The Crisis of Globalization and India's Economic Prospects

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Abstract*: The premise of this paper is that globalization faces a endogenously generated crisis which has both economic and political dimensions, a result of the specific combination of continuity and change that has marked its historical trajectory. While western dominance, financialization, and the emergence of global production networks based on openness of the world to cross border trade and capital flows, were mutually reinforcing features of globalization that facilitated the rise in inequalities across the world, it also produced major shifts in the geography of world production. Placing in this background the specific pattern of India's insertion into the process of globalization that underlay its 'emergence', the paper examines the future prospects of the Indian economy. Highlighting the narrow social base of Indian growth and the absence of a manufacturing centred and export-based process of its rise in the world economy, the paper provides evidence of India already confronting a crisis. It then explores the likelihood of the resolution of this crisis in the emergent global scenario.*

Introduction

That the global economy is staring at a crisis is not something anyone would dispute. The proximate factors of this crisis are also rather obvious - namely, the lingering disruptive effect of the Covid-19 pandemic followed by geo-political tensions, the military conflict in Ukraine and the associated wave of sanctions. The inevitability of a recession has become the conventional wisdom about the global economy's prospects in 2023. However, a crisis of the global economy is not the same thing as a ***crisis of globalization.*** The former could very well refer to a temporary cyclical downturn in the world economy. The latter however signifies a far deeper phenomenon whereby the process that the world economy has seen unfolding for anything between the last three to four decades is coming undone because of its own internal contradictions. There are very substantive reasons to believe that the world is going through such a deep crisis which has both economic as well as political dimensions. If this understanding is correct, 'recovery' from this crisis will not be about going back to way things were before. Essentially, the world order under which the process of globalization unfolded is breaking down as a result of its endogenously generated tendencies. This historical phase of internationalization of capitalism with its specific unifying and distinctive features is coming to a close. The world has therefore entered a phase of transition, one whose duration and precise direction are inherently uncertain.

What analysis one makes of the state of the global economy of course matters in arriving at any conclusions about the future prospects of the Indian economy. These prospects are in any case not a given but depend on the country's policy response to the emerging challenges. This response in turn depends on the understanding of the policy makers on the nature of those challenges. Both the larger process of globalization as well as India's trajectory within it have traversed a certain history by now. The question then is, given its current location within a global order, what are the options available to India to shape, domestically as well as internationally, its history over the next couple of decades? Does India's best bet lie in remaining inserted into the global economy as it currently is, pinning its hopes on the crisis at least passing it by or even presenting new opportunities? Or, does it need to seriously consider creating conditions that would enable it to achieve a more autonomous trajectory of development?

Globalization and the Roots of the Turmoil in the Global Economy

Liberalization of trade and capital flows across the political boundaries of the different nations enabling their greater 'integration' with each other is usually considered the principal defining feature of Globalization. This rather simple and abstract definition does not, however, bring into the picture either the context in which this generalized opening up emerged, nor the processes that unfolded as a result, for which such liberalization served as a precondition. It also does not emphasize enough the limits to 'integration' – for instance the restrictions on movement of people and the persistence of national currencies – which are as important in explaining what happened as the liberalization process itself.

Going beyond the narrow and simple definition, the twin processes of *financialization* and *globalized production* have to be also recognized as important features of globalization as a concrete historical phenomenon. Financialization broadly speaking describes the rapid growth of financial activities, at a disproportionately faster pace relative to the expansion of real economic activities (Epstein 2005, Mader et al 2020). Financialization also had an important international dimension – the creation of a world of highly volatile portfolio capital flows that could move rapidly across the financial markets of different countries and potential exchange rate instability. Globalized production on the other hand has involved a reorganization of production systems through offshoring and outsourcing – creating global value chains involving coordinated networks of several firms and production sharing across several countries[1] (Dunning & Lundan 2008).

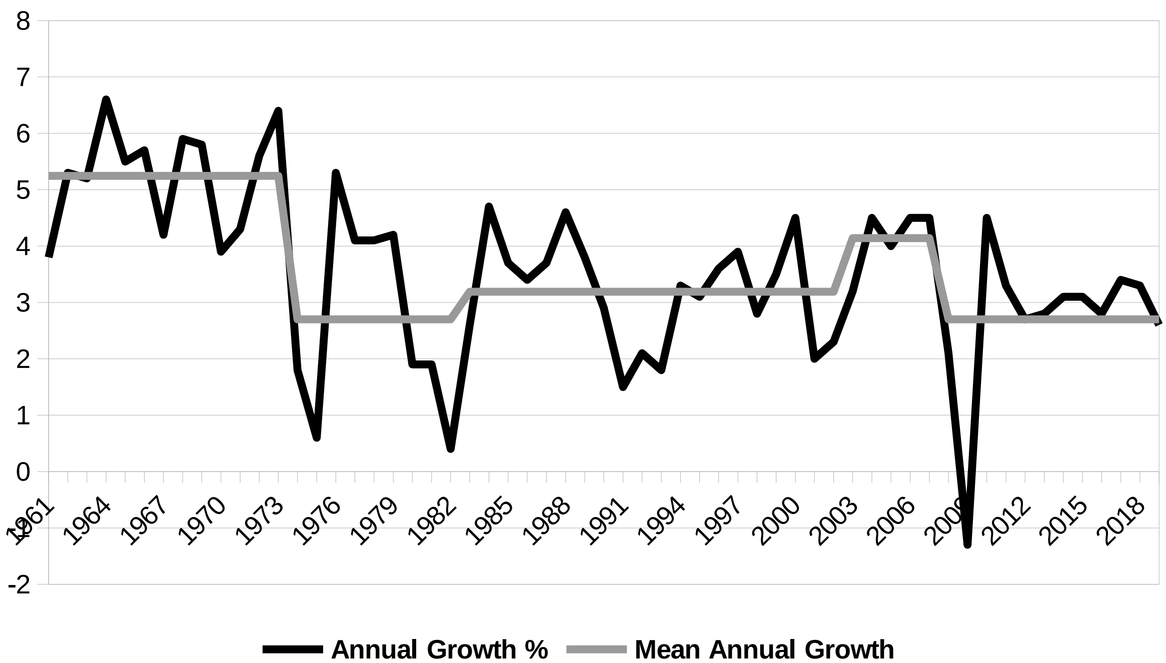
Globalization also unfolded in a context of not only a world divided into nations but one which was by no means equal. The US-led West (including Japan) had a dominant position in it, and this was heightened by the collapse of socialism in Easter Europe and the break up of the USSR. This dominance had economic and technological, as well as political and military, underpinnings. Indeed, the rules of the globalization game were largely set by the West and western dominated institutions like the IMF played an instrumental role in drawing developing countries into the process. The West remained the centre of the world's financial system with the US dollar enjoying the status of being the world's premier reserve currency. Western multinational firms also drove the process of creating globalized production systems and stood at the apex of networks thus created. Technological

1 *"Today's global economy is characterized by global value chains (GVCs)*, in which intermediate goods and services are traded in fragmented and internationally dispersed production processes. GVCs are typically coordinated by TNCs, with cross-border trade of inputs and outputs taking place within their networks of affiliates, contractual partners and arm's-length suppliers. TNC-coordinated GVCs account for some 80 per cent of global trade" (UNCTAD 2013, p. x).

development also remained largely remained concentrated in the West. All of these in turn set up conditions for the flow of value created across the global production system towards the West.

Taking the period as a whole, the era of globalization saw a significantly slower growth of world output (GDP) than what was experienced in the 1950s and 1960s (Figure 1). Within a time span stretching from the mid-1970s till the Covid-19 pandemic, however, a short five-year period that ended with the global financial crisis of 2008 stands out as the one when world growth was significantly higher.

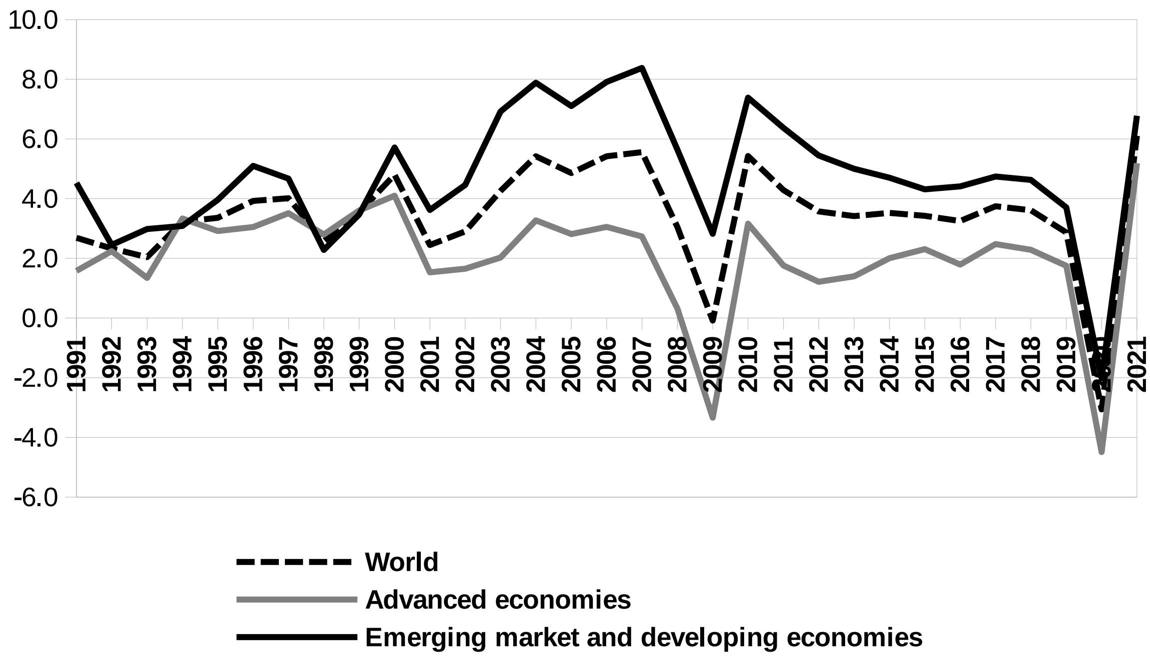
Figure 1: World GDP Growth (Constant 2015 US $), 1961 to 2019



Source: World Bank, World Development Indicators Database (WDI)

Slower growth during the era of globalization however, was associated with very important changes in the distribution of production and income. The World Inequality Report describes this as a shift in the trajectory of world inequality after 1980 – to one marked by the twin trends of a decline in between country inequality and a rise in within country inequality (Fig 2.4, p. 57, Chancel et al 2022). The former essentially captures a process of reduction in the gaps in per capita income between the advanced economies and the lowest income countries with 50 percent of the world's population. The latter, on the other hand describes the movement in the relative income shares of the top 10 percent and bottom 50 percent of the population within countries. This combination basically reflects a process of worldwide reduction of the labour share of income (and corresponding rise in the share accruing to asset owners) achieved by the direct and indirect effects of a shift in the geography of world production towards cheaper labour locations (accompanied though by a reverse flow of value). The latter meant that some originally low-income developing countries, mainly in Asia, grew faster than the world average, and this difference was the greatest during the pre-2008 boom (Figure 2). However, overall world growth remained in check because of the demand constraining effects of rising inequality and wage stagnation. This situation then was locked in place by the inability of states to either stimulate demand or to address its roots cause, namely inequality, on account of the fiscal leash imposed by globalization and their exposure to volatile capital flows.

Figure 2: World Growth (Annual Percentage Change in GDP at Constant Prices), 1991-2021



Source: International Monetary Fund, World Economic Outlook Database (WEO)

The brief growth spurt in the first decade of the 21st century could be described as essentially the only possibility route for rapid growth consistent with the globalization context playing itself out but also exhausting itself in the process (Blankenburg & Palma 2009). At its core was a cheap money policy induced credit and asset price inflation driven expansion of demand in the advanced countries. This was led by the one country most able to run large current account deficits under conditions of dollar hegemony, namely the US. The US and other advanced economies thereby served as the locomotive for world growth, creating conditions for developing countries to grow rapidly as their direct and indirect exports expanded and the credit and asset price inflation processes also spilled over into their economies through capital flows. However, it was developing countries as a whole who became net capital exporters to advanced countries, with low return earning accumulation of reserves serving as the principal means of 'using' their surging foreign exchange receipts (UNCTAD 2008). By the time the 'financial' crisis inherent in this process brought the growth to a halt, a drastic shift in the world distribution of production and specially manufacturing production was also already under way. This shift is captured in Tables 1 and 2 which show how the originally huge gap between the distribution of the world's population and of its production narrowed significantly. China was of course the standout case in this process, the result of both the speed of its growth as well as the size of its population, and central also to the emergence of the entire East and Southeast Asian region. While showing a similar direction, India's movement was much more limited.

Table 1: World Distribution of GDP and Population (Three Year Averages of Percentage Shares)

Country or Region	Share in World GDP				Share in World Population	
	1990-92	2000-02	2010-12	2018-20	1990-92	2019-21
Japan	14.5	13.3	8.5	5.9	2.3	1.6
Northern America	28	33.3	24.2	26.2	5.2	4.7
Northern Europe	7.8	7.6	6.4	5.7	1.7	1.4
Western Europe	17.5	13.5	12.3	10.8	3.3	2.5
Southern Europe	8.7	6.4	6.0	4.7	2.7	2.0
TOTAL of Above (Advanced)	**76.5**	**74.1**	**57.3**	**53.3**	**15.2**	**12.2**
Eastern Europe	**3.6**	**2.2**	**4.6**	**3.8**	**5.7**	**3.8**
China	1.8	3.9	10.2	16.5	22.0	18.5
Eastern Asia excl Japan & China	2.6	3.2	2.8	3.2	1.7	1.4
South-Eastern Asia	1.7	1.9	3.1	3.5	8.4	8.6
Southern Asia excl India	2.1	2.3	3.9	4.8	6.0	7.2
India	*1.3*	*1.4*	*2.5*	*3.2*	*16.5*	*17.7*
Central Asia	0.2	0.1	0.4	0.3	0.9	1.0
Western Asia	2.3	2.5	4.1	3.7	2.8	3.6
Total Asia excl Japan	**10.7**	**13.9**	**24.5**	**32.1**	**58.3**	**58.0**
Latin America and the Caribbean	**5.3**	**6.5**	**8.2**	**6.1**	**8.3**	**8.4**
Africa	**2.3**	**1.9**	**3.1**	**2.8**	**11.9**	**17.2**
Oceania	**1.6**	**1.4**	**2.3**	**1.9**	**0.5**	**0.5**

Source: UN Stats

In order to understand the reality emerging out of globalization, it is important to acknowledge the changes in the global economy as well as the limits to that change. The composition of the high income economies of the world did not change that much over three decades and most of the upward movement of countries took place from lower to higher rungs within the low and middle income categories – with the distance with advanced economies remaining significant (Table 3). In cases of several developing countries outside Asia, the gaps with the advanced economies even increased. These only captured one aspect of the fact that notwithstanding the changes, it remained a highly unequal world. The West remained the centre of the global financial system with the dollars hegemony being sustained. Only some countries like China and South Korea succeeded to a limited extent in weakening the technological dominance of the 5 major advanced economies, which who still accounted for three fourths of technological advances during globalization (Eugster et al 2019).

Table 2: Per Capita Manufacturing Value Added (MVA) Levels and World Distribution of MVA (Three Year Averages)

Country or Region	Per Capita MVA (2015 US$) 2019-21	Share in World MVA in Current US$ (%)		
		2000-02	2010-12	2018-20
Japan	7881	17.1	10.7	7.6
Northern America	6789	28.6	17.9	18.1
Northern Europe	5961	6.5	4.4	4.2
Western Europe	6767	14	11.8	10.1
Southern Europe	3178	6.2	4.8	3.8
TOTAL of ABOVE		**72.3**	**49.6**	**43.8**
Eastern Europe	**1586**	**2.3**	**4.2**	**3.6**
China	2901	5.2	20.4	28
East Asia excl Japan & China	5822	4.1	4.3	4.6
South-Eastern Asia	928	2.9	4.4	4.6
Southern Asia	309	2	3.9	4.3
India	*310*	*1.3*	*2.6*	*2.9*
Central Asia	712	0.1	0.4	0.4
Western Asia	1435	1.9	2.8	2.8
TOTAL ASIA excl Japan		**16.2**	**36.1**	**44.6**
Latin America & the Caribbean	**1083**	**6.5**	**7.1**	**5.1**
Africa	**208**	**1.5**	**2.0**	**2.0**
Oceania	**2313**	**0.9**	**1.1**	**0.8**

Source: UNIDO Database

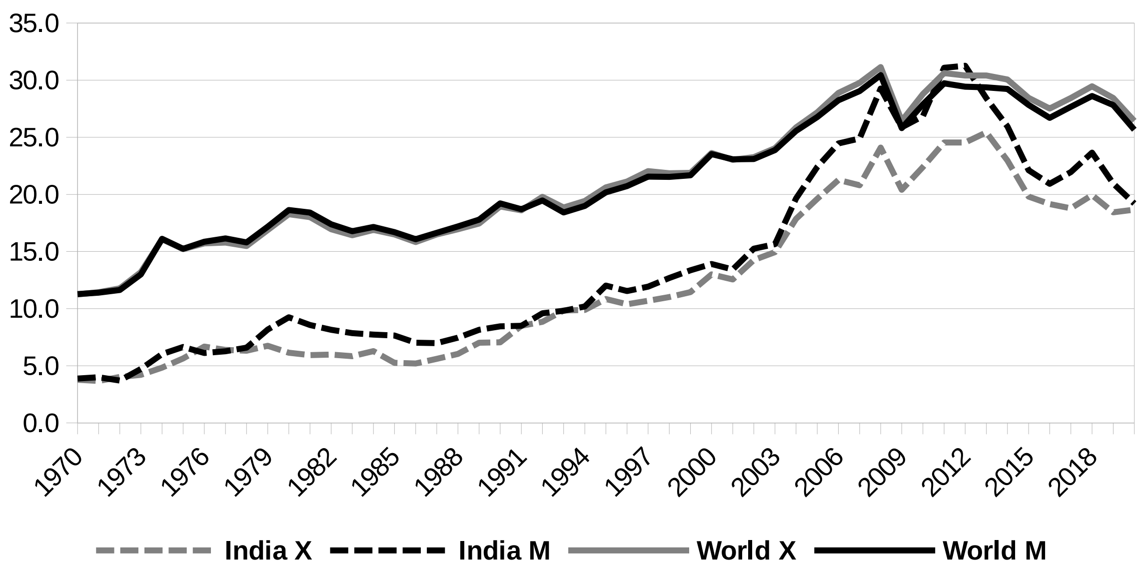
Table 3: Population Shares and Relative Gross National Income Per Capita of Country Income Groups, 2020

Country Income Group	Index of GNI per capita, World = 100		Share in World Population
	PPP (current international $)	Atlas method (current US$)	
High income	**296.4**	**395.1**	**15.8**
Middle income	**68.6**	**48.1**	**74.8**
Upper middle income	103.3	84.7	31.9
Lower middle income	42.5	20.5	42.9
India	*37.5*	*17.2*	*17.8*
Low income	**11.8**	**6.2**	**9.0**
Low & middle income	62.6	43.7	83.8
Least developed countries: UN classification	18.9	9.9	13.8

Source: WDI

The changes in the world economy on the one hand meant that reviving the same process of growth that was seen before 2008 became doubly constrained – by not only the lingering effects of the financial meltdown but also the shift in relative weights of different economies. On the other hand, that the latter had not gone far enough to completely shift the centre of gravity of the world economy were brought home by the fact that early expectations that economies like China and India would lead the world out of the post-2008 recession were belied by experience. No alternative pathway within the framework of globalization had, therefore, emerged. Consequently, the recovery from the global crisis remained muted for over a decade during which both the growth of world trade as well as of cross-border capital flows also slowed down considerably. As Figure 3 shows, the long- time trend of world trade rising faster than GDP ended and even partially reversed after 2008. The rapid growth of capital flows, including the portfolio flows which were so much a feature of globalization, also came to an end in the second decade of the 21st century (Table 4). So much so that people also started talking about the onset of a process of de-globalization long before the current crisis (Weldon 2015, Bank of International Settlements 2018).

Figure 3: Ratio of Exports (X) and Imports (M) of Goods & Services to GDP (%), 1970-2020



Source: UN Stats

Table 4: Percentage Increase in External Assets of All Countries (World Total) in Successive Decades

Decade	Total assets excl. gold	FDI assets	Portfolio Assets	Non-Portfolio Debt Assets
1991-2001	160.6	229.0	344.2	75.0
2001-2011	252.2	290.8	297.8	163
2011-2021	46.8	65.3	69.4	22.6

Source: Lane, Philip R. and Gian Maria Milesi-Ferretti, External Wealth of Nations database (based on Lane & Milesi-Ferretti 2018) [Version September 19 2022]

‘Integration’ in the world economy clearly did not create conditions for cooperation and coordination between nation states to address the economic crisis, or the Covid pandemic that followed more than a decade later, or the climate crisis hanging over the world throughout this period. Instead, the crisis and the weakening of the foundations of western dominance due to the changes in world production provided the underlying economic basis for a trend of increasing geo-political tensions. Extreme inequalities and crisis on the other hand created the common basis for great social and political discord within nations, even though this reflected itself in a variety of different ways in different countries. The established world order of western dominance came into conflict with the changes that were its own creation, neither able to reverse them nor carry them forward . The outbreak of military conflict in Ukraine or the sabre-rattling over Taiwan are only specific expressions of this context endogenously generated by globalization. They represent the development of the inherent trends of this context to a particularly intense level. Having reached that point, however, these developments in turn are acting as catalysts for a processes leading to even greater fragmentation within the world economy and perhaps the final breaking down of the arrangements within which globalization took place. What will eventually emerge at the end of the process of transition remains to be seen. The only near certainty is that it involves an inherently chaotic process which is likely to create severe economic disruption en route, even if the evolution of some new stable arrangements, rather than anarchy, is the eventuality towards which the world is heading.

Globalization and India’s Economy

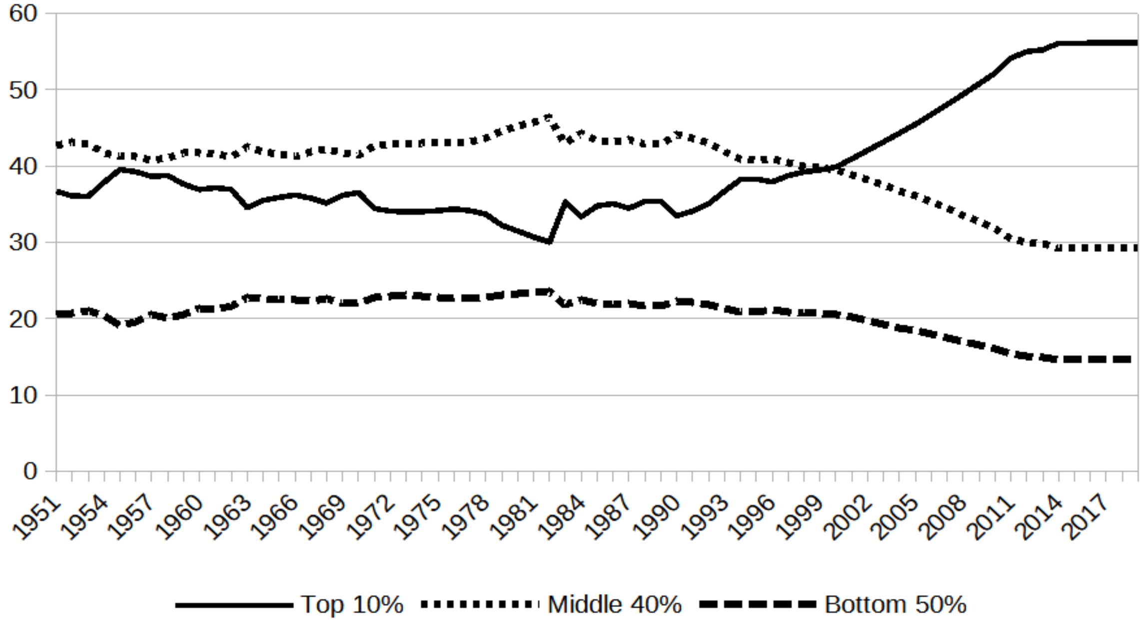
As indicated earlier, growth after her insertion into the process of globalization made India also part of the story of ‘emergence’, though she has remained by some distance the country with the lowest per capita income within the G20 grouping of nations. In 2007, India moved from the low income to lower middle income categories[2]. India, however, went further than many other nations in reflecting the global pattern of rising inequality within countries (Figure 4). ‘Emergence’ therefore has had a very narrow social base.

The Indian story of rising inequality has accompanied two other important features of her trajectory during the thirty year period since 1991, which is when the real push for India’s integration into the globalization process came. The first of these has been the significant acceleration of what till then had been a slow process of reduction in the share of agriculture in Indian employment. The second was the absence of industrialization or a significant role of manufacturing in Indian growth. Table 5 shows how

2 https://datatopics.worldbank.org/world-development-indicators/the-world-by-income-and-region.html

both these reflected themselves in the movement of the employment structure – the importance of agriculture declined but was entirely replaced by services and construction but not manufacturing.

Figure 4: Distribution of Pre-Tax Income in India (Percentage Shares in Total National Income), 1951 to 2019



Source: World Inequality Database (https://wid.world)

Table 5: India: Structure of Employment (Percentages to Total Employed Persons)

Sector	1980-81	1990-91	2000-01	2010-11	2018-19
Agriculture	69.8	64.6	59.3	49.3	42.8
Industry	13.2	15.4	16.4	22.1	23.0
Manufacturing	*10.4*	*10.7*	*10.9*	*11.7*	*10.5*
Construction	*2.0*	*3.7*	*4.5*	*9.5*	*11.7*
Services	16.9	20.0	24.3	28.7	34.2

Source: RBI KLEMS database

What Table 5, however, does not fully reveal is that employment in agriculture has actually been declining in absolute terms for over one and a half decades while that in manufacturing has been stagnating for most of the same period. More than 'structural change' in employment, endemic unemployment and underemployment have become the characteristic feature of the Indian economy[3]. As Table 6 shows, the employment to population ratio in India is not only significantly lower than can be seen in other Asian developing countries, it is even lower than many advanced economies with ageing populations (Table 6). This labour surplus situation sets up the context for such an exceptional level of 'informality' characterizing the market or labour services in India – a reflection of the

3 Some recent evidence of rise in employment in agriculture, or a return to agriculture, also reflects this.

bargaining power of employers over labour which also translates into low and stagnating wages and other forms of return to labouring activity (Mazumdar 2019). This sustained ‘cheap labour’ situation (Table 7) has provided the foundation for India’s insertion into globalization – the only basis for its ‘competitiveness’.

Table 6: Employment to Population Ratio and Levels of Informality, 2019, Selected Countries

Country	Employment/ Population 15+	Informal Employment Rate	Country	Employment/ Population 15+	Informal Employment Rate
Argentina	54.4	49.7	Japan	60.6	
Australia	62.6	26.4	Korea, Republic of	61.2	
Brazil	57	39.9	Mexico	58.1	57.6
Canada	62		Russian Federation	59.4	
Chile	55.3	29.3	Saudi Arabia	54.6	
China	67.4		South Africa	43.4	40.5
France	50.6		Thailand	66.5	
Germany	60		Türkiye	45.7	35.2
India	46.1	88.3	United Kingdom	60.9	
Indonesia	65.8	80.1	United States	60.8	
Italy	44.9		Viet Nam	74.4	69.7

Source: ILOStats

Table 7: Pre-Pandemic Earnings from ‘Work’ in India

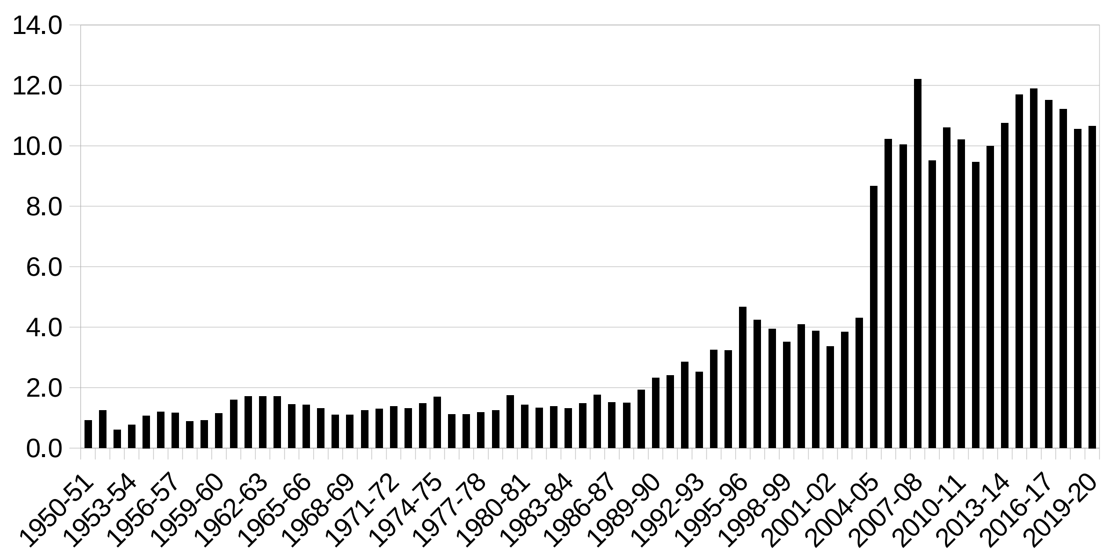
Primary Labour Force Survey, April-June 2019	
Item	***Earnings/Wage (Rs)***
Gross Monthly Earnings of Self-Employed	10648
Monthly Wage/Salary of Regular Workers	16196
Average Daily Wage of Casual Workers	291
Annual Survey of Industries, 2019-20	
Factory Worker Average Monthly Wage (Rs)	14608
Situation of Agricultural Households in India, 2018-19	
Average Monthly Income from all sources of 93.1 Million Agricultural Households (Rs.)	10218

Sources: As Indicated

With unemployment, underemployment and low wages holding down the claims of those who have to labour in the process of production, asset owners concentrated in the top 10 percent of the population (Sarma, Das & Kumar 2017, Government of India 2021) were able to corner most of the benefits of growth. While liberalization also fostered the growth of some high salaried white collar employment in the private and public sectors, such employment constitutes a very small proportion of total employment. Income tax data shows that in 2017-18, only 14.4 million individuals or less than 3 percent of the workforce, received an annual salary income of above Rs. 5 lakhs, or just under Rs. 42,000 a month (Government of India 2019).

The Indian corporate sector has been central to this process of rising inequality. Joint-stock companies and the financial system of course create a second layer of concentration of wealth by pooling together the wealth of many. In India, the family controlled business group structure, whereby many companies are subject to a centralized authority, adds to that process. Liberalization and processes of privatization of several sectors and activities have made for the corporate sector significantly enlarging its share in the economy even as control over corporate owned assets has remained highly concentrated in the hands of a small number of business families. Figure 5 depicts the dramatic nature of the former transformation in the economic structure through a proxy indicator of the corporate sector share in the value added – namely retained earnings of private sector companies[4]. However, it must also be noted that within the private corporate sector, the share of value created that accrues to employees has shrunk considerably compared to what used to be prevalent at the beginning of the 1990s, despite the presence of some high salary earners among those employees. The cheap labour context has therefore propped up the profitability of private corporate investment. Income tax data on the other hand show that these profits are highly concentrated in a small fraction of companies.

Figure 5: India: Private Corporate Savings as a Percentage of GDP, 1950-51 to 2019-20



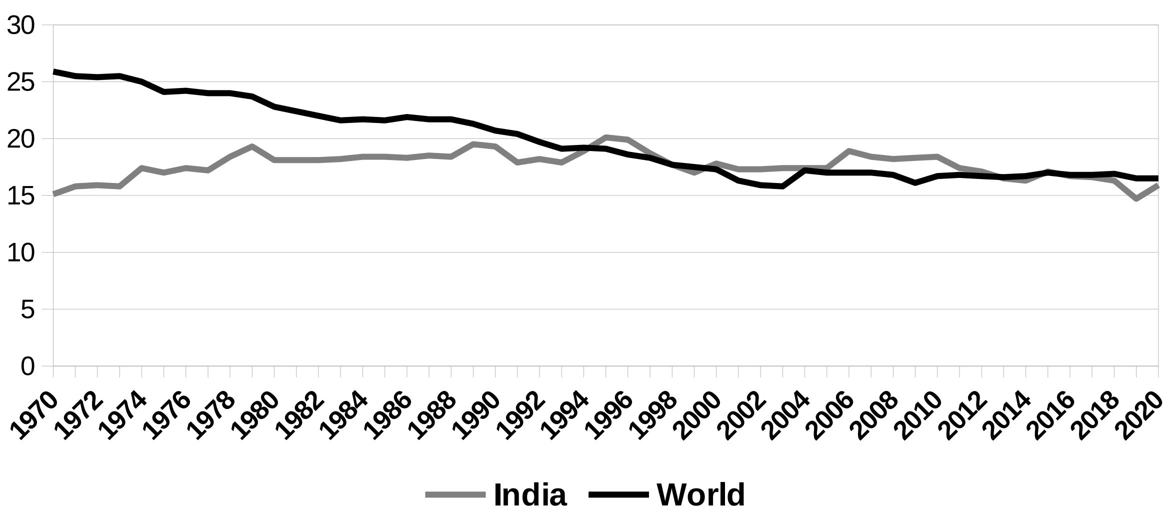
Source:

National Statistical Office, *National Accounts Statistics* (NAS)

4 Definitional changes do not allow the use of any direct indicators for a longer term comparison.

However, the cheap labour context has proved inadequate to propel manufacturing exports and any kind of export led growth. In other words it has not proved to be inadequate to make Indian manufacturing competitive over a sufficiently large range of products. Instead it has only contributed to inhibiting demand growth in the domestic market because it has kept the market for manufactured consumption goods extremely narrow. With neither trade or the domestic market providing the impetus or basis for it, even investment related demand for manufactured products has been difficult to sustain. It has been different in the case of services and even up to a point for construction – increased diversification of demand of higher income groups as well as the growth of IT services have allowed growth of services and construction activities – which increased their combined share in GDP from around 45 per cent in the mid-1980s to 62.4 percent in 2019-20. In their case, particularly services, market narrowness has reflected itself more in constraining employment growth than output. In the case of manufacturing, however, both have been affected. As a result, instead of being a significant beneficiary of the shift in global manufacturing in the way China was, India came to join the global process of de-industrialization that characterized the global era (Figure 6). India of course, given its past history of limited industrial development and its low per capita income, is an extreme case within the category of countries for whom such de-industrialization is exepriencing ‘premature’(Rodrik 2015).

Figure 6: Share of Manufacturing in Total Value Added at Current Prices, 1970-2020



Source: UN Stats

Instead of manufacturing creating the basis for export surpluses, which has been a feature of several emerging economies, in India’s case it drove a process of significantly enlarging India’s merchandise trade deficits compared to the pre-liberalization era (Table 8). Manufactured imports grew faster than exports, and this was in fact most pronounced during the short phases of relatively rapid industrial growth (Chaudhuri 2013 and 2015, Mazumdar 2014 and Figure 3). This happened notwithstanding manufactured exports experiencing diversification in composition towards increasing importance of capital intensive products (Veeramani 2012) as well as the rising importance of Asian and other developing economies in India's trade. Services exports and large inflows of remittances proved inadequate to cover the gap leading to recurrent current account deficits.

Table 8: India's Balance of Payments Situation, 1950-51 to 2019-20

Period		1950-51 to 1979-80	1980-81 to 1990-91	1991-92 to 2019-20
As Percentage of GDP	Trade balance	-1.47	-3.02	-6.54
	Current Balance	-0.49	-2.11	-1.65
	Capital Account Surplus/Current Account Deficit	1.77	0.88	1.84
Percentage Contribution to Capital Account	Foreign Investment, net	6.51	3.41	80.08
	External assistance, net	103.65	34.57	4.37
	Commercial borrowings, net	8.93	27.41	11.26
	NRI deposits, net	6.82	27.95	15.25

Source: RBI, Handbook of Statistics on the Indian Economy (HOSIE)

Table 9: Sales, Exports and Imports of Foreign Subsidiary Companies in India, 2017-18 and 2018-19 (Rs. Billion)

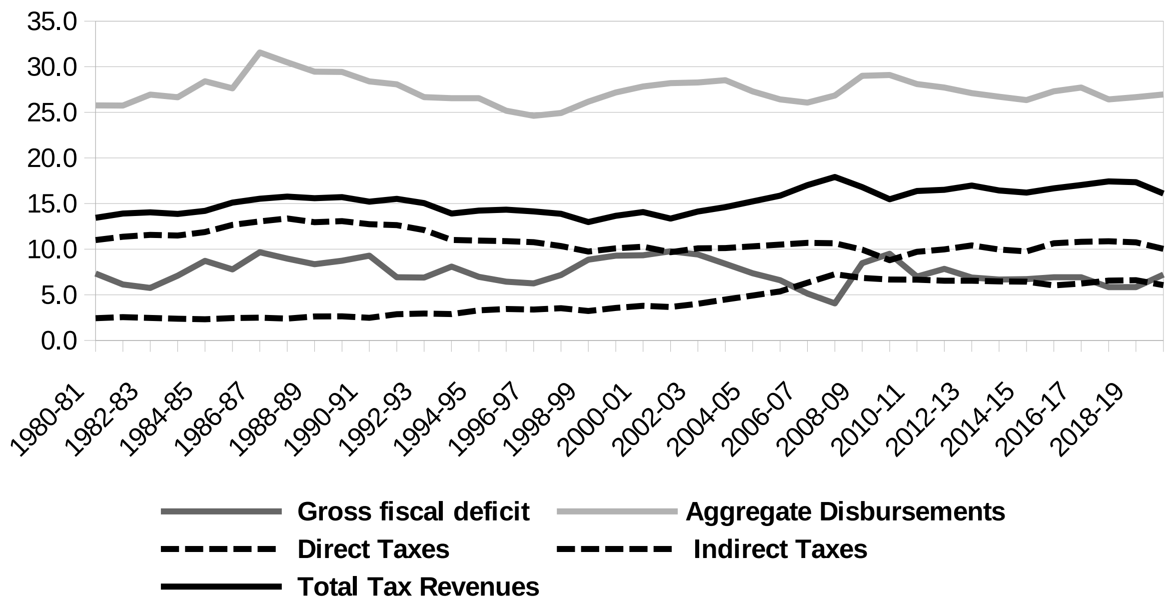
Activity	No. of entities	Sales		Exports		Imports	
		2017-18	2018-19	2017-18	2018-19	2017-18	2018-19
Manufacturing	3258	13535	15782	2567	2949	3999	5121
Services	9791	10731	12599	5098	6003	1786	2190
Others	710	557	657	26	37	96	98
Total	13759	24823	29038	7691	8988	5881	7410

Source: Reserve Bank of India, Census on Foreign Liabilities and Assets of Indian Direct Investment Entities, 2018-19 – Data Release

Table 8 also shows the significant change in the way India financed its current account deficits after its insertion into globalization – namely, a shift to foreign investment flows instead of borrowings and aid. However, the lack of manufacturing competitiveness of the Indian economy meant that the manufacturing production oriented FDI component in it was small and whatever came was mainly domestic market oriented and generated limited export earnings. This, and the contrast with the FDI in services, can be seen in Table 9. Spillover effects have also been limited and as a result, India's technological dependence has increased (Mani, 2020). An additionally important larger implication has been that portfolio investment or FDI of a similar financial nature, like private equity, have dominated capital flows to India. India has thus been highly vulnerable to exchange-rate instability, which in turn has meant a more severe leash on the fiscal and other policy space available to the Indian state.

As Figure 7 shows, public expenditure levels have been kept in check after 1991 in order to keep the fiscal deficit within limits. During this entire period of three decades, the boom years before the 2008 crisis were the solitary and rather short phase in which tax-GDP ratios increased in India, on account of direct taxes (corporate taxes accounting for the major part). This was also more a reflection of rising share of corporate profits and higher income groups in national income rather than a result of increases in tax rates on the rich and wealthy. Further, even then, the revenue growth was mainly directed towards reducing the deficit rather than stepping up of expenditures.

Figure 7: Combined Tax Revenues (Direct & Indirect), Disbursements and Gross Fiscal Deficit of Central and State Governments (As Percentage of GDP), 1980-81 to 2019-20



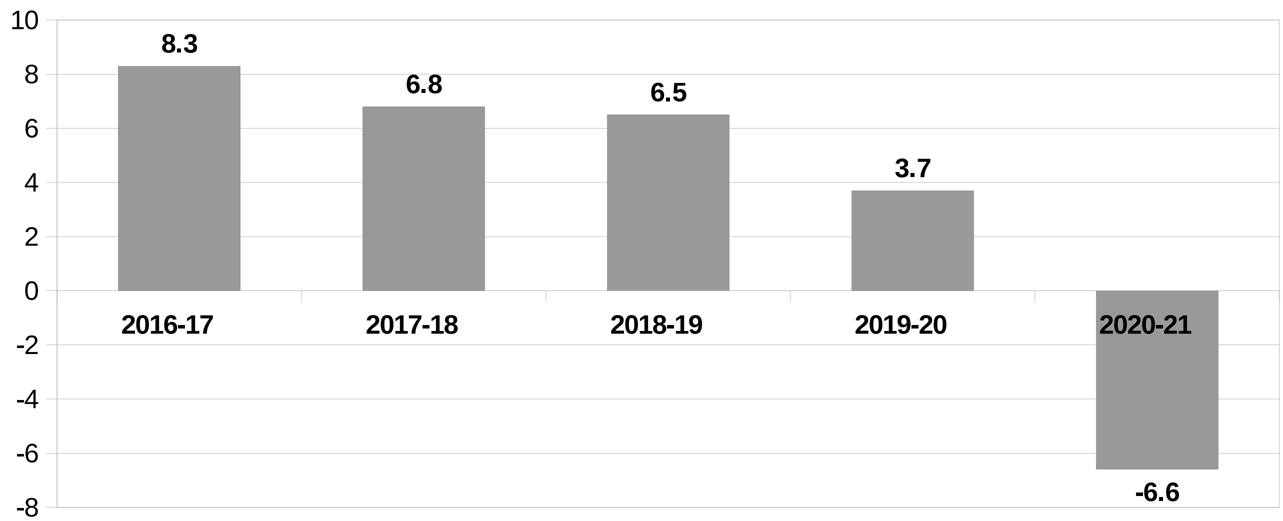
Source: HOSIE

The Gathering Storms of Crisis

The inherent limitations of Indian 'emergence' have come to the fore in the second decade of the 21st century (Mazumdar 2019). The changes in the GDP estimation method in the new series with 2011-12 as base year seemed to initially suggest, erroneously in the opinion of many (Subramanian 2019), that India was beginning to buck the global trend of growth slowdown. Even this, however, indicated that a progressive tendency towards slowing down of Indian growth had set in for several years before the effects related to the Covid pandemic were experienced (Figure 8). Moreover, the trajectory of several other indicators provided clear evidence that the Indian economy had lost momentum in the second decade of the 21st century.

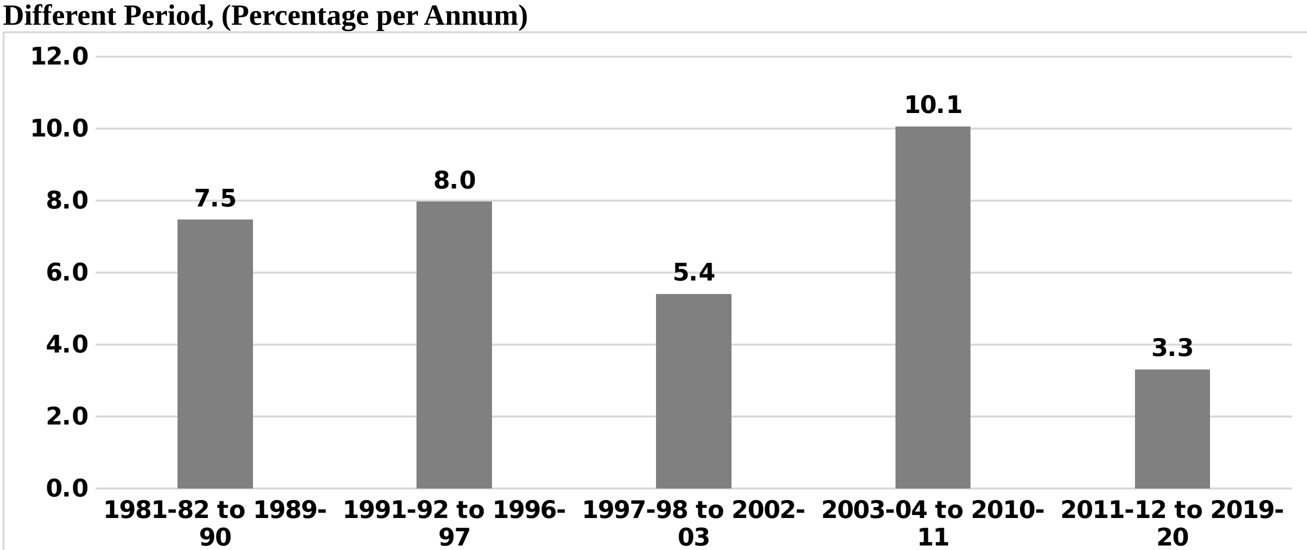
An undeniable decade long industrial crisis, with the poorest manufacturing growth phase since 1980 (Figure 9), and replicating the story of the well known stagnation decade of the 1965-75 period, has marked the 2010s. It has been mentioned earlier that manufacturing employment too stagnated during this period. A similar story can also be seen in the trend in bank credit to the industrial sector.

Figure 8: India, Annual Real GDP Growth Rates, 2016-17 to 2020-21



Source: NAS

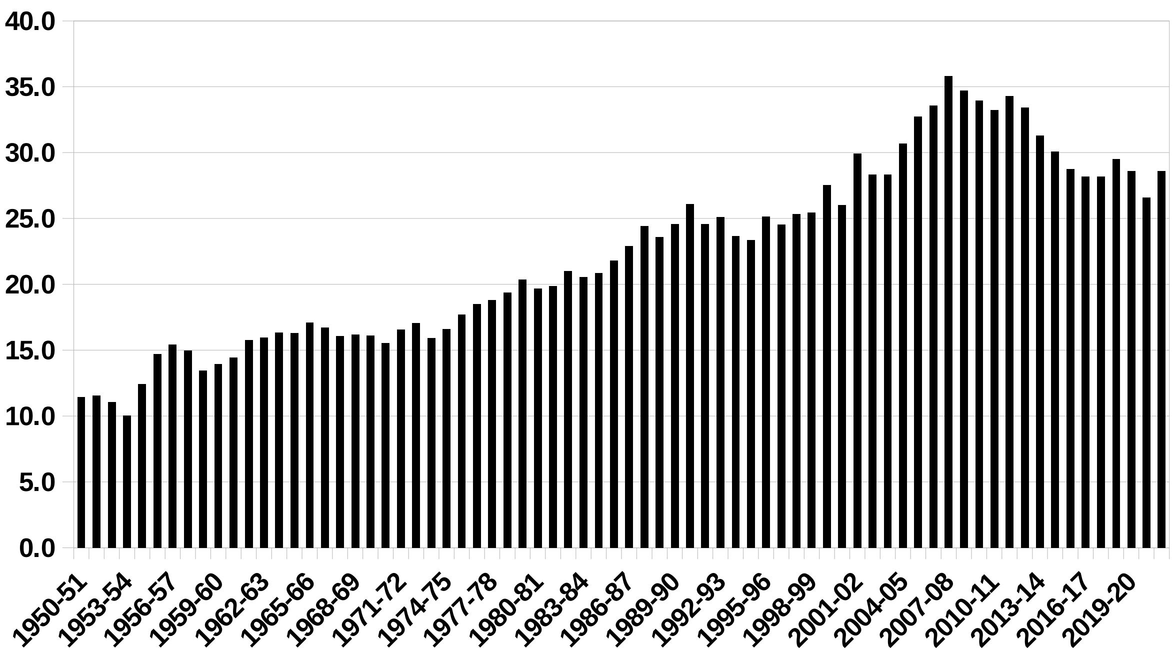
Figure 9: Simple Averages of the Annual Rate of Growth of the Index of Industrial Production (IIP) for Different Period, (Percentage per Annum)



Source: HOSIE [Note: The above is derived from the IIPs with 1993-94, 2004-05 and 2011-12 base years]

Another distinctive feature of the decade that in part also explains demand stagnation for the industrial sector has been the trend in the economy's investment ratio (incorporating both construction and expenditures on capital goods). The period after the global crisis stands out as the only period since independence when fixed capital formation as a proportion of GDP has exhibited this declining trend for so long a period (Figure 10). What makes this even more remarkable is that it follows a five-year period of an unprecedented rise in the same investment ratio. This transition from the biggest investment boom India ever experienced to its worst stagnation has to reflect some deeper crisis.

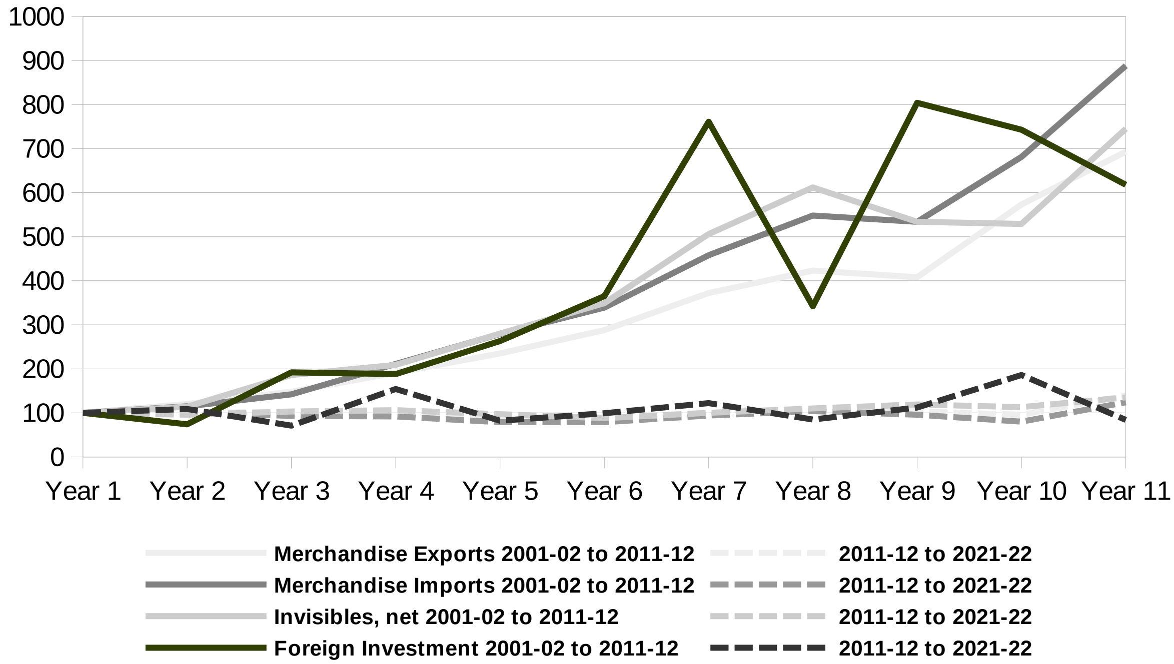
Figure 10: Gross Fixed Capital Formation (GFCF)/GDP at Current Prices, 1950-51 to 2021-22



Source: NAS

Like in the case of capital formation, India's foreign trade and capital flows to India also moved from tremendous growth in the first decade of the century to virtually complete stagnation in the second (Figure 11). These indicated that the expansionary impetuses coming from the global economy before 2008 had ceased, while the slowdown in Indian exports, industrial production. and investment, led to a collapse of its import demand too.

Figure 11: Indices of US Dollar Values of Selected Balance of Payments Items, 2001–02 to 2011–12 & 2011–12 to 2021–22 (Respective Year 1=100) (RBI)



Source: HOSIE

Conclusion

From a broad developmental perspective, India's globalization experience can scarcely be considered to have produced spectacular results. Even when looked at more narrowly in terms of macroeconomic performance, the Indian economy has been experiencing grave difficulties for some time. It's crisis is not a consequence of the Covid pandemic, which only served to aggravate a crisis that has been developing for over a decade. Part of the crisis is that if India remains locked into the global economy as it presently is, there is little that state economic policy can do to change the course of the Indian economy. Unless India somehow, because of what is happening elsewhere in the world, becomes what in thirty years it has not managed to become, namely a specially favoured destination of locating production for the world market, there seems to be no real way out of the impasse described in this paper. How likely, however, is it that India can become the next China in a world that is no longer going to be the one in which the China story took place, and without the supportive context of regional integration and policy autonomy? If increased fragmentation of the world economy is going to be the foreseeable future, should not India consider its best bet to lie in moving towards creating conditions for a sustaining a more autonomous trajectory of development? It is a moment of reckoning for India's economy – a fundamental choice has to be made by policymakers before changes taking place in the world pass the country by.

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