Addendum to India's Economic Reforms and Development: Essays for Manmohan Singh

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Addendum

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India began its participation in financial and trade globalisation in an orderly and limited way under Dr. Singh's stewardship in the 1990s. The record of slow and gradual economic reform indicates that Dr. Singh sought strategic rather than close integration with the world economy, that is integration up to the point it was in India's interest to do so.

The net result of the strategic integration as well as other reforms has been that from a country at the edge of insolvency in 1991, India has become one of the fastest growing economies in the world during the last two decades. Its savings rate has increased from 25% to 35% during these twenty years. Its current growth rate of 7% – 8% per annum is by international standards exceptionally good in the wake of widespread and relatively deep slowdown of growth in rich countries.

It used to be an article of faith with third world scholars that in any serious downturn it is the countries on the periphery who suffer while the centre is able to look after itself. However, countries like India and China are doing very well while there is a likely to be a double dip recession in advanced countries and most likely prolonged stagnation. The fact of the matter is that India and China had a measured opening to the world economy and they had nationalised banking systems and were not exposed to international financial markets in the way that European and American banks have been involved.

Apart from the reform, the fast Indian growth is also due to a strong relationship between policy makers and big Indian conglomerates. The latter trust the former not to make any policies which may go contrary to the interests of the big industrial corporates. In a long run sense this fast growth may also be ascribed to the foundations of Indian science and technology laid by the first Indian Prime Minister J.L. Nehru. This technological base yielded its fruit a little bit later than Nehru would have wanted.

In my original paper I had referred to the possibility of the ascendency of finance over industrial capital if the market for corporate control was allowed to develop. In the event this did not happen, which has been of benefit to the real economy and Indian industrialisation. An important reason why this did not transpire is the exceptional nature of ownership and control in Indian industry. Typically in the largest Indian corporates the family owns a small part of the equity, a proportionally far larger share normally lies with insurance companies and banks which in the Indian case are nationalised. This means in effect that the Government's Secretary of Finance can attend and participate in any board meeting of top Indian corporates. This pattern of share ownership is the best guarantee against finance capitalism and the other harmful effects of the market for corporate control which my original paper discussed.[1]

(Word Count: 503)

[1] See further Singh, A. "Financial Globalisation and Human Development", (forthcoming) in the *Journal of Human Development*.