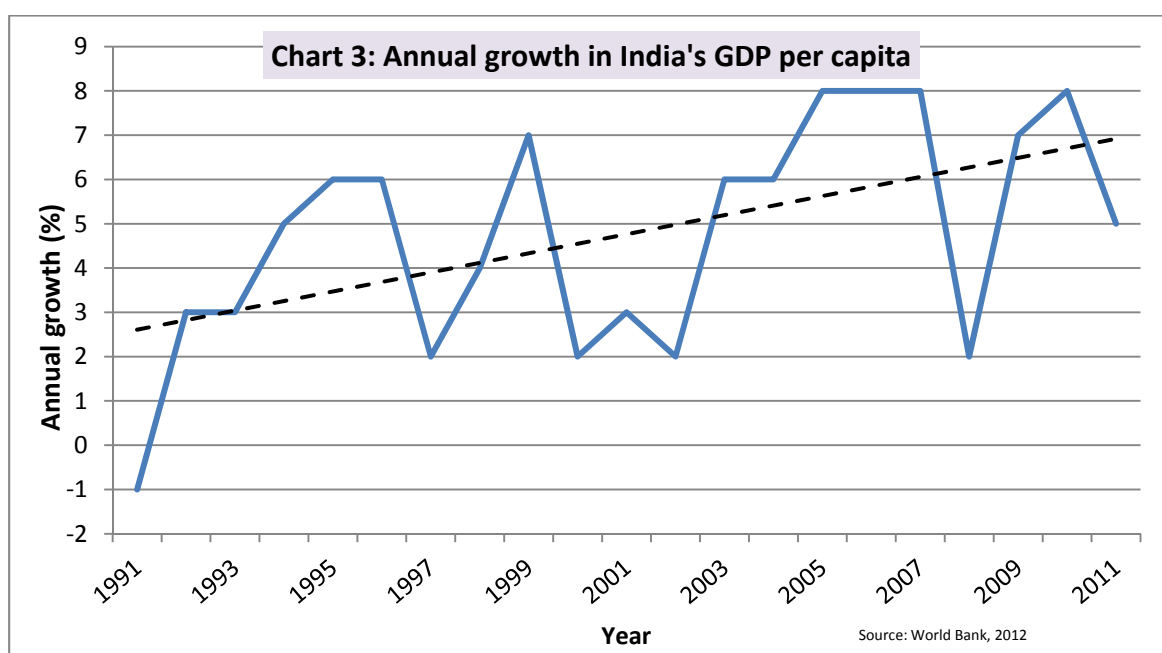
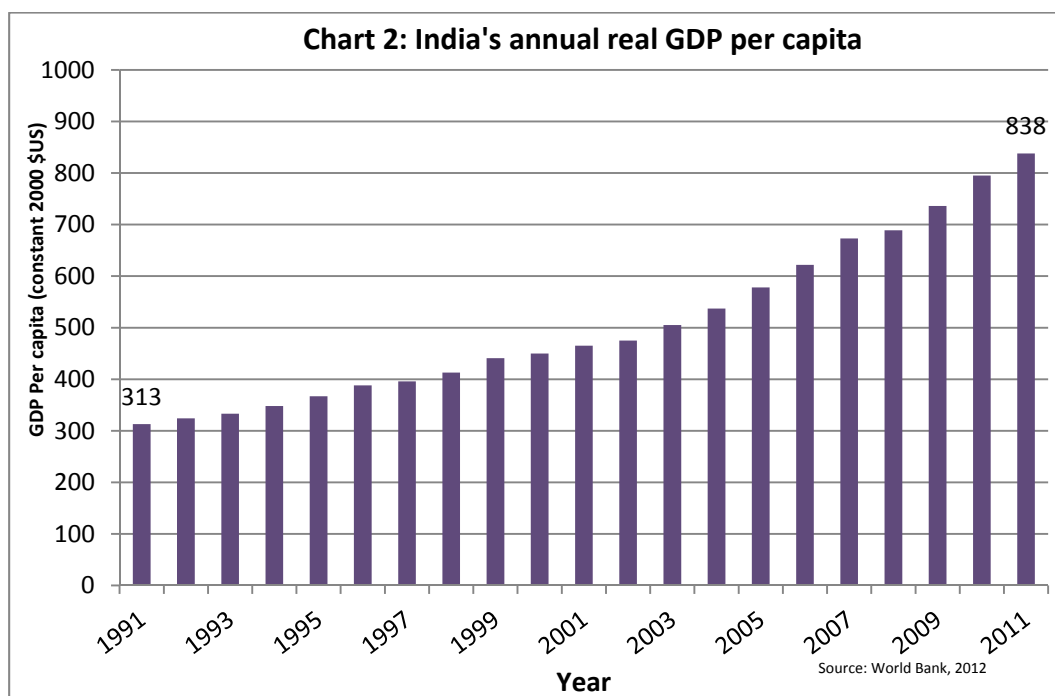
Rapid economic growth in India has occurred as a direct result of the Indian government opening up its economy. Increased exposure to the international economy raised productivity in India, allowing the economy to grow at a stronger average rate following the reforms of 1991 than at any other time in its recent history.

Domestic firms were able to access foreign technology and cheaper imported inputs as tariff barriers and quotas were removed. Foreign direct investment provided increased access to capital, facilitating expansion for local firms. As the global integration of the economy accelerated, India was also able to take advantage of its relatively cheap, skilled labour force to become a major service provider in global information technology, telecommunications, banking and finance. This included the outsourcing of many technology-based jobs by large MNCs from developed economies like Australia. This will be discussed in more detail when considering the changing structure of the Indian economy below.

Chart 1 below highlights that the Indian economy grew very rapidly between 1992 and 2011 – the average annual increase in real GDP for that period was almost 7%, and it achieved growth rates of between 8 and 10% for many years since 2000. The OECD estimates that India's share of the global GDP is between 2 and 3 % - a share comparable to that of Canada. Like most global economies, the Indian economy experienced a significant decline in economic growth as a consequence of a GFC, with the annual growth rate collapsing to 4% in 2008. It has since recovered somewhat to rates consistent with its pre-GFC highs.



GDP Per capita (per person) in India has grown substantially since India's embrace of globalisation. While the rate of growth has varied over time, the dotted line in Chart 2 shows there has been an upward trend in growth of GDP per capita. Chart 3 also shows that, since 1991, real GDP per capita, has more than doubled.



Rates of poverty have been substantially reduced since 1994, as can be seen from the data in **TABLE 2 below**. This is because high economic growth is expected to be accompanied by an increase in household material living standards.

Table 2 Poverty headcount ratio (\$1.25 per day) (% of population)				
		1994	2005	2010
	India	49	42	33

Source of data: World Bank, <http://data.worldbank.org/>

While these statistics show an impressive achievement – a reduction in the proportion of the population living in poverty by 16 percentage points in just over 15 years – they also reveals that one third of the population of India still live in poverty, according to the internationally accepted measure of less than \$1.25 per day,. With a population of 1.24 billion, this represents more than 400 million people. Based on the World Bank statistic that globally almost 1.3 billion people live in poverty, we can conclude that India accounts for almost 30% of those living in poverty around the world. Poverty statistics do vary, however, and according to the United Nations *Human Development Index Report*, 2011, 41.6% of Indians live on less than \$1.25 per day. India's national poverty line is lower than the UN's, but even according to that more generous measure, 27.5% of the population live in poverty. Regardless of which statistics are used, there has been a significant reduction in Indian poverty levels since the opening up of its economy in the 1990s.

Material living standards: As a result of rising GDP per capita and falling rates of poverty, the material standard of living for many Indians has improved as a result of globalisation. The selection of statistics about changing access to particular goods and services listed in **TABLE 3 of Application exercise 1 (below)** helps to highlight the overall improvement in Indian living standards since globalisation.

A more resilient economy?: Some economists argue that the rapid depreciation of the rupee after floating not only improved net exports at that time, but has also allowed India to weather subsequent international shocks. For example, after the Asian Financial Crisis of the late 1990s, the rupee depreciated and allowed India to remain competitive as their neighbours in the region also experienced falling currency values that reduced the price of their exports. However, others have argued that, by opening itself up to the global economy, India has made itself more vulnerable to external shocks. The rapid decrease in economic growth during the GFC (see chart 1 above) may be testament to that.

Application exercise 1: Analysing data about India

Examine the information provided in the tables below and answer the questions that follow.

Table 3: Annual rates of GDP growth in India prior to and during the globalisation era

GDP growth pre-globalisation	
Year	GDP % growth annual
1991	1.1%
1992	5.5%
1993	4.8%
GDP growth globalisation era	
Year	GDP % growth
2007	9.8%
2008	3.9%
2009	8.2%
2010	9.6%
2011	6.9%

Source: WORLD BANK <http://data.worldbank.org/>,

TABLE 4: Selected indicators of increase access to goods and services in India

Indicator	2001	2003	2009
Access to electricity (% of population)	na	na	66.3
Fixed broadband Internet subscribers (per 100 people)	0.004	na	1
Internet users (per 100 people)	0.66	na	10
Mobile cellular subscriptions (per 100 people)	0.61	na	72
Passenger cars (per 1,000 people)	na	8	12
Telephone lines (per 100 people)	3.6	3.8	2.6

Source: World Bank Databank, <http://data.worldbank.org/>

Questions:

1. Using the data from Tables 1 and 2, compare and contrast the average annual rates of growth in GDP in India prior to and during the impact of globalisation on the Indian economy.
2. Explain three reasons why globalisation accelerated the rate of GDP growth in India.
3. Select three indicators from Table 2 and explain how the changes in those indicators may provide evidence for the claim that, on average, Indians have experienced an improved material standard of living as a result of globalisation.

The impact of globalisation on the structure of the Indian economy

If China is sometimes referred to as “the world’s factory”, then India could rightly be called “the world’s call centre and business processing centre”. The expansion of the service sector in India has been a key result of globalisation, particularly in sectors such as information technology, business processing and call centre operations. These sectors are the major source of economic growth for the country, providing more than half of the value of India’s output. India is also an exporter of software workers to the world, with remittances back to India continuing to be a significant source of income for many Indian families.

Major banks and telecommunications companies around Australia and the world have shifted many jobs to India. For example, since 1989, the ANZ Bank has outsourced software development jobs to the large Indian city of Bangalore. According to the Australian Government’s recent paper, *Australia in the Asian Century*, the share of India’s modern services sector – IT, business and financial services – has doubled in the past decade, to around 19% of total service export earnings.

Some of the reason for the rapid development of the services sector, and particularly banking, finance, IT and telecommunications, include a number of factors listed below.

- The development of technology that enabled multinational corporations to outsource many of their back office, customer service and IT roles.
- India’s well-developed computer and software industries, large number of well-educated people from the middle class in the workforce, and low wages made it a prime location for outsourcing in the field of information technology, including software development and back office processing. Much of the urban middle class is highly educated, and they readily moved into the services sectors of banking and finance.
- While English is not the official language of India, it is the most important language for national, political and commercial communications in the country. The ability of educated Indians to communicate in English has been an important factor in India’s capacity to be a provider of services to the global market.
- Across the globe there has been increased demand for intermediate and final consumer services in areas such as banking and customer services, increasing demand for the services India has to offer.

It is worth noting that India’s entry into the global economy via a rapid expansion in its service sector is not typical for a developing economy. A common process of economic development for many countries is the transformation from a predominantly agricultural economy, to one focused on manufacturing, and then into an economy dominated by the services sector. Much has been made of the fact that India has not taken this typical path to development. Not only does agriculture remain a very important part of the Indian economy, the contribution of industry (including manufacturing) to the Indian economy remains almost unchanged in the last 30 years. As the OECD observes ““Instead of developing a pattern of specialisation in low-skilled, labour-intensive sectors,

as in China, India has specialised in activities that are relatively skill and capital intensive, whereas its manufacturing trade has been highly concentrated in low-technology goods.” (p.22, OECD, *Tackling inequalities in Brazil, China, India and South Africa*, 2010)

There have been reasons why manufacturing has failed to thrive in India, including the relevant points listed below.

- Large industry continues to be subject to a lot of difficulties in terms of the operating environment in India. One example of these challenges is the poor level of infrastructure available in the country. See Application exercise x.2 below for an example of one of the serious challenges faced by Indian industry. Some economists, including the speakers at the IMF at the “India: the Road Ahead” seminar in 2011, have observed that it has been somewhat by default that the services sector has had to take up the burden of growth in India as it is much less tightly controlled than manufacturing in terms of labour market regulation. Furthermore, according to the OECD, Indian manufacturing firms have not fully exploited the comparative advantage that stems from its access to relatively low labour costs. As a consequence, the industry has remained small in scale.
- While average tariffs have fallen from their incredibly high pre-1991 levels, they still remain high by global standards. This can increase costs for Indian firms importing capital equipment and intermediate products, and works to restrict the expansion of its manufacturing industry. This can reduce the enthusiasm for FDI into the country, and thus limit access to capital for expansion.

The changing structure of the Indian economy since 1980 is considered in more detail in **Application exercise 3** below.

The relative importance of the services sector in terms of generation of national production is not, however, reflected in its contribution to employment in India. Agriculture remains the main source of employment in rural India, and India continues to have a large excess supply of labour in rural areas, while the service sector employs around one third of the Indian labour force. This has contributed to a widening of inequality in income distribution, as will be discussed shortly.

Application exercise 2 – Infrastructure challenges in India

It is generally agreed by most commentators on India, both local and international, that infrastructure remains one of the key factors that limits the economy and slows down its integration into the global market place.

Anyone who has visited India will know that roads are in disrepair, and access to water and electricity can be very unreliable, sometimes dismal. Most people agree that one of the keys to running India more efficiently is developing its infrastructure. In fact, infrastructure has been described as India's 'Achilles Heel' – the country's greatest weakness. For example, India spends on average 4.5 to 5% of GDP on infrastructure each year, compared to China which spends more than double that, in excess of 9% of GDP.

There are major difficulties in moving goods from farms or factory to ports or airports, or even to local markets in nearby towns. Electricity problems hold back manufacturing and many manufacturers need to generate their own power because they can't rely on the electricity system. Some very large private sector consumers of electricity have even built their own independent power stations to provide reliable electricity to their factories. Many hospitals, airports and even apartment buildings also use back-up generators. The unreliability of the system was clearly illustrated in late July 2012 when massive blackouts rolled across India in one of the world's worst-ever power blackouts. More than 600 million people across the country lost electricity, mainly across a stretch of about 2000kms in the north of the country. While power outages are not uncommon in India, it was the extent and the length of the July outages that were shocking. In addition, some 400 million people living in rural India still don't have electricity at all.

India expects to double its energy consumption by 2020. However, the government has faced vocal public opposition and higher costs for both of the sources from which it hoped to generate this much needed future energy – nuclear power and coal.

Questions:

1. Explain why infrastructure has been described as India's "Achilles Heel."
2. Approximately what proportion of India's population was affected by the power blackouts of July 2012?
3. Explain why lack of spending on infrastructure has the effect of "holding back" India's economy
4. Explain the link between inadequate electricity supply and the fact that India's manufacturing sector has not grown rapidly during the country's period of globalisation.

Application exercise 3 – India's changing economy

TABLE 5: The changing structure of the Indian economy from 1980 to 2011

Year	Percentage of GDP from Agriculture	Percentage of GDP from Services	Percentage of GDP from Industry (includes Manufactures in brackets)
1980	36	40	24 (16)
1991	29	45	26 (15)
1997	26	48	26 (16)
2001	23	52	25 (15)
2011	17	56	27 (14)

Source of data: World Bank Databank, <http://databank.worldbank.org>, 2012. Figures rounded up to whole numbers.

Chart 5

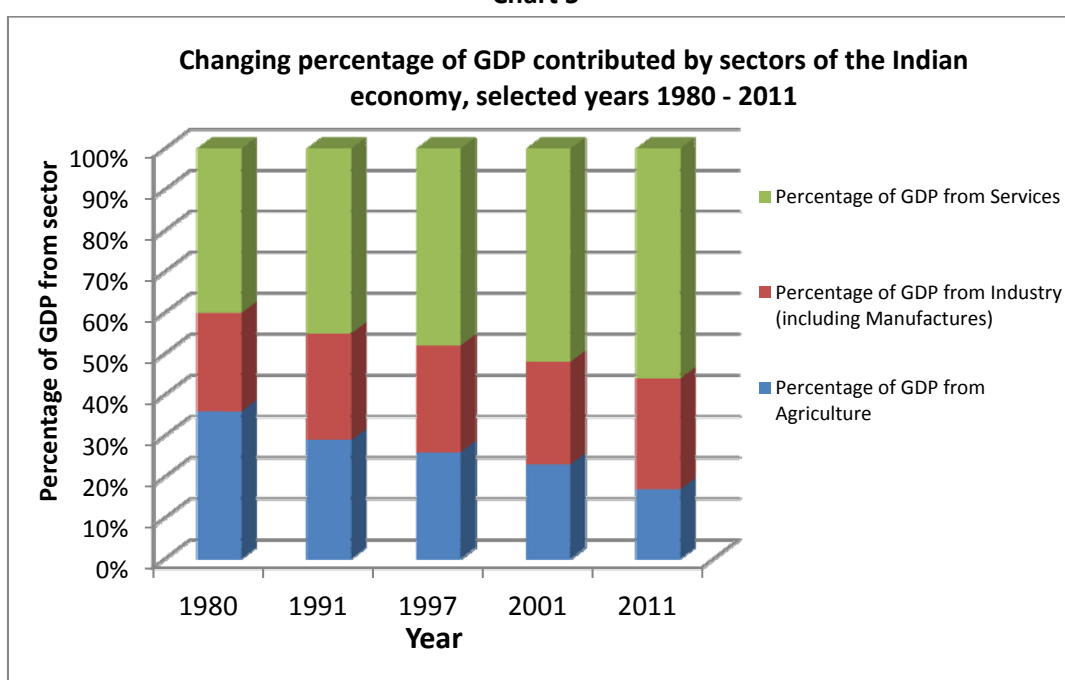


Chart 6

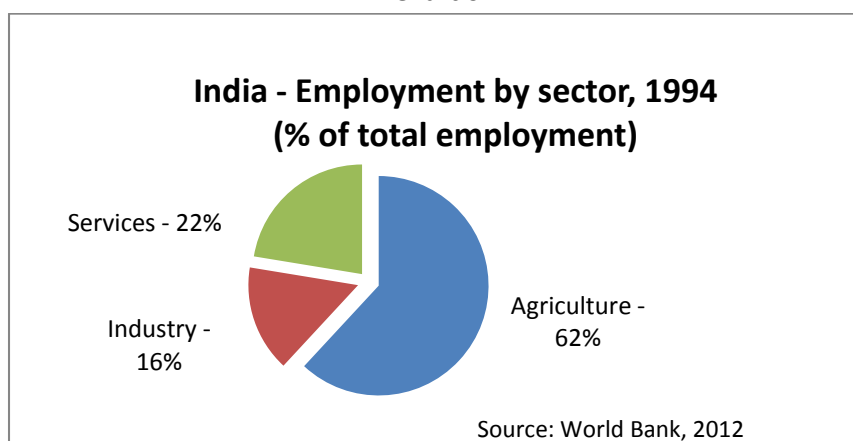
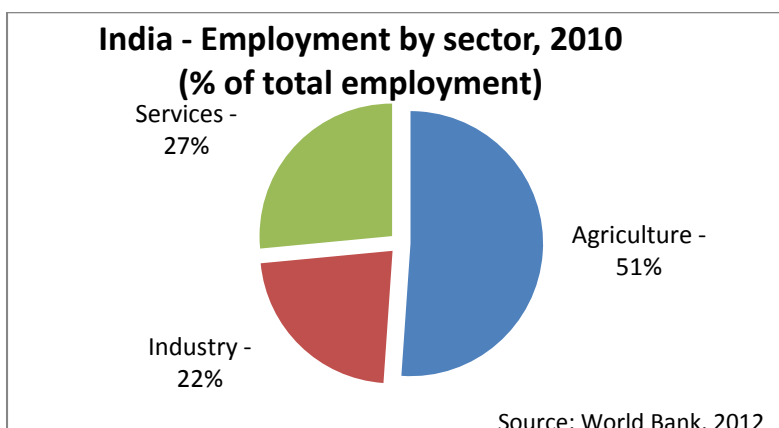


Chart 7



Analysis questions:

1. Discuss the change in the structure of the Indian economy since the early 1990s, with reference to the data and charts provided.
2. Explain why and how this change to the structure of the economy has occurred, and how the globalisation of the Indian economy has contributed to this pattern of economic development. Use supporting evidence from the text.
3. Discuss how the relative price of labour (i.e. relative wage rates) is likely to have changed across the three industry sectors.

Effect of globalisation on income distribution, society and non-material living standards

Strong economic growth in India has helped to reduce extreme poverty, but the overall benefits of integration into the global economy (globalisation) have not been shared equally, with income inequalities increasing over this time. China has managed to pull those people living at the very edge of subsistence out of poverty. However, despite high growth rates, India has not been able to deal effectively with poverty and the gap between the rich and the poor has grown. Some Indian scholars claim that globalisation has allowed a small minority to reap the bulk of the benefits of globalisation.

Rising inequality

As was explained in Chapter 6, the Gini coefficient is a numerical measure of income distribution between 0 and 1, where 1 represents complete inequality and 0 represents complete equality. It can provide a snapshot of the change in degree of inequality in income distribution across a period of time or between different countries. The Gini coefficient for India (Table X) reveals that there has indeed been an increase in inequality in the country over the period globalisation.

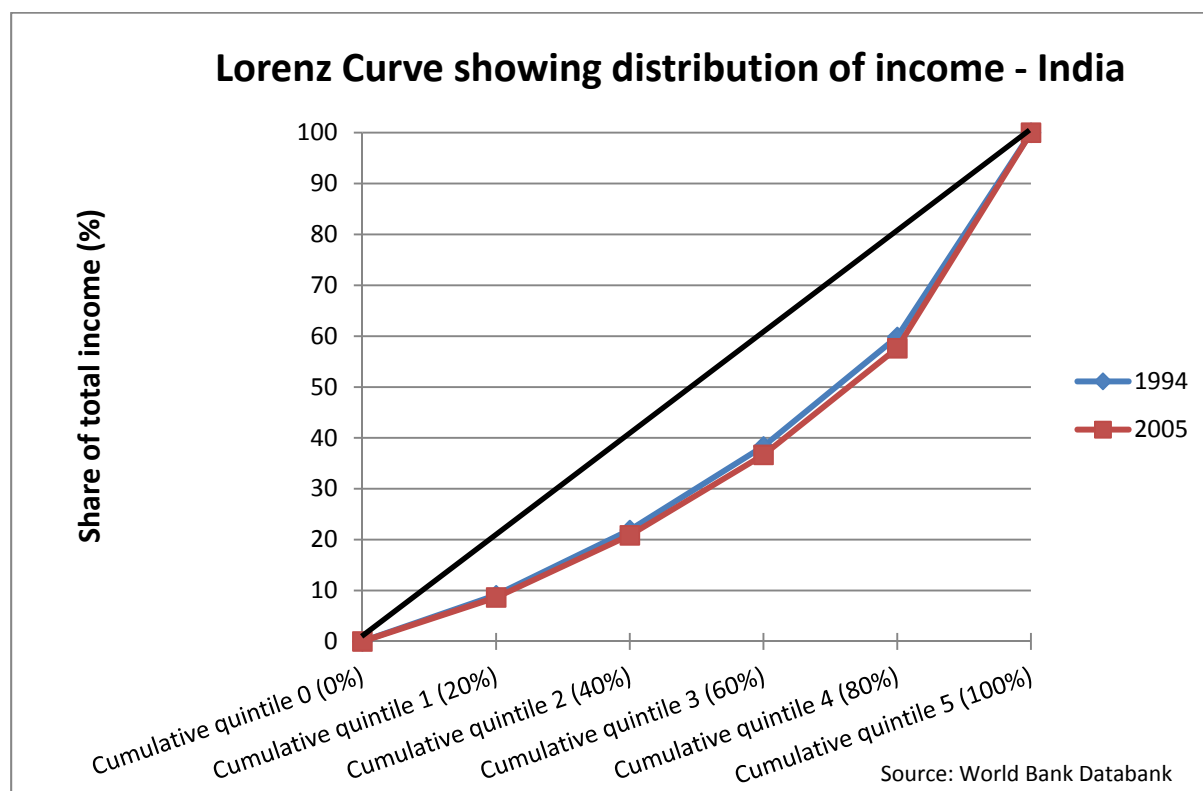
Table 6 : Gini coefficient, selected years

	1994	2005	2011
India	0.308	0.334	0.368

Source of data: World Bank, <http://data.worldbank.org/>

The changing distribution of income for India is also shown in the Lorenz Curve below (**FIGURE 1**). The black line represents what India's Lorenz Curve would look like if distribution of income were completely equal. The further the actual Lorenz Curve is from the black line (perfect equality), the higher the Gini coefficient, and the higher the level of inequality in income distribution. As you can see, the 2005 Lorenz Curve has further away from the line of perfect equality than the 1994 Lorenz Curve, confirming that the distribution of income in India has become less equal over that time.

FIGURE 1



Agriculture: Unfair trade, informal sectors and inequality

One reason for the increasing inequality in India is the persistence of a large percentage of jobs in the agriculture sector, and the deceleration of growth in that sector. As noted earlier (see **Chart 7 above**) more than 50% of India's workforce still work in agriculture. The agricultural sector has not had the same development, investment in technology and efficiency gains as other sectors of the Indian economy since globalisation.

In addition to **a lack of investment and efficiency gains**, a further factor holding back the development of Indian agriculture is **remaining barriers to trade**. Despite the overall opening up of global trade and reduction of tariffs across many industries, India (and many other developing countries) still struggle to sell agricultural exports to many developed countries. In particular, the United States and the European Union countries heavily subsidise their agricultural sectors, which effectively acts as a barrier to trade. Critics of globalisation observe that agricultural subsidies in developed countries, by keeping down costs of production for farmers in the richer world, have helped to drive down prices received on the global market for products also produced by farmers in

poor countries. WAs was discussed in Chapter 10, Australia is one of the few developed economies that does not have high protectionism in its agricultural sector. The issue of agricultural subsidies and other forms of protection remains a major point of contention between the developed and developing nations in the current round of WTO trade negotiations.

It can be hard to gain reliable statistics for incomes in India, particularly in the agricultural sector, where work is often seasonal or informal. However, the Indian Human Development Survey (<http://ihds.umd.edu/>) published in 2005 (and due to be conducted again over 2012-13), provided an insight into major differences in incomes between rural and urban households in India.

It is clear that **urban households** dominate the higher income sectors of Indian society. According to the survey, urban households made up only 9% of the lowest income quintile, and make up 56% of the highest income quintile. The typical urban household earns more than twice the income of a typical rural household in India. Furthermore, the poorest people living in cities are still considerably richer than the poorest rural household. Average incomes of the poorest in urban areas are 2.6 times that of the poorest in rural areas. The majority of people living in rural area are dependent on agriculture for their income, and the majority of farmers have incomes close to the national poverty line, with many in debt. During the mid-2000s there was a spate of farmer suicides as a result of extreme indebtedness.

There is also considerable **regional disparity** in India, with some areas of India sometimes having average incomes twice that of other poorer states. In most of the poorer states, agriculture is the main way of life, and industry is almost absent. The survey also concludes that, as in so many countries, the **education of members** of the household is one of the primary determinants of income.

Another key factor creating inequality in the distribution of income in India is the importance of the **informal sector**. India's labour force increased on average by around 6 million people (more than the population of Victoria!) per year over the last 15 years. India has quite a low official unemployment rate compared to many developing and developed countries - around 3 to 4%. However, in poor countries like India, the lack of well-developed unemployment compensation schemes makes unemployment an impossible situation for most of the population. Therefore, the unemployed search for any kind of employment at all just to survive. As a result, under-employment and informal employment are widespread. This includes those who work outside the national labour regulations and have little employment security, and the size of the informal sector in India is in fact much larger than other similar developing countries, like Brazil and China. Some estimate it could be as much as 55% of the workforce. There is a large difference in incomes between formal and informal workers. For example, the International Labor Organization (ILO) estimates that casual workers received around 44% of the income of regular salaried workers in India, which is a much lower percentage than in the 1990s. This contributes to the persistence of income inequalities.

The upshot of these statistics is that unskilled and semi-skilled workers, and those who work on the land in India, simply do not have the same employment and income opportunities from globalisation as those who have been able to take advantage of globalisation by accessing more skilled, higher paying jobs, usually in the urban areas.

Application exercise 4: Other indicators of quality of life

Even though poverty rates remain high in India, and inequality has grown, it is unlikely that the same growth in average incomes would have been achieved without globalisation. And there have definitely been improvements in many other indicators of the quality of life. Examine the table below, which outlines some statistics about changes in the quality of life in India and then answer the questions that follow.

TABLE 7: Changing quality of life in India

Indicator	Pre-globalisation (early to mid-1990s)	Globalisation era (2006 to 2010)	Percentage change over period
Average life expectancy (years)	58 ^a	65.4 ^f	
Births attended by skilled health staff (%)	34 ^b	53 ^d	
Adult literacy – total population 15 years & over (%)	48 ^a	63 ^c	
Adult literacy – males (%)	62 ^a	75 ^c	
Adult literacy –females (%)	34 ^a	51 ^c	
Access to improved water source (% of total population)	71 ^a	92 ^e	
Access to improved sanitation facilities (% of population)*	18 ^a	34 ^e	
Access to improved sanitation facilities (% rural population)	7 ^a	23 ^e	

Source of data: Worldbank Databank

Data years: ^a 1991, ^b 1994, ^c 2006, ^d 2008, ^e 2010, ^f 2011.

Questions

1. Calculate the percentage improvement in each of the indicators above and enter them into the table.
2. Discuss how these statistics could be said to support the claim that “Life on average has improved in India since globalisation began.”
3. Identify any statistics in this table that worry you? Discuss.

The effect of globalisation on the environment of India

As India's economy has grown since globalisation, there has been increasing concern about the environmental impact of economic development in the country. India's population continues to grow, and a larger population means increased pressure on all natural resources, including water resources and forests.

Deforestation has become a major issue in India, as it is in many developing countries. India is witnessing a rising demand for forest-based products, causing increasing deforestation and the encroachment of clearing into areas that have previously been protected. As the economy grows there is also increased competition for water among various sectors of the economy, including agriculture, energy generation and industry. Increasing water pollution is also a rising problem in India.

As incomes and urbanisation have both risen alongside globalisation in India, so has the demand for and access to material goods, including motor cars. Consider the change in ownership of cars revealed in Table 7 above. The rate of private car ownership has increased by 50% in 6 years. At the current level of 12 cars per 1000 people, with a population of 1.24 billion, that equates to almost 150 million cars in India. This number will only increase as incomes grow, which will result in an enormous increase in production of greenhouse gases. India is also one of the world's largest consumers of edible oils, and there has been a rapid increase in palm oil imports from countries where the oil's production continues to threaten the habitats of endangered species.

Industrial pollution is creating increased air pollution and greenhouse gas emissions, with India's CO₂ emissions from manufacturing and construction increasing at a rapid rate. However, unlike China, because India's globalisation-driven economic growth has not been dependent on a rapid expansion of manufacturing, India's CO₂ emissions per head are still quite low by global standards, and extremely low compared to developed economies like Australia and US. Nonetheless, they have been rising steadily, increasing by around 75% since the early 1990s. There has been an increase in overall emissions by more than 130% over this time.

It could be argued that the environmental problems faced by India are simply a result of a growing population and an economy attempting to provide a better standard of living for that population, many of which still lack for basic needs. However, as there is a clear link between the opening up of the Indian economy to globalisation and its rapid economic growth since the early 1990s, it could be argued that globalisation has contributed to India's environmental challenges. Also, some multinational corporations have been responsible for environmental and social disasters of enormous magnitude in India, such as the infamous Union Carbide Bhopal disaster of the 1980s. In 1984, US corporation Union Carbide's badly-maintained pesticide factory in the Indian city of Bhopal released a plume of toxic and lethal gas, killing up to 20,000 people and affecting the local area for many years. It remains one of the largest industrial disasters in history. Lax environmental protections and regulation have been blamed for the disaster, and to this day adequate compensation still has not been paid.

Application exercise 5: The other side of Outsourcing – the Indian perspective.

Earlier in this chapter, there was discussion of the impact on the Australian labour market of outsourcing of jobs to India through offshoring. Outsourcing involves a company using an external organisation to provide services, or undertake some of the operations of the company. Offshoring refers to a process whereby jobs are relocated overseas, sometimes by outsourcing, but sometimes by directly relocating company operations to an overseas location, usually for the purposes of reducing labour costs or accessing local markets.

On the other side of the outsourcing equation are the “winners” from this process – the call centre and data processing employees who perform the work at the various outsourcing locations throughout India.

The people who work in these locations are usually university-educated, middle-class younger people, for whom the job is a highly sought-after career opportunity. In a country with a very young population and high rates of poverty, these jobs are highly valued. This contrasts significantly to the profile of call centre workers in Australia, who in the past tended to be less professionally trained, younger and working in part-time or casual positions while studying at university, or as a fill-in job on the way to something better.

Working in customer service on behalf of Australian (and other) firms exposes thousands of young Indians to modern business practices, and pays very good salaries by local standards, even though the labour costs are close to one-tenth of those in Australia.

Providing outsourced service to many companies from high-wage economies throughout the world has been a major driver of the Indian economy.

It is not only call-centre services that are outsourced to India. From the mid-1990s, many large companies outsourced their software development work to Indian companies. India has a large pool of well-trained IT specialists. Indian companies also provide services in health screening analysis (such as viewing CAT scans and writing up reports), monitoring security camera feeds, and completing tax returns and managing investment funds.

Outsourced!

In 2006, an Australian documentary called *Outsourced!* (not to be confused with the American movie comedy and TV series of the same name) investigated this phenomenon in detail.

A synopsis of the film is available at:

http://www.documentaryaustralia.com.au/case_studies/details/77/outsourced

What follows is a brief summary of the main themes in the film. If possible, your teacher may arrange for your class to view the film if your school has a copy. If not, you can still complete the tasks, based on the information provided here and some Internet research.

Outsourced! portrays the lives of four young Indian women who work in call-centre jobs at a company now called Genpact. The film investigates how the rise of India as a key player in the global market for provision of these services has impacted on Indian society, through the eyes of the young women. As the synopsis says, outsourcing has turned some cities into “technological boomtowns”.

The film looks at the fact that the boom in call centres is also exporting Western culture to India. The film highlights the benefits of call centre jobs for women in India, including financial freedom and improved social status. It shows how the parents of one female worker are concerned about their daughter working at night. Another mother is concerned about her daughter's interest in pursuing a career, and really just wants her daughter to get married. Another worker has married a co-worker from a different religion, something commonly frowned upon in some parts of India. A further female worker is criticised for a lifestyle that includes drinking alcohol, smoking and some elements of sexual liberation.

The film quotes from an industry analyst who says that there are likely to be tens of thousands more jobs lost from call centres and other service industries (finance, banking, IT) in the coming years. He also says that Australia's future lies in developing more highly-skilled IT jobs. The film investigates a project that was developed in Australia and then sent offshore to India where workers manage the 24/7 help desk providing support.

The film contrasts the experience of the Indian and Australian call centre workers. It shows the Australian workers during peak hour at the call centre in Melbourne. As the film notes, working in a call centre anywhere in the world is stressful and repetitive, and every day workers in both Indian and Australian call centres deal with abusive, and sometimes racist, calls. The film's producer reported that after the film's screening in Australia, the public was actually more polite to Indian call centre workers!

Recent developments

Since the film was produced in 2006, there has been an even greater acceleration of the rate of outsourcing of call centre jobs, with a number of large companies continuing to offshore more and more of their call centre roles. These include Optus, Jetstar and Telstra who have moved customer service operations to the Philippines. In fact, there are an increasing number of Australian companies outsourcing to call centres in the Philippines. Workers in Philippines call centres say they are paid well for doing a good job, and receive benefits and performance incentives as well. They also appreciate the training provided by the companies they work for.

In fact, India is fast being overtaken by the Philippines as a destination for call centres, according to statistics reported by Australia's ABC in July 2012. The report also asserted that the Filipino accent, being slightly closer to an American accent, has encouraged many US firms to relocate their call centres there from India. The report included a claim from the chairman of Australia's call centre industry body that all companies that offshore base their decision almost exclusively on costs. It notes that entry level workers at Australian call centres earn around \$40,000 a year, whereas those in the Philippines earn around \$3,500. Rates in India are even lower. Although much lower labour costs is a key factor, there are also other costs like technology, access to infrastructure and the cost of relocation to consider. Nevertheless, it is usually substantially cheaper to relocate operations overseas than to keep them in Australia.

One emerging trend in the global roundabout of job relocations is something the industry refers to as "near-shoring" – outsourcing work to countries nearby, such as South Africa, or, in the case of Australia, New Zealand. In New Zealand, average wages are still lower than wages in Australia. Companies undertaking "near-shoring" cite the cultural affinity and shared language as benefits,

given that sometimes there is a customer backlash against the offshoring of frontline customer service jobs from large Australian corporations.

Application exercise questions:

1. Define outsourcing and offshoring and outline the difference between the two terms.
 2. Define a call centre and describe the service/s they provide to Australian (and other) companies?
 3. Discuss how outsourcing has impacted upon Australian workers ?
 4. Describe some of the impacts on the Indian economy and Indian society of the increasing importance of outsourcing and offshoring of jobs from IT, telecommunications and business processing sectors.
 5. Identify the winners and losers in the process of offshoring?
 6. Explain the recent trends in offshoring and outsourcing of call centre jobs since 2006 when *Outsourced!* was made.
 7. Explain why the Philippines has become a destination of choice for some companies offshoring.
 8. Define “near-shoring” and discuss how can it offer benefits that traditional offshoring to places like India and the Philippines can’t?
 9. Discuss whether the benefits of outsourcing, offshoring and near-shoring outweigh the costs involved? You should consider your answer from the perspective of numerous parties involved in the process.
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CASE STUDY REVIEW QUESTIONS

- 1. Explain why globalisation had very little impact on India prior to the 1990s.**
 - 2. Explain three key changes to economic policy undertaken in the 1990s that helped India embrace globalisation.**
 - 3. Describe how globalisation has impacted on India's trade performance and foreign direct investment in the country.**
 - 4. Explain how the floating of India's currency, the rupee, may have made the country more capable of weathering external shocks.**
 - 5. Describe the impact of globalisation on the rate of economic growth in India since 1991.**
 - 6. Explain three key factors that have contributed to economic growth during the increased integration of India into the global economy.**
 - 7. Describe how the growth in the service industry (and especially call centres, IT and business processing) helped to improve living standards in India?**
 - 8. Describe the effect that globalisation has had on the rates of poverty in India?**
 - 9. Describe the effect that globalisation has had on the distribution of income in India?**
 - 10. Explain two reasons for the changes in income distribution in India since globalisation.**
 - 11. Explain two negative impacts of globalisation on India's environment.**
 - 12. Some supporters of globalisation claim that the benefits of globalisation in raising hundreds of millions of people out of poverty greatly outweigh the environmental damage caused by increased industrialisation, production and consumption. Write a paragraph explaining your reaction to this claim, and provide evidence to support your position.**
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