87th Annual Session

ASSOCHAM

Globalisation Growth and People

The Associated Chambers of Commerce and Industry of India (ASSOCHAM)

Corporate Office: 1, Community Centre, Zamrudpur, Kailash Colony, New Delhi-110048, India

Ph.: 011-46550555 (Hunting Line) Fax : 011-46536481, 46536482 E-mail : assocham@nic.in

Website : www.assocham.org

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India :
Pre & Post Globalisation

"Sixty years ago, the people of India made a tryst with destiny. Until sixteen years ago, that destiny seemed a distant dream. Today – thanks to economic reforms and globalisation – we are confident that we can achieve our goals and redeem, substantially, the pledge that we made to our people that we shall wipe out poverty. Every day we add a new line to our growth story"

Mr. P. Chidambaram, Finance Minister, India

One

The Indian economy has undergone an extraordinary transformation since the mid-1980s. It has decisively broken away from the so-called Hindu rate of growth of 3.5 per cent per year on an average for the three decades 1950-80, to 8.7 per cent in 2007-08 to become one of the world's rapidly growing economies.

Source: RBI

GROWTH ACCELERATION OVER DECADES

The era of 1970s...

Indian economy witnessed a near stagnation at 2.9 per cent of real GDP growth till the late 1970s. The 1970s interregnum is particularly marked by the severe deceleration in agricultural growth, followed by a marked recovery in the 1980s, and a slowdown thereafter.

The fragility of growth in 1980s...

The slowdown of growth witnessed during the 1970s was reversed during the 1980s; the pick-up benefited from the initiation of some reform measures aimed at increasing domestic competitiveness. The real GDP for the period stood at 5.6 per cent.

Despite the reversal in the growth trend, the period witnessed a slowdown during the last three years of the 1980s contributing 7.6 per cent annual growth. Excluding the growth of three year period (1988-91), growth in the 1980s look, at best, marginally better than that of the previous three decades.

The main factors that accounted for such a spurt were:

? Liberalization played a significant role. On the *external* front, policy measures such as import liberalization, export incentives, and a more realistic real exchange rate contributed to productive efficiency. On the *internal* front, freeing up of several sectors from investment licensing reinforced import liberalization and allowed faster industrial growth.

? Both external and internal borrowing allowed Govt. to maintain high levels of public expenditures and thus boost growth through demand.

Unfortunately, these factors carried with them the seeds of the June 1991 macro economic crisis that brought the economy to grinding halt.

The crisis of 1990-91…

Statistics bear testimony to the fact that the genesis of the economic crisis in India, which surfaced in 1991, lies in the large and persistent macroeconomic imbalances that developed over the1980s. Large fiscal deficits emerged as a result of mounting government expenditures, particularly during the second half of the 80s. Moreover, because of the dynamic interrelationship between the fiscal and trade deficits, the former resulted in large current account deficits in the balance-of-payments.

The gross fiscal deficit of the government (center and states) rose from 9.0 percent of GDP in 1980-81 to 10.4 percent in 1985-86 and to 12.7 percent in 1990-91. For the center alone, the gross fiscal deficit rose from 6.1 percent of GDP in 1980-81 to 8.3 percent in 1985-86 and to 8.4 percent in 1990-91.

The period of 1981-82 to 1986-87 is marked by a significant acceleration in the rate of growth of expenditures. The per capita real NNP on an average during this period increased at 2.2 percent per year. The government revenues, on the other hand increased at even higher rates (5.7 percent per year).

Year	Govt. expenditure as per cent of GDP
1874-75	18.9
1981-82	24.5
1985-86	28.4
1986-87	30.5
1987-88	29.7
1988-89	29.3
1989-90	30.3
1990-91	29.3
1991-92	28.9
1992-93	29

Source: Indian Economic Statistics, Ministry of Finance, GOI

The period so far…

Since the early 1990s, growth impulses appeared to have gathered further momentum in the aftermath of comprehensive reforms encompassing the various sectors of the economy. The real Gross Domestic Product stood at 5.3 per cent in 1990-91.

There was some loss in the growth momentum in the latter half of the 1990s which coincided with the onset of the East Asian financial crisis, with a setbacks to the fiscal correction process, quality of fiscal adjustment, slowdown in agriculture growth affected by lower than normal monsoon years, and some slackening in the pace of structural reforms.

The slowdown could also be attributed to the excessive enthusiasm and optimism in regard to investment plans in domestic industry following deregulation, which was followed by significant problems experienced in viability and competitiveness. Monetary tightening in the face of inflationary pressures is also believed by some to have contributed to the slowdown over this period.

Since 2003-04, there has been a distinct strengthening of the growth momentum. Restructuring measures by domestic industry, overall reduction in domestic interest rates, both nominal and real, improved corporate profitability, benign investment climate amidst strong global demand and commitment rules-based fiscal policy have led to the real GDP growth averaging close to 9 per cent per annum over the 4-year period ended 2006-07; growth in the last two years has averaged 9.5 per cent per annum.

SECTORAL GROWTH IN PRE AND POST GLOBALISATION PHASE

Pre-liberalization phase...

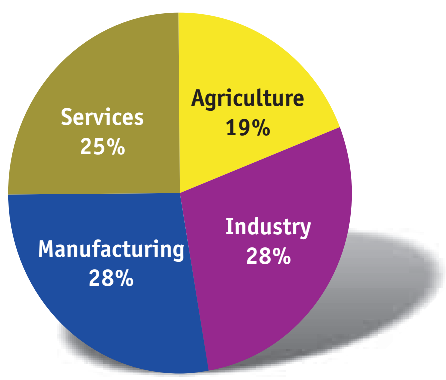
Agriculture: The growth has been subject to large variation over the decades. The 1970s interregnum is particularly marked by the severe deceleration in agricultural growth, followed by a marked recovery in the 1980s despite a fall in public investment in the sector, and a slowdown thereafter.

Industry: Interestingly, growth of manufacturing production, in terms of decadal averages, was roughly constant at around 5.6-5.9 per cent in the first five decades after Independence, except for the 1970s.

Services: Until the 1990s, little note had been taken of growth in the services sector. A glance at the growth record suggests that it is the continuing and consistent acceleration in growth in services over the decades, that had earlier been ignored, that really accounts for the continuous acceleration in overall GDP growth, once again, except for the 1970s interregnum.

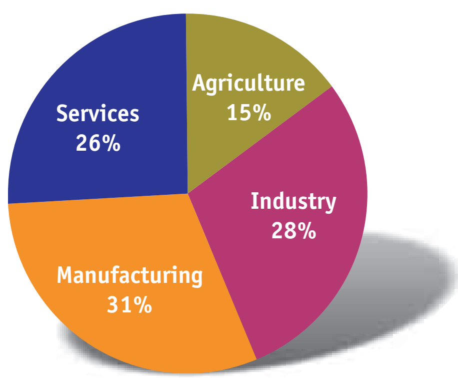
Sectoral Growth in GDP

Pre-Reform Period
1980s (as a per cent of GDP)



Source: RBI

Post Reform Period
1991/92 to 1995/96 : Post reform period



Post-liberalization phase...

Economic reforms initiated in 1990s have transformed the Indian economy from an inward-looking economy with moderate growth to an internationally competitive, fast growing economy. The average annual growth rate of the economy increased from 5.7 per cent in 1991/92-1996/97 to 8.7 per cent in 2003/04-2006/07.

Agriculture: During the decade of 1990s, declining trend in public sector investment that set in year 1979-80 continued for most part of the decade. However, terms of trade were kept favourable to agriculture sector during 1990s by hiking level of cereal prices through government support, trade liberalization and exchange rate devaluation.

The period of 1997/98 to 2002/03 saw the worst performance of the agriculture sector on account of the continuing decline in public investments, slow adoption of new methods and technology, large scale imports of some commodities also triggered the slowdown in the sector.

Industry: With the abolition of MRTP Act and reducing the public sector monopoly in many sectors, the industrial sectors witnessed a sharp rise from 5.7 per cent in 1990-91 to 7.0 per cent in the period 1991/92-1996/97.

Services: With opening up of the world economy and increased investments, the services sectors grew from 6.3 per cent in 1980s to 10.6 per cent in 2007-08.

Macroenomic Indicators at a Glance

(in percent)

Indicators	1950s*	1960s	1970s	1980s	1990-91	1991/92 to 1996/97	1997/98 to 2002/03	2003/07 08 2006/07	2007-08 (AE)
Agriculture and Allied	2.7	2.5	1.3	4.4	4.0	3.7	0.9	4.9	2.6
Industry	5.8	6.2	4.4	6.4	5.7	7.0	4.1	8.3	8.6
Manufacturing	5.8	5.9	4.3	5.8	4.8	7.5	3.9	9.1	9.4
Services	4.2	5.2	4.0	6.3	5.9	6.4	7.8	10.2	10.6

* Average for the growth rates of various indicators for 1950s is the average of nine year, i.e. from 1951-52 to 1959-60.

AE- Advanced estimates

Source : RBI

SAVINGS AND INVESTMENTS

India's economic growth has been predominantly financed by domestic savings. The recourse to foreign savings – equivalently, current account deficit – has been rather modest in the Indian growth process.

Savings and Investments as per cent of GDP

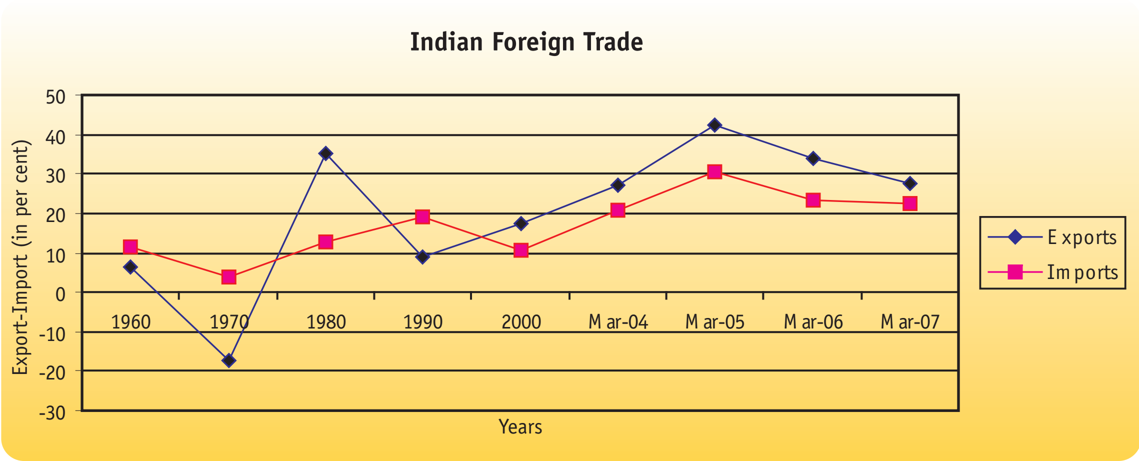
Indicators	1950s	2006-07
Gross domestic savings	9.6	35
Domestic Investments	10.8	36

Source : RBI

However, the public sector savings-investment gap, which averaged (-) 3.7 per cent of GDP during the period 1950-51 to 1979-80, widened sharply during 1980s culminating in a high of GDP in 1990-91.

FOREIGN TRADE

Trade is one of the key determinants of economic development. Development of trade can improve a country's development. The volume of India's trade has multiplied. The trade to GDP ratio has gone up from 13 percent in 1980 to 20 percent at present. The increase has been shared both by exports and imports.



Source : RBI

COMPOSITION OF TRADE

Imports may be divided into

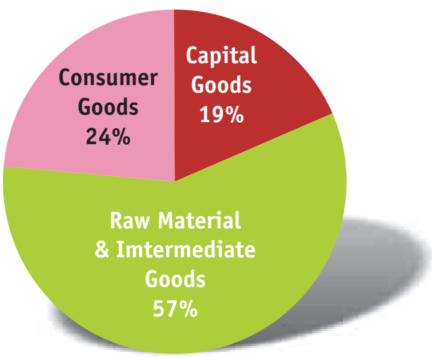
- Capital goods
- Raw material and intermediate goods
- Consumer goods

Exports may be divided into:

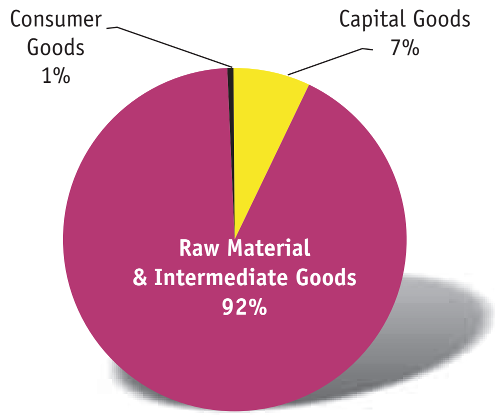
- Exports of traditional items
- Exports of non traditional items

Change in the Composition of Imports

(1960-61)



2007 (April - September)



Source : RBI

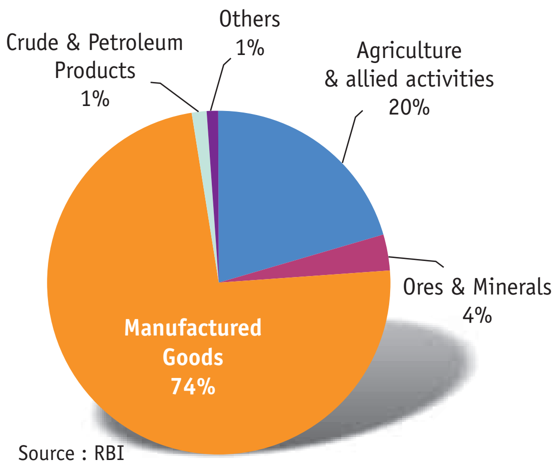
Change in the Composition of Imports

Traditional Items: It includes the exports of tea, coffee, jute, jute products, iron ore, species, animal skin, cotton, fish, fish products, mineral products etc. At the beginning of the planning era, these items contributed about 80 percent of out total exports. Gradually, the contribution of these items has witnessed a decline to about 18.8 per cent and that an upward trend of non-traditional items is seen.

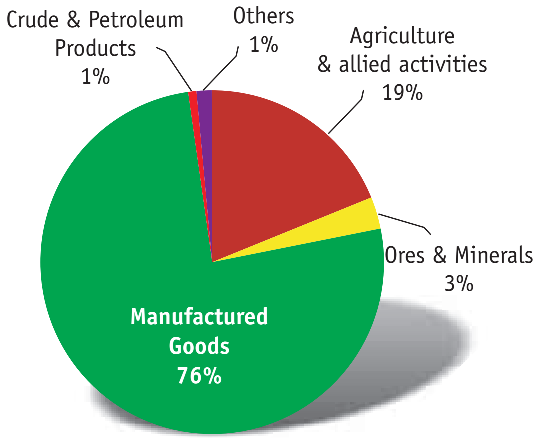
Non-traditional items: There is a significant change in the pattern of exports of non-traditional items in India during recent years.

COMPOSITION OF NON TRADITIONAL EXPORT

(1996-97)



(2006-07)

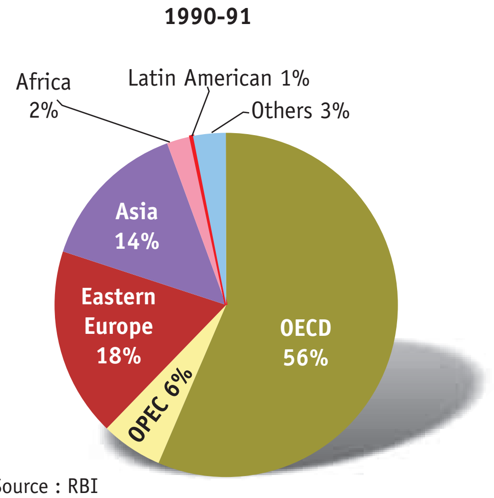


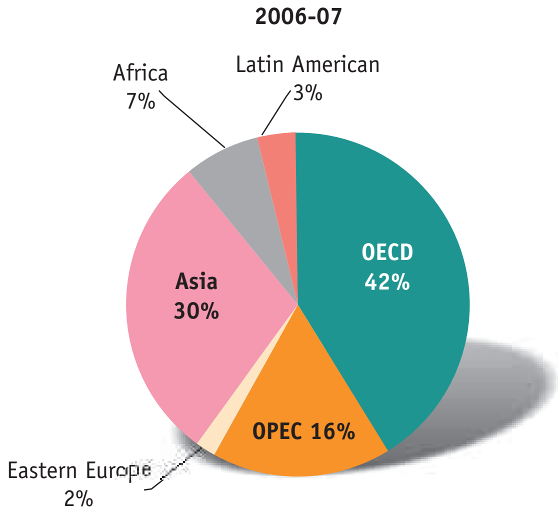
Source : RBI

DIRECTION OF TRADE

During the planning era, several important changes have taken place in the destination of exports of India. Our major exports are directed towards the following countries:

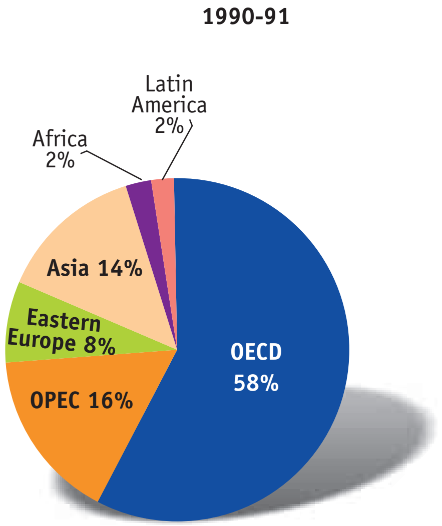
Direction of Exports

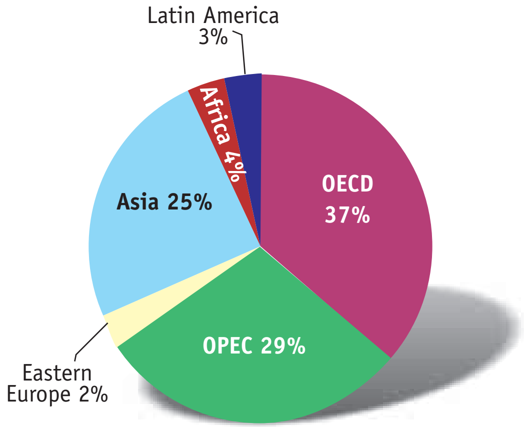




Source : RBI

Direction of Imports



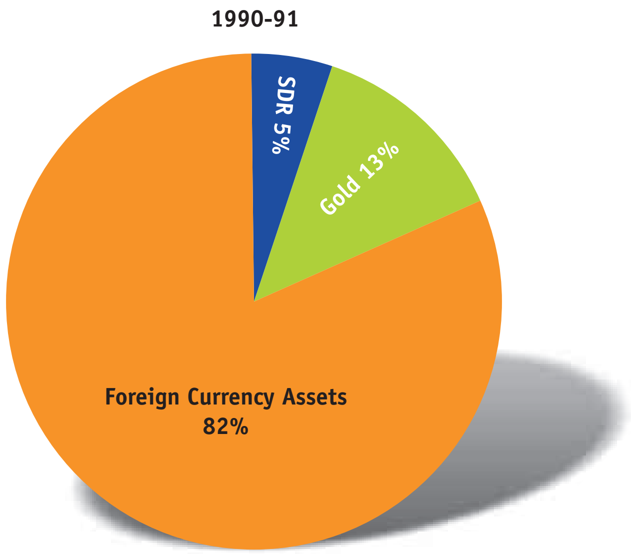


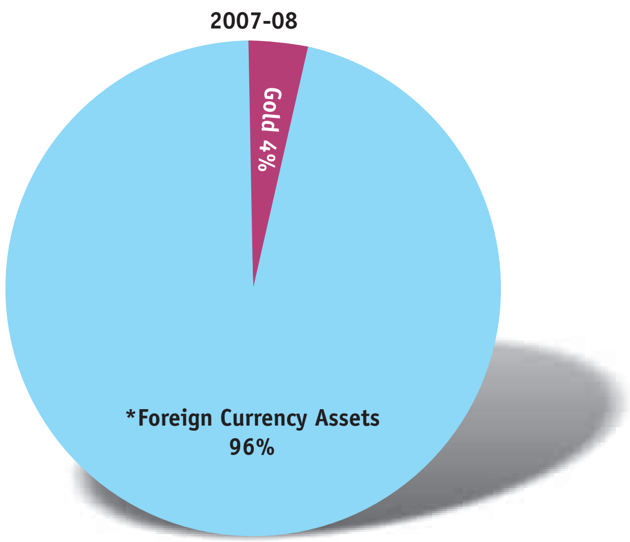
Source : RBI

FOREIGN EXCHANGE RESERVE

Another milestone reached...

Reserve accumulation has been an enduring phenomenon since the start of the 1990s and barring 1995-96, the countries forex kitty witnessed an upsurge from USD 3,625 million in 1989-90 to USD 2,04,409 million in 2006-07.





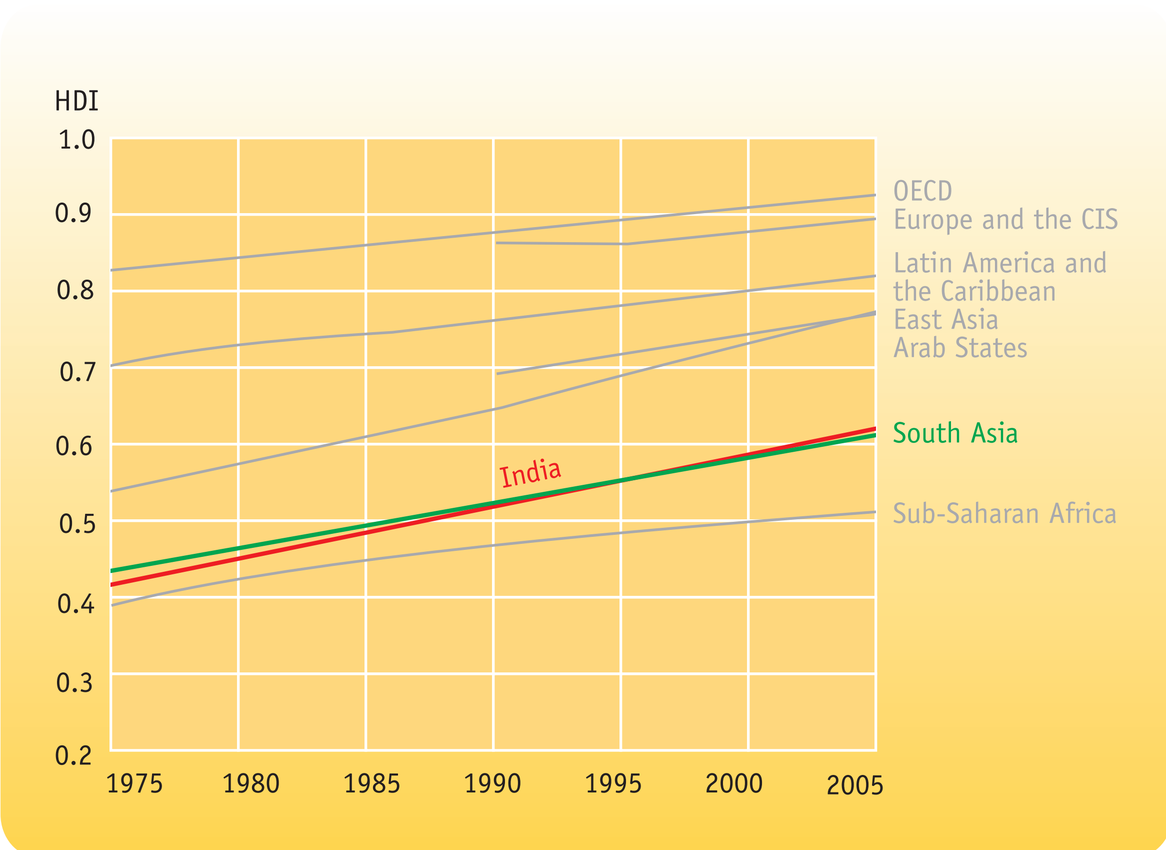
* Include items such as securities, total currency & deposits, reserves with other national central banks, BIS & IMF, reserves with banks headquartered in the euro area and located abroad, loans not included in official reserves assets, financial derivates not included in official reserves assets.

Source: RBI

HUMAN DEVELOPMENT INDEX

India ranks 128th out of 177 countries, working it out through measures of life expectancy, education and income, according to the Human Develoment Report for 2007-08. Iceland is at the top with Norway, Australia, Canada, Ireland, Japan, France, the US, the UK, Israel, and Singapore among the top 25 nations in the development chart.

India's commitment to education measured through public spending dropped from 12 per cent of total government expenditure in 1991 to 10 per cent in 2005.



Source : UNDP

UNEMPLOYMENT

In 1983...

During 1983, the country's population stood at 718.10 million persons, where 24.34 million persons were unemployed.

The period that was...

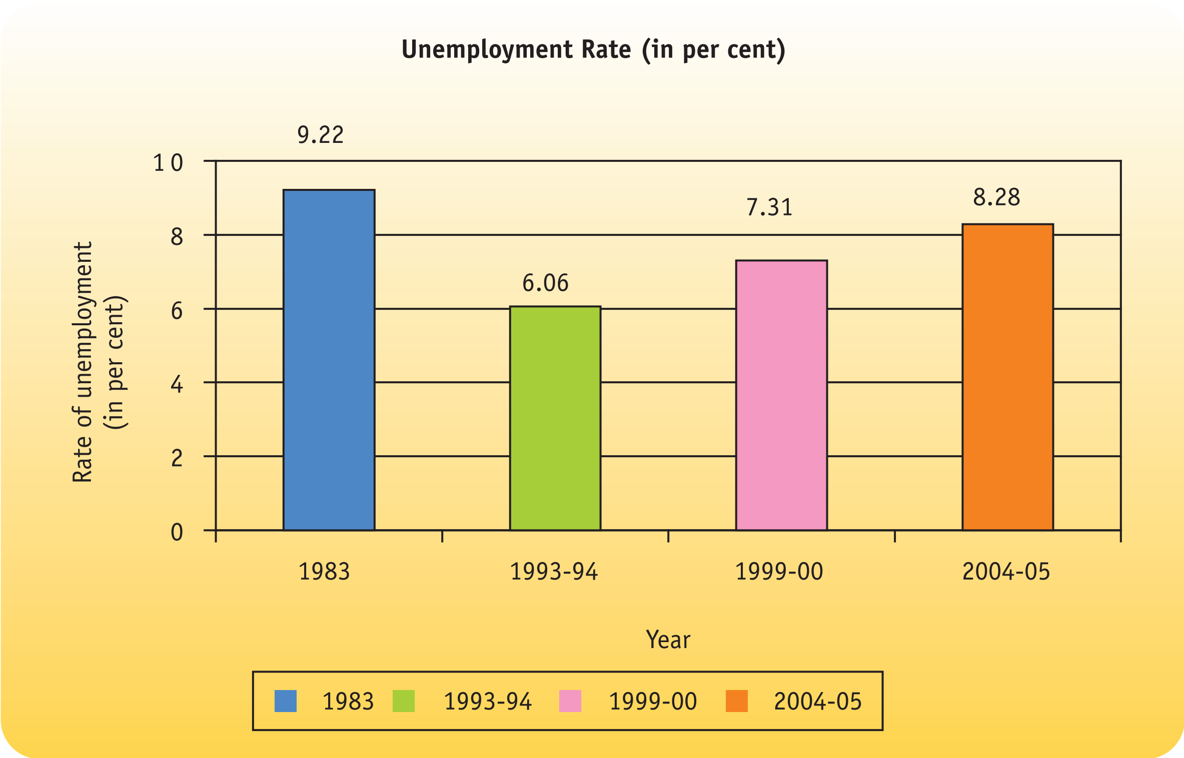
From 1983 to 1993-94, the population grew at the rate of 2.11 per cent per annum. This was the phase of globalization and liberalization, which led to decline in the number of unemployed people to 20.27 million persons.

In 1999-2000...

During 1993-94 to 1999-2000, the growth in population was 1.98 per cent per annum. But, the number of persons unemployed rose to 26.68 million.

The recent past...

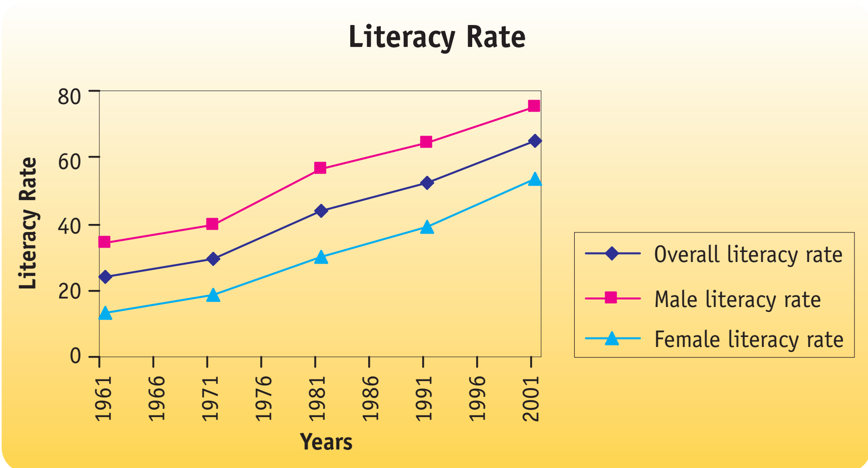
During 1999-2000 to 2004-05, about 47 million work opportunities were created compared to the previous period where 24 million was created. Employment growth accelerated to 2.62 per cent per annum.



Source: Economic Survey

LITERACY RATE

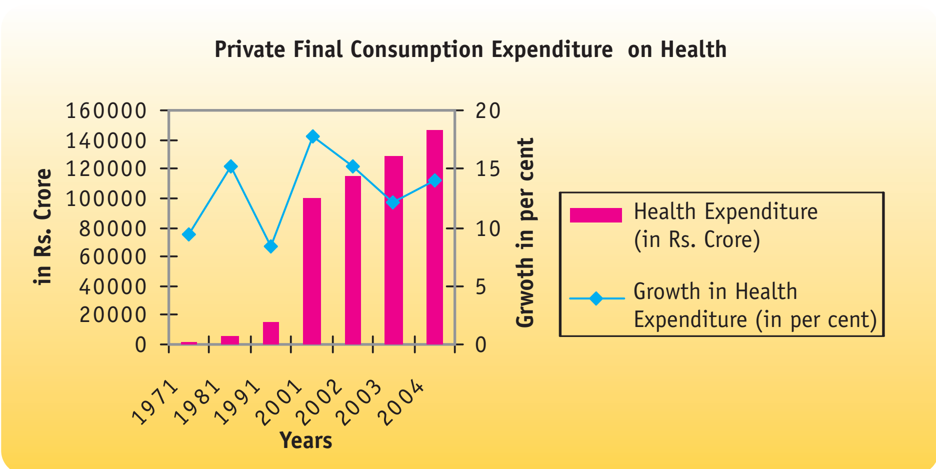
The literacy rate in India improved substantially since 1991 when it was 52 per cent. The rate was 64 per cent in the year 2001. yet, the gap between the male (75 per cent) and female literacy (53 per cent) presents a disturbing trend.



Source: CMIE

HEALTH

The growth in private expenditure on health has been increasing in last few years but the amount spent by the government has not been sufficient to meet the demand.



Source: CMIE

Globalisation & Policy Reforms

"The macro-foundations of a healthy environment have been laid and now we need lots of little things to make a big difference"

Mr. Rakesh Mohan, Deputy Governor, Reserve Bank of India

Two

The Indian economy has come a long way from the era of hindu rate of growth and the period of intense reforms commenced in 1991 triggered by the Balance of Payment crisis. The process of integration of our economy with the rest of the world was in tandem with the reforms at the domestic sector when the large number of industries like banking, insurance, automobiles, textiles, telecom, infrastructure, went out through the liberalization and privatization phase.

MAJOR POLICY SHIFTS FAVORING INTEGRATION WITH WORLD ECONOMY

Foreign Trade

- Import licensing was abolished for capital goods and intermediates which became freely importable in 1993.
- Quantitative restrictions on imports of manufactured consumer goods and agricultural products were removed on April 1, 2001.
- The peak rate of customs duty on non-agricultural goods was reduced gradually from 150 per cent in 1991-92 to 10 per cent in 2007-08.

Foreign Investment

- A major liberalization of the FDI Policy was carried out in 2006 which, inter alia, allowed FDI under the automatic route in sectors such as potable alcohol, hazardous chemicals, industrial explosives, greenfield airport projects etc.
- FDI cap enhanced to 100 per cent for setting up infrastructure relating to marketing in the Petroleum & Natural Gas sector.
- FDI permitted up to 100 per cent under the automatic route for power trading, subject to compliance with regulations under the Electricity Act, 2003.
- FDI up to 100 % allowed in the Greenfield and existing projects in airports.
- FDI up to 51 per cent for retail trade of single brand.

Exchange Rate

- Exchange rate regime of India evolved from a single-currency fixed-exchange rate system to fixing the value of rupee against a basket of currencies and further to market-determined floating exchange rate regime.
- Foreign Exchange Regulation Act (FERA), 1973 was replaced by the market friendly Foreign Exchange Management Act, 1999.
- Development of rupee-foreign currency swap market.

ASSOCHAM

India's Journey Towards Globalisation

1970 1980 1991 1992 1993 1994 1997 1998 1999 2003 2004 2006

1970s

- Average GDP Growth – 2.9 per cent
- Extensive government controls over private sector activity in the form of investment licensing and price controls
- High level of tariff protection combined with quantitative restrictions on imports
- Restrictive controls on foreign investment

1980s

- Average GDP Growth – 5.6 per cent
- Marginal relaxation in controls
- Removal of some industries from licensing
- Some automatic expansion in licensed capacity allowed
- Removal of few imports from control

1991

- GDP growth - 5.7 per cent
- Reform Process triggered by balance of payment crisis
- India transitioned from a centrally planned and operated economy to market driven economy, reflecting a global trend toward less regulated economies
- The fixed exchange rate was devalued by 25 per cent in two successive steps
- Restrictions on import of foreign technology were withdrawn
- A new regime welcoming foreign direct investment was introduced

1992

- A dual exchange rate was introduced, one fixed rate for exporters and a floating rate based on demand and supply of foreign exchange

1993

- The dual exchange rate was replaced by a market driven single exchange rate

1994

- India became current account convertible by accepting Article VIII of the Articles of Agreement of the IMF

1997

- FIIs allowed to invest in government securities

1998

- The Free Trade Agreement between India and Shri Lanka was signed

1999

- Replacement of Foreign Exchange Regulation Act (FERA), 1973, by the market friendly Foreign Exchange management Act, 1999

2003

- India and Thailand signed the Free Trade Agreement

2004

- Liberalized Remittance Scheme was introduced

2006

- Foreign Trade Policy was released
- An Agreement on South Asian Free Trade Area (SAFTA) signed in 2004, by all member countries of South Asian Association for Regional cooperation (SAARC), came into force
- The Indian mutual funds allowed to invest in overseas exchange traded frunds

- Introduction of additional hedging instruments, such as, foreign currency-rupee options. Authorised dealers permitted to use innovative products like cross-currency options, interest rate swaps (IRS) and currency swaps, caps/collars and forward rate agreements (FRAs) in the international foreign exchange market.

- FIIs and NRIs permitted to trade in exchange-traded derivative contracts subject to certain conditions.

Financial Sector

- Transparent norms introduced for entry of Indian private sector, foreign and joint-venture banks and insurance companies.

- Foreign investment in the financial sector in the form of Foreign Direct Investment (FDI) as well as portfolio investment allowed.

- Roadmap for presence of foreign banks drafted.

- Implementation of Basel II - Foreign banks operating in India and Indian banks having a presence outside India will start implementing Basel II with effect from 31 March, 2008. All other scheduled commercial banks would be required to implement Basel II with effect from 31 March 2009.

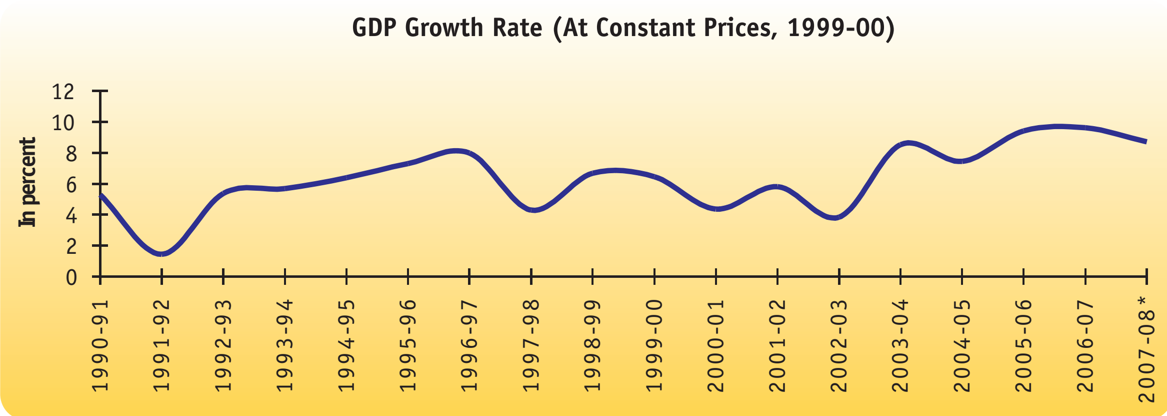
Globalisation & Growth

"We recognize that India is one among a hundred destinations where a foreign company can make an investment"

Mr. P. Chidambaram, Finance Minister, India

Three

Gradual opening of the Indian economy has proven to be a major success story in the Indian reforms process. It has allowed Indian companies to adjust adequately to be able to compete with the best in the world. The fruits of the reform process that began in the year 1991 are apparent in the growth rates being scaled by the Indian economy. The GDP growth in each of the last the past five financial years (including 2007-08) has been more than 7 per cent.



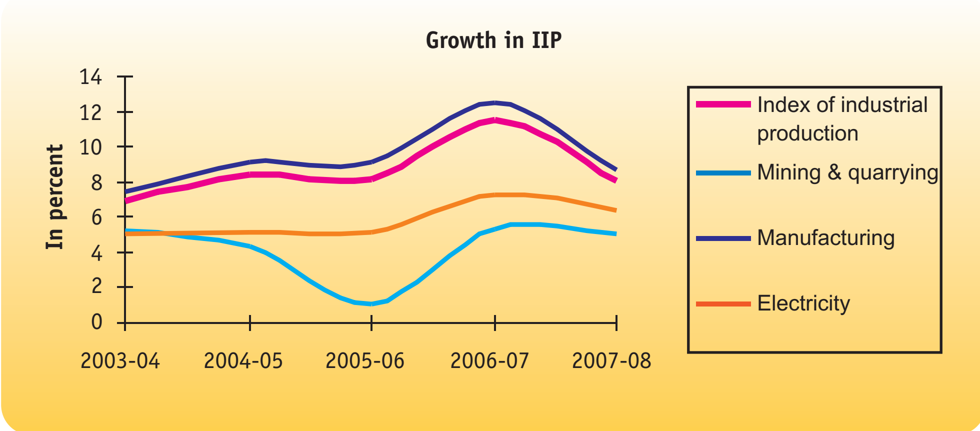
*Advance Estimates
Data Source : CMIE and CSO

PERFORMANCE ANALYSIS OF INDUSTRY AND SERVICES SECTORS

The impact of Globalisation along with other reforms can be gauged by analyzing the performance of Industry and Services sector over the time period from the financial year 2003-04 to 2007-08. The Indian economy has entered into a high-growth trajectory since 2003-04.

INDUSTRY

- The Index of Industrial Production (IIP) has grown by almost 7 per cent or more in the past five financial years.
- Manufacturing, which was exhibiting erratic growth rates at the beginning of this century, has been steadily growing since 2003-04. Though, some concerns have come up recently.
- Growth rate in electricity production has improved from 3-4 per cent (over the time period of financial year 2001 to 2003) to 6.4 per cent in 2007-08.
- Mining & quarrying has grown at 4-5 per cent in the last five fiscals, barring 2005-06 when it grew by 1 per cent.



Data Source: CMIE and CSO

Performance of the Manufacturing Industries

- Machinery & Equipments, contributing almost 10 per cent to the IIP, has witnessed double-digit growth over the past five financial years.
- Food products, carrying a weight of 9 per cent in IIP, witnessed a pick up in growth in the last two financial years only.
- Growth in 'Basic metal and alloy industries' too has been impressive.
- Transport equipments, after recording double-digit growth rates in three out of four preceding fiscals, posted a 2.8 per cent growth in 2007-08.

Growth Rates of Manufacturing Industries (In per cent)

Manufacturing Industries	2003-04	2004-05	2005-06	2006-07	2007-08
Food products (wt 9.08)	-0.5	-0.35	1.98	8.53	6.0
Beverages, tabacco and related products (wt 2.38)	8.54	10.82	15.73	11.05	11.8
Cotton textiles (wt. 5.52)	-3.13	7.55	8.51	14.81	4.1
Wool, silk and man-made fibre textile (wt 2.26)	6.85	3.54	-0.04	7.8	4.2
Jute & jute textiles (wt 0.59)	-4.17	3.68	0.47	-15.77	33.1
Textile products (incl. wearing apparel (wt 2.54)	-3.18	19.18	16.35	11.55	3.3
Wood and wood products (wt 2.7)	6.9	-8.54	-5.67	29.05	38.9
Paper & paper products (wt 2.65)	15.64	10.51	-0.89	8.74	2.6
Leather & leather products (wt. 1.14)	-3.9	6.75	-4.84	0.6	11.8
Chemicals & Chemical products (wt 14)	8.61	14.52	8.35	9.62	10.4
Rubber,plastic,petroleum & coal products(wt 5.73)	4.41	2.44	4.27	12.87	8.9
Non-metallic mineral products (wt 4.4)	3.69	1.54	11.01	12.79	5.8
Basic metal and alloy industries (wt 7.45)	9.16	5.39	15.79	22.84	12.2
Metal product (wt 2.81	3.67	5.76	-1.18	11.45	-5.7
Mechinery and equipments (wt 9.57)	15.82	19.75	11.95	14.16	9.3
Transport equipment (wt 3.98)	17.06	4.07	12.68	15.02	2.8
Other manufacturing industries (wt 2.56)	7.69	18.55	25.2	7.75	19.3
Note : Wt: Weight in IIP					

Data Source: CMIE and CSO

SERVICES

- Growing steadily, the service sector has increased its share in real GDP to 61.8 per cent in 2006-07, from about 58.7 per cent in 2002-03 (as per RBI).
- Growth in service sector has remained broad based over 2003-04 to 2007-08.
- Financing, insurance, real estate and business services witnessed a virtual doubling in the growth rates from 5.6 per cent in 2003-04, to 11.7 per cent in 2007-08.
- Construction sector has observed slowdown in growth rates from double digit to single digit.

Growth Rates of Service Sector, At 1999-2000 Prices (In per cent)

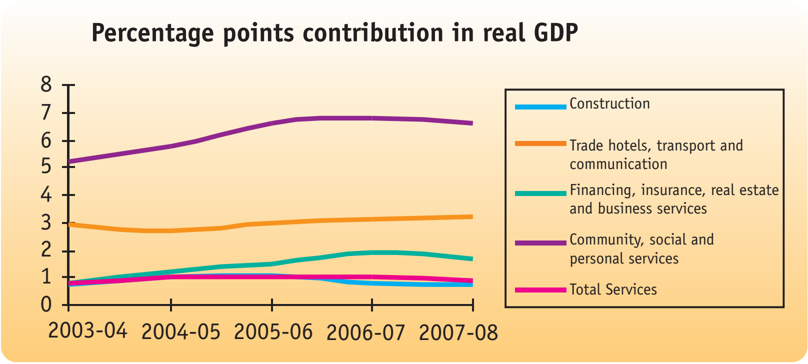
	2003-04	2004-08@	2205-06*	2006-07 (RE)	2007-08 (AE)
Services	8.9	10	10.3	11.0	10.6
Construction	12.0	14.1	14.2	10.7	9.6
Trade, hotels and restaurants	10.3	8.4	8.2	13.0^	12.1
Transport, storage and communication	15.1	15.2	13.9	N.A.	N.A.
Financing, insurance, real estate and business services	5.6	8.7	10.9	10.6	11.7
Community, Social and Personal Services	5.4	7.9	7.7	7.8	7.0

@ : Provisional Estimates * : Quick Estimates (RE) : Revised Estimates N.A. : Not available
^ : Corresponds to "Trade, hotels and restaurants' and "Transport, storage and communication'
AE : Advance Estimates

Data Source : RBI, CSO

TREND IN PERCENTAGE POINT CONTRIBUTION OF SERVICES TO REAL GDP

The service sector as a whole contributed 3.2 percentage points in real GDP growth rate in the year 2000-01. The GDP growth posted in the same year was 4.35 per cent. Thereafter, the sector's contribution has increased almost continuously. It was 6.6 per cent in 2007-08, when the GDP is expected to have grown at 8.7 per cent, as per the advance estimates by Central Statistical Organization.



Data Source : RBI

INDICATORS OF SERVICE SECTOR ACTIVITY

- Non-food credit expanded at 22.3 per cent in 2007-08, following 28.5 per cent in 2006-07.
- Aggregate deposits of SCBs increased at nearly 22.2 per cent in 2007-08, as against 23.8 per cent in the preceding financial year.
- New cell phone connections increased at a scorching pace of 89.4 per cent and 85.4 per cent respectively in 2005-06 and 2006-07 respectively, before slowing down to 40 per cent during April-February 2008.

(Growth in per cent)

Indicators	2005-06	2006-07	2006-07 (Apr-Feb)	2007-08 (Apr-Feb)
Tourist Arrivals	12.4	13.6	13*	11.3*
Commercial Vehicle Production #	10.6	33	34.3	4.5
Railway revenue earning freight traffic	10.7	9.2	9.1	9
New cell phone connections	89.4	85.4	90.3	40
Cargo handled at major ports	10.4	9.5	9.4	12.2
Civil Aviation				
a) Export cargo handled	7.3	3.6	3.4	8
b) Import cargo handled	15.8	19.4	19.5	20.9
c) Passengers handled at international terminals	12.8	12.1	12	12
d) Passengers handled at domestic terminals	27.1	34	35.3	21.6
Cement**	12.4	9.1	9.5	7.5
Steel**	10.8	11.7	11.3	5
Aggregate deposits of SCBs	18.1	23.8	23.8*	22.2*
Non-food credit of SCBs	31.8	28.5	28.5*	22.3*

*: April-March #: Leading indicators for transportation
**: Leading indicators for construction
SCBs: Scheduled Commercial Banks

Data Source: RBI

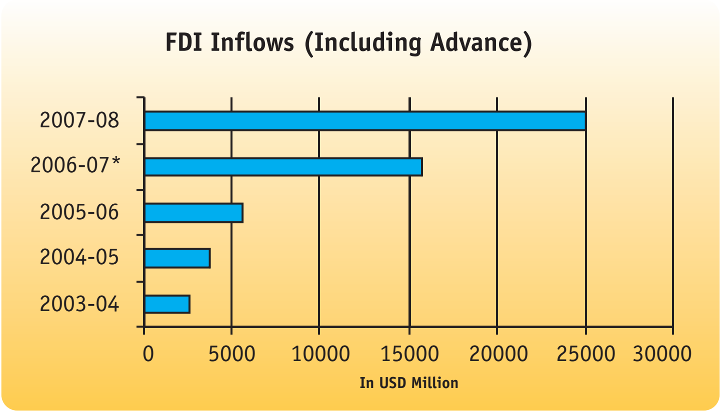
FOREIGN DIRECT INVESTMENTS

FDI Inflows

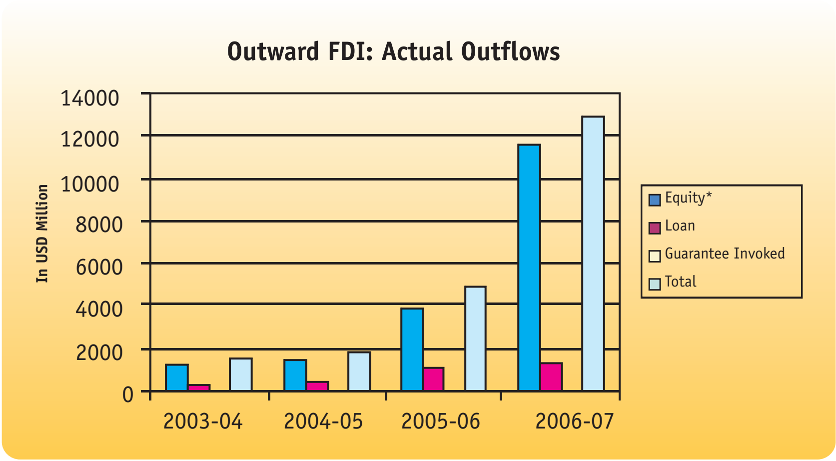
FDI Inflows have increased at a very fast pace in the last two financial years, viz. 2006-07 and 2007-08. The country received almost USD 25 billion of FDI in 2007-08.

Outward FDI

Outward FDI took a leap in 2006-07 to record an outward FDI of USD 12.88 billion from about USD 4.9 billion in 2005-06. The figure for nine months ending December 2007 was close to USD 10.11 billion.



* Includes Stock Swap of Shares USD 3.2 billion
Data Source: DIPP



*Equity: Equity of individuals and banks not included; Figures are provisional

Data Source: RBI

Trend in FDI Inflow

- Services including Financial & Non-financial attracted almost 20.5 per cent of the Foreign Direct Investments (FDI) Inflows recorded during the time frame of April 2000 to February 2008.
- About 27 per cent of total FDI Inflows registered over the same period had flown to the region of Maharashtra, Dadra & Nagar Haveli, Daman & Diu.

Cumulative FDI Inflows (April 2000 to February 2008): Sector-wise

Sector	Amount (In USD Million)	Percentage Share in Total
Services (Financial & Non-financial)	11,934	20.55
Computer Software & Hardware	7,241	12.47
Telecommunications	3,778	6.51
Construction Activities	2,947	5.08
Housing & Real Estate	2,324	4.00
Automobile Industry	2,115	3.64
Power	1,741	3.00
Metallurgical Industries	1,557	2.68
Chemicals (Other than fertilizers)	1,373	2.36
Drugs & Pharmaceuticals	1,276	2.20
Electrical Equipments	1,095	1.89
Other sectors	20,685	35.62
Total	58,066	100.00

Note: Sectorwise FDI Inflows data re-classified, as per segregations of data from April 2000 onwards

Data Source: DIPP

Cumulative FDI Inflows (April 2000 to February 2008): Region-wise

RBI's Regional Office	States Covered	Amount (in USD) Million)	Percentage Share in Total
Mumbai	Maharashtra, Dadra & Nagar Haveli, Daman & Diu	15,810.00	27.23
New Delhi	Delhi, Part of UP and Haryana	10,572.30	18.21
Bangalore	Karnataka	3,787.40	6.52
Chennai	Tamil Nadu, Pondicherry	2,981.30	5.13
Hyderabad	Andhra Pradesh	2,257.60	3.89
Ahmedabad	Gujarat	2,019.60	3.48
Kolkata	West Bengal, Sikkim, Andaman & Nicobar Islands	785.70	1.35
Chandigarh	Chandigarh, Punjab, Haryana, Himachal Pradesh	384.20	0.66
Panaji	Goa	221.60	0.38
Kochi	Kerala, Lakshadweep	119.20	0.21
Bhopal	Madhya Pradesh, Chattisgarh	104.20	0.18
Bhubaneshwar	Orissa	88.70	0.15
Jaipur	Rajasthan	77.50	0.13
Kanpur	Uttar Pradesh, Uttrakhand	16.40	0.03
Guwahati	Assam, Arunachal Pradesh, Manipur, Meghalaya, Mizoram, Nagaland, Tripura	11.70	0.02
Patna	Bihar, Jharkhand	0.40	0.00
RBI's Regions not indicated		13,447.70	23.16
Sub-total		**52,686.20**	**90.73**
Stock Swapped		3295.8	5.68
Advance of Inflows (From 2000 to 2004)		1,962.80	3.38
RBI's NRI Schemes		121.30	0.21
Grand Total		**58,066.10**	**100.00**

Data Source: DIPP

TREND IN FOREIGN TECHNOLOGY TRANSFER (FTC)

- Electrical Equipments (Including Computer Software & Electronics) has led the sectors in terms of number of Foreign Technology Transfers approved from August 1991 to February 2008.
- Maharashtra has led the states, acquiring 17.26 per cent of the total Foreign Technology Transfers approvals made during August 1991 to February 2008.

FTC Approvals: Sector-wise (From August 1991 to February 2008)

Sector	No. of Technical Collaborations Approved	Percentage Share in Total
Electrical Equipments (Including Computer Software & Electronics)	1,255	15.8
Chemicals (Other than Fertilizers)	886	11.16
Industrial Machinery	869	10.94
Transportation Industry	742	9.34
Misc. Mach. Engineering Industry	442	5.57
Other Sectors	3,747	47.19
Total	**7,941**	**100.00**

Data Source: DIPP

FTC Approvals: State-wise (From August 1991 to February 2008)

State	No. of Technical Collaborations Approved	Percentage Share in Total
Maharashtra	1,371	17.26
Tamil Nadu	660	8.31
Gujarat	608	7.66
Haryana	356	4.48
Delhi	315	3.97
Other States	4,631	58.32
Total	**7,941**	**100.00**

Data Source: DIPP

EMERGING RISKS AND CHALLENGES OF GLOBALISATION

The process of globalisation has and will continue to pose numerous challenges, including those that cannot be foreseen today. It is thus important to be aware of the downside risks and be prepared to deal with them. Few of the risks are:

- Downside risks exist to the extent growth is depended on external demand.
- High prices of food, energy and other commodities have imparted an upside bias to inflation and inflation expectations across the globe.
- Food price inflation is a crucial risk to global stability. It is noteworthy that protectionist tendencies have increased in several key commodity-producing economies.
- There are apprehensions that the financial turmoil erupted in the US economy may get spillover to the real sectors.
- If the US dollar further weakens in the long term, the country's exporters may get seriously impacted.
- Unless the global liquidity situation improves, the current credit crunch has the potential to impact all the sectors of the country, especially since the domestic rates are high.
- Given the increasing integration of the economies across the world, the monetary policy responses to various issues would warrant innovative responses by the central bankers.

Globalisation & People

"One of the greatest advantages of globalisation is that there is motivation to compete to be the best in the world"

Mr Azim H. Premji, Chairman, Wipro Corporation

Four

I. GLOBAL ISSUES

Globalisation is a broad process of social change taking place in disparate locales around the world. It leads to proliferation of prosperity across countries by inducing competition among nations and humans to gain maximum benefit and profits. In this process there may be some countries and section of people benefiting more, while some benefiting less.

Some broad impact of globalisation on the people across the globe are as following:

a) Technological Revolution

- Globalisation has led the technological revolution both in transportation and communication. It has made non-tradable services, tradable by providing alternatives mode of transport at low cost along with increase mobility of producers and the consumers of the service by developing means of communication such as satellite links and video transmission. The revolution in telecommunication and transportation has also created large number of job in these sectors in both developed and developing countries.

b) Growth of Higher Education

- The opportunities and demand for the skilled professionals have enhanced the importance of higher education. Markets and globalisation have begun to influence universities across globe and shape education. Universities are induced to introduce new courses, for which there is a demand in the market. It have led to the emergence of new disciplines like management, medicine and law along with new employment generating sectors like biotechnology, nano technology etc.

c) Emergence of MNCs

- With globalisation, the movement of goods, services, technology, capital and finance grew at a faster pace and in large quantities. There was easy mobility of humans also, as MNCs became transnational employers of the people. MNCs recruit professionals from both industrialized and developing countries for placement in corporate headquarters or affiliates in some other regions. They engage professionals from low-income countries in software, healthcare, engineering etc.

d) *Migration and Mobility of Professionals*

- Globalisation has led to increase mobility of professionals encouraging people with high skills or professional qualifications to earn and maintain good standards of living. It has led in development of technology and knowledge helping mankind in generating better employment opportunities.

e) *Employment for the Weaker Section*

- The process of globalisation and economic liberalization has provided huge growth opportunities in the organized sector especially for the females.

f) *Cultural Shift*

- The youths across the world are highly exposed to the developments taking place in the global village. Consumerism has taken over these new age consumers, as food, music, internet have captured their attention.

g) *Regional Disparity*

- Globalisation has led to uneven growth between the rural and urban regions in the developing countries. The urban areas are growing and expanding as the global capital of the corporate world is flowing in these regions. The rural region lack investments from the corporate for infrastructure development and the national government remains as the major source of employment generation.

II. Compartive Analysis of India With Other Developing Countries: Social Indicators

The tables given below provide a comparative analysis of performance of social indicators of India with various developing countries in pre and post globalisation period.

Table 1: Human Development Index
(Out of 177 Countries)

S.No.	Name of the Country	Year 1990		Year 2005	
		Rank	Value	Rank	Value
1	Singapore	31	0.827	25	0.922
2	Malaysia	61	0.725	63	0.811
3	Brazil	62	0.723	70	0.8
4	Saudia Arabia	66	0.717	61	0.812
5	SriLanka	74	0.702	99	0.743
6	Iran (Islamic Republic)	85	0.653	94	0.759
7	China	89	0.634	81	0.777
8	Indonesia	93	0.626	107	0.728
9	**India**	**104**	**0.521**	**128**	**0.619**
10	Pakistan	114	0.467	136	0.551
11	Bangladesh	123	0.422	140	0.547

Source: UNDP, HDI Report 2007/2008

Table 2: Water and Sanitation Status
Percentage of population using improved sanitation

S.No.	Name of the Country	1990	2004
1	**India**	**14**	**33**
2	Bangladesh	20	39
3	China	23	44
4	Indonesia	46	55
5	SriLanka	69	65
6	Brazil	71	75

Source: UNDP, HDI Report 2007/2008

Table 3: Percentage of population undernourished

S.No.	Name of the Country	1990-92	2002-05
1	Indonesia	9	6
2	Brazil	12	7
3	China	16	12
4	Pakistan	24	24
5	**India**	**25**	**20**
6	Sri Lanka	28	22

Source: UNDP, HDI Report 2007/2008

Table 4: Public Expenditure on Education
(Percentage of Gross Domestic Product)

S.No.	Name of the Country	1991	2002-05
1	Saudia Arabia	5.8	6.8
2	US	5.1	5.9
3	Malaysia	5.1	6.2
4	UK	4.8	5.4
5	**India**	**3.7**	**3.8**
6	Pakistan	2.6	2.3
7	China	2.2	1.9
8	Indonesia	1	0.9

Source: UNDP, HDI Report 2007/2008

Table 5: Selected indicators of human poverty
(Out of 177 Countries)

Human Poverty Index (HPI-1) 2004	Adult illeteracy rate (%ages 15 2004	People without access to an improved water source (%) 2004	Children underweight for age (% age 0-5) (2004)
1. Chad(56.9)	1. Burkina Faso(76.4)	1. Ethiopia (78)	1.Nepal(48)
45. Cameroon(31.8)	24. Burundi(40.7)	74. Paraguay(14)	2.Bangladesh(48)
46. Botswana(31.4)	25. Sudan(39.1)	75. Comoros(14)	**3.India(47)**
47. India(31.3)	**26. India(39.0)**	**76. India(14)**	4. Yemen(46)
48. Comoros(31.3)	27. Malawi(35.9)	77. Kazakhstan(14)	5. Timor-Leste(46)
49. Kenya(30.8)	28. Rwanda(35.1)	78. Honduras(13)	6. Burundi(45)
108. Barbados(3.0)	164. Estonia(0.2)	125. Hungary(1)	134. Chile(1)

Source: Human Development Report 2007/0

The corresponding numbers with the country represents the rank and figures in bracket represents the value

III. India, Indians and the Globalisation

Globalisation is followed by development. There are two broader objectives of development, firstly to increase GDP or per capita income and secondly to enhance human well being, with the focus being on the expansion of economic and social opportunities for all individuals and groups. Thereby, it is important to ensure that growth is inclusive and equitable. These two objectives are closely linked to the growth objective and attainment of one may not be possible without the other.

a) *Social Indicators*

- The human development indicators represents that the country has met with reasonable success in the past decade and a half, thanks to the opportunities offered to the masses through globalisation and liberalization.
- The number of people living below the poverty line has come down from 36 per cent in 1993-94 to about 22 per cent in 2004-05.
- Life expectancy has gone up from less than 60 years in 1991 to close to 65 in 2006-07.
- But, the grey side of it represents that there are still over 250 million people, living on less than $1 a day. Similarly, one-third of our population remains illiterate.
- According to the international and Indian government agencies the number of unemployed lies between 250 to 300 million. These figures are the pointers as to how sustainable our growth could be in the future.

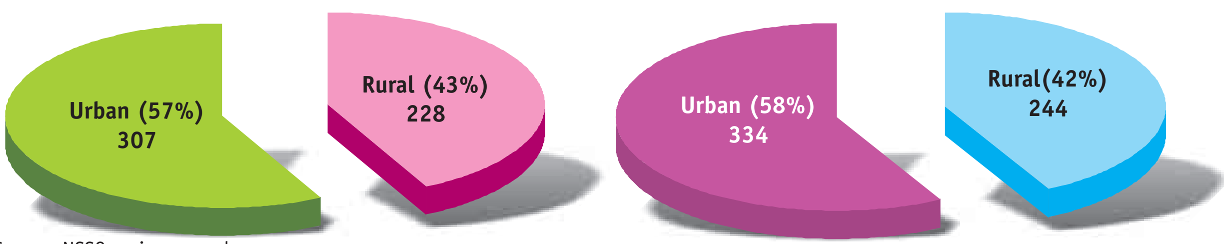
b) *Migration*

From the time Britisher's ruled India to 1990's and from 1990's till now, Indian have migrated in large numbers from rural to rural areas, rural to urban areas , urban to urban areas , urban to rural areas and outside the national boundaries also for various reasons.

Globalisation has provided easy means of transportation and information, changing

Per 1000 distribution of migrants in 49th NSSO round (Jan '93-June '93)

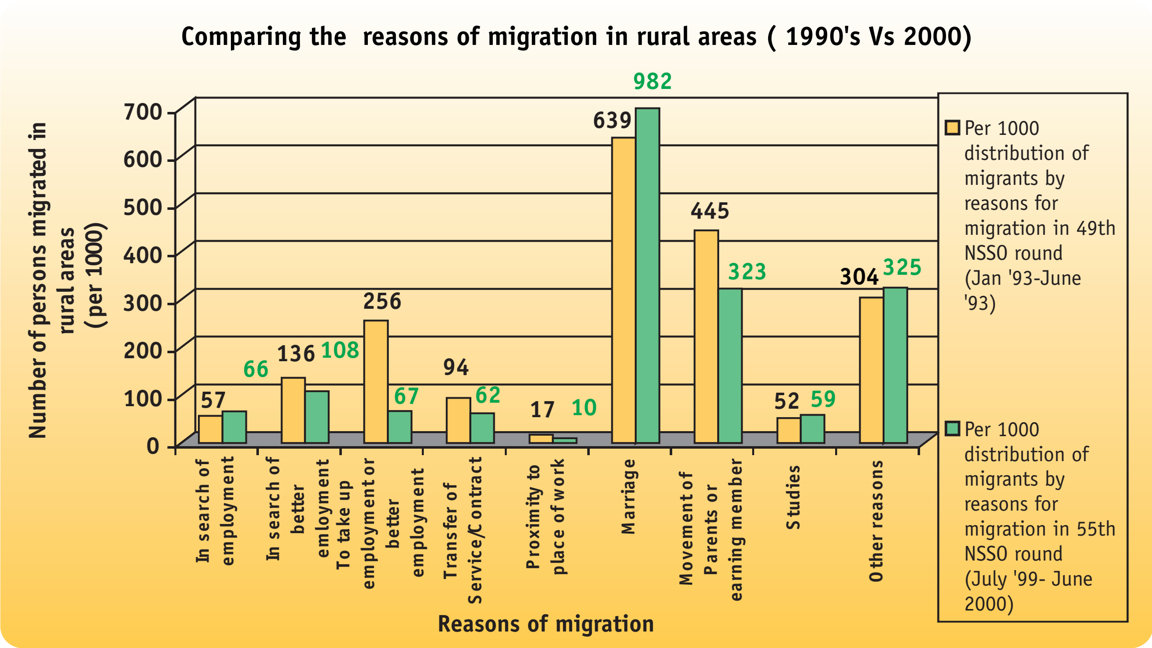
Per 1000 distribution of migrants in 55th NSSO round (July '99-June '00)



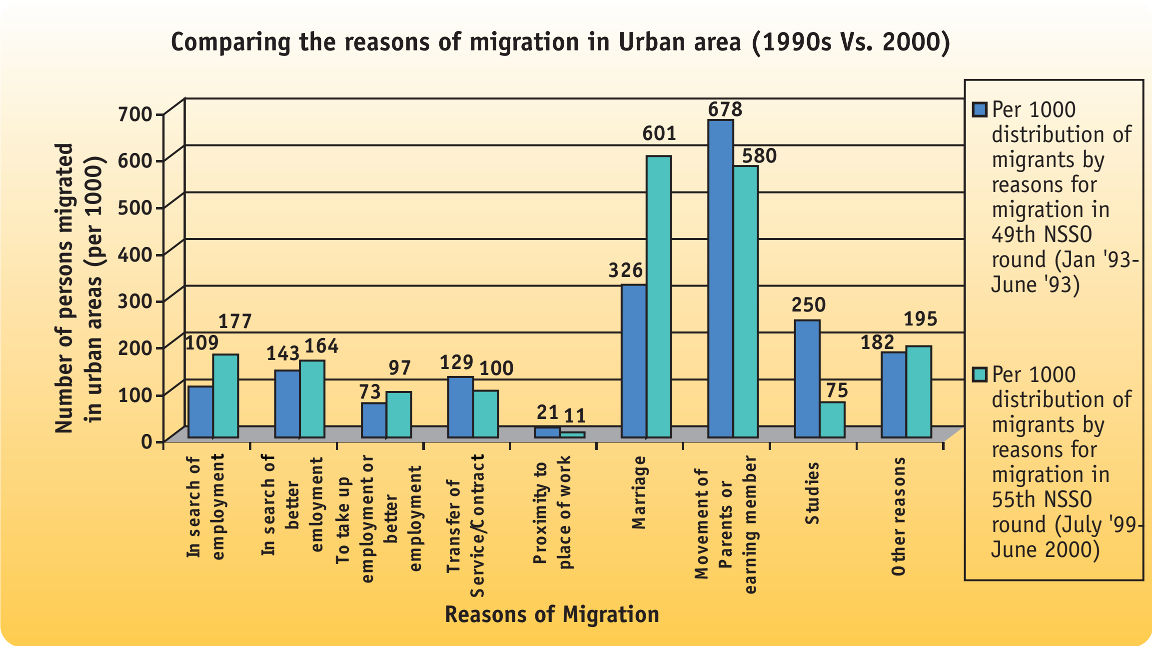
Source: NSSO various rounds

the mindset of the humans leading them to different locations of the world for different reasons.

The graphs given below provide detail information for the reasons of Indians to migrate. It also provides a comparative analysis of different time periods (over a decade) regarding the changing migration pattern in India.



Source: NSSO various rounds



Source: NSSO various rounds

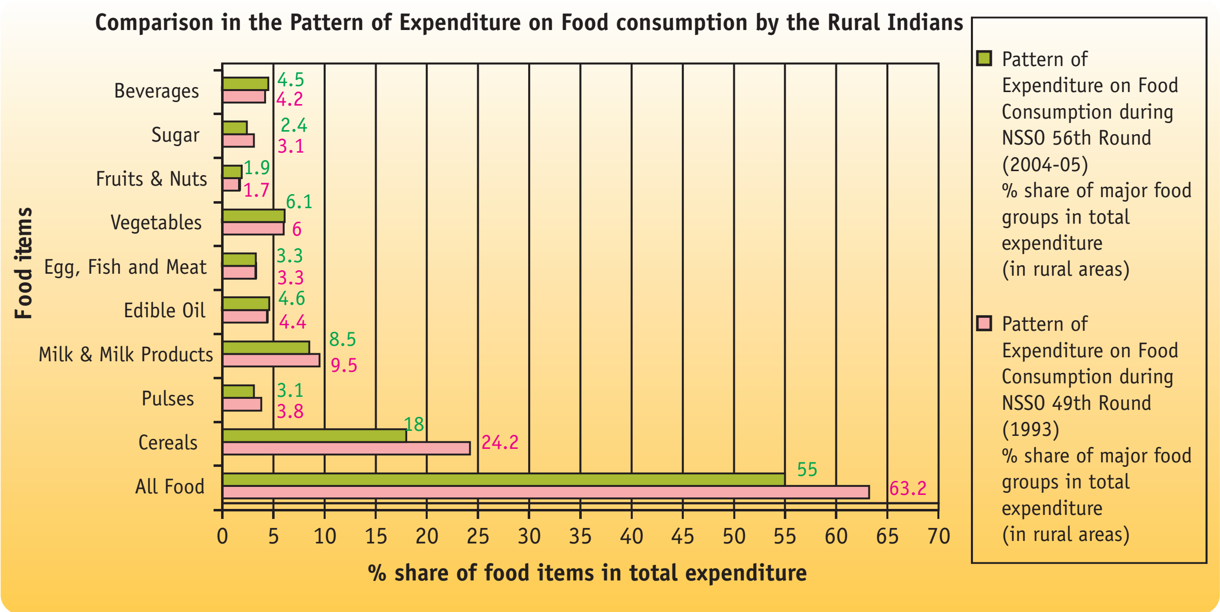
c) *Food Consumption Expenditure*

Transition of occupation by Indians from agricultural to industrial and services in large numbers both in rural and urban India has increased the source of income. It further has led to a shift in the food consumption habit and expenditure by the Indians as compared to the recent times from 1990s.

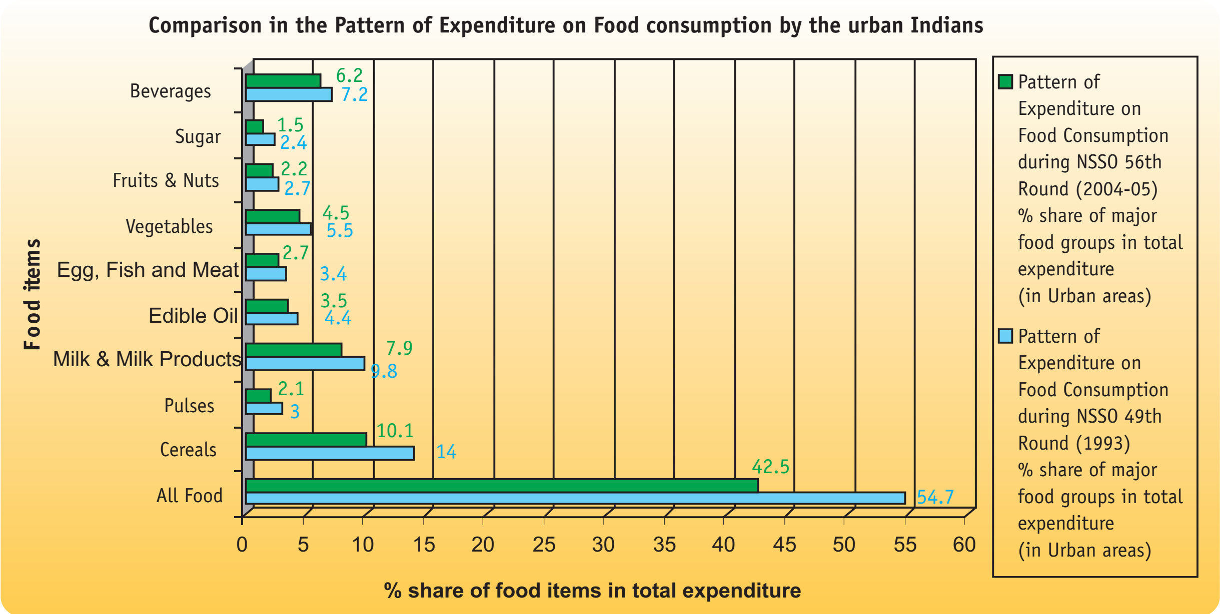
d) *Employment*

The labour force during 1983 to 1993-94 grew by 2.28 percent per annum. But during 1993-94 to 1999-2000 the labour force witnesses a decline by 1.47 per cent per annum.

The graph given below provides a sectoral employment share in India pre and post Globalisation.

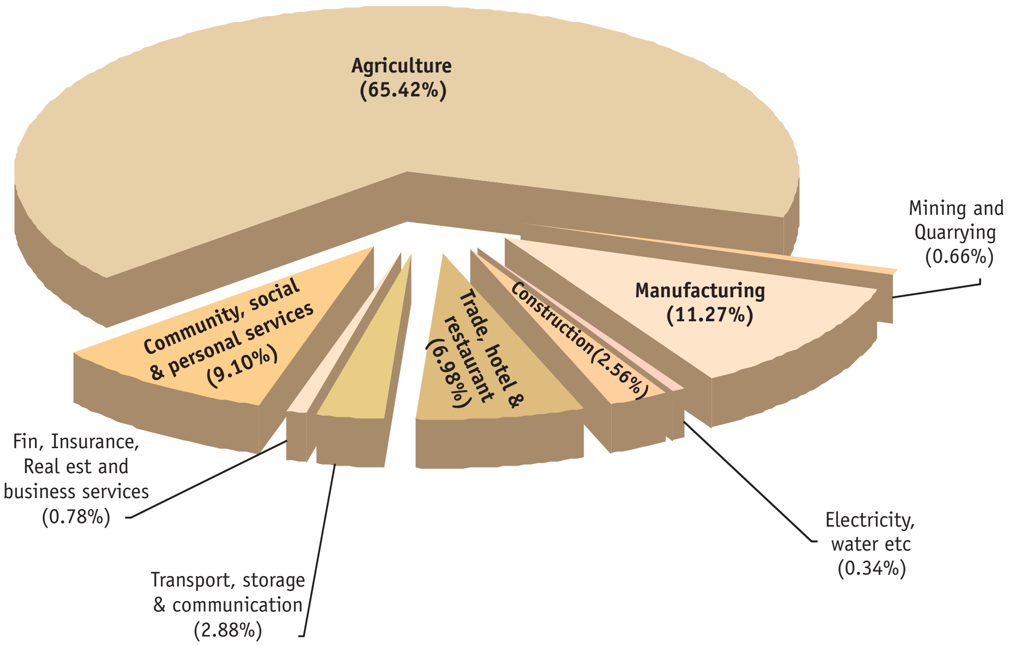


Source: NSSO Various Rounds

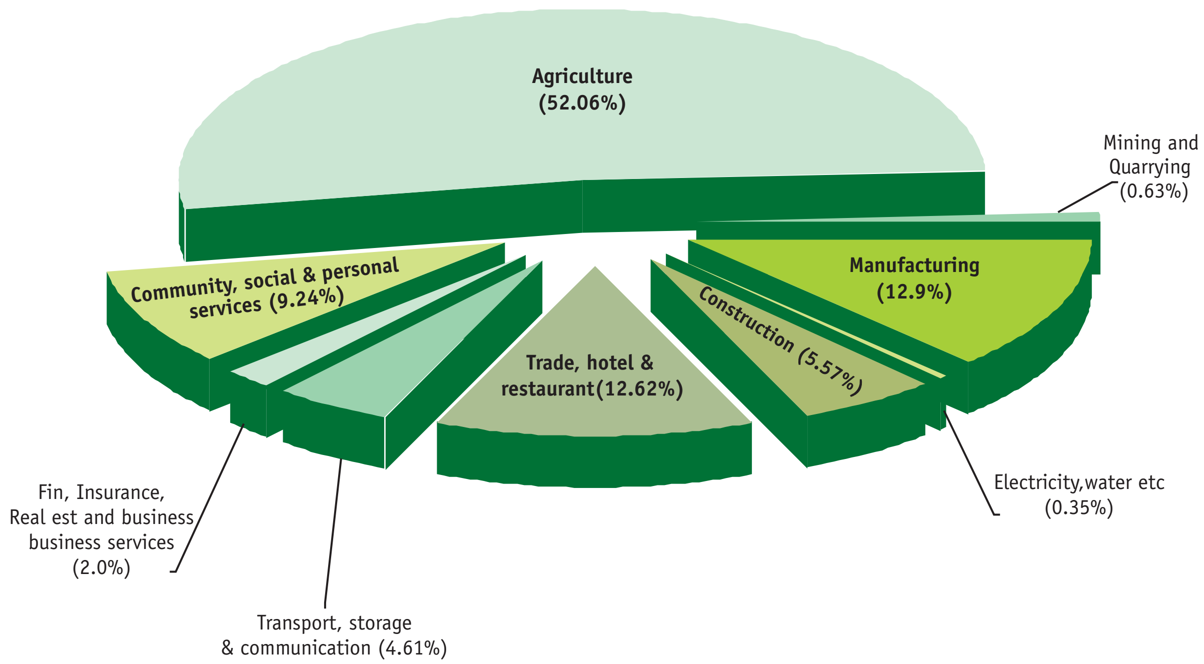


Source: NSSO Various Rounds

Sectoral Employment share by current daily status (1983)



Sectoral Employment share by current daily status (2004-05)



Source: NSSO and Planning Commission

Rural India

Despite rapid opening up of the Indian economy, the change has not been penetrated to the rural areas where the majority of Indians still reside. Roughly half of the poor are employed in agriculture sector which contributes 18-20 per cent of India's GDP, but its growth vary with the monsoons. It also attracts only 7 per cent of public and private investment, limiting its impact on overall economic and employment growth. Government is the largest source of employment in the rural areas.

- Globalisation has not been able to impact the lives of rural people, as the main source of earning till date is generated from labour intensive agriculture production activities.
- The rural masses are still living in made "Kuchcha " houses barring houses of few rich and progressive farmers.
- Several states in India claim that 40-100 per cent villages have been electrified, but supply of electricity to villages that have been electrified is not more than 3-4 hours per day.
- Technology is entering the rural markets, but at a very slow pace as compared to urban areas in absence of electricity and other communication infrastructure.

Urban India

India's integration with the globe may prove to be the biggest boon to the urban cities of the country. As per various estimates, the wave of globalisation has and would continue to create numerous job opportunities for the Indian youth in various sectors:

- Business Process Outsourcing (BPO) segment is likely to employ close to 2,300,000 people by 2010.
- KPOs (Knowledge Process Outsourcing) are set to hire 250,000 employees by 2010.
- Legal Process Outsourcing may generate about 79,000 jobs by 2015.
- Indian Retail sector may create almost 2,000,000 jobs by 2010 directly through retail operations
- Hospitality sector would need fresh workforce of about 94,000 by 2010-11.
- Animation industry would need close to 300,000 professionals by 2009.
- Aviation sector would create nearly 200,000 jobs by 2017.

The Path to be covered ...

"I believe governments, both in the advanced economies and in emerging markets, can and should do much more to ensure that the gains from globalisation—very clear at the aggregate level—are well distributed. We must recognize that some groups may be adversely affected and need to be given greater support in adjusting to increasingly global markets, without obstructing the process of change."

Mr. Rodrigo de Rato, Managing Director,
International Monetary Fund

Five

The Indian economy has come a long way in last fifteen years, gaining recognition for its vast potential for growth world over. The economy has acquired strength, based on its sound democratic foundation, domestic intensity and synchronized financial, external and monetary reforms carried all along.

The reports have suggested that India shall become the third largest economy by 2050. The growth process in continuum shall be driven by robust domestic demand, demographic, growing income levels, expanding middle class, transformation in rural economy, increasing integration with the world and stable macroeconomic conditions.

However, the restructuring course taken by the government in major areas of the economy needs to be sustained with even greater fervor and concentration. This is essential to meet the challenges thrown by international competition from the other emerging economies like China, Thailand, Philippines, Malaysia and the rest, as well as to ensure that benefits of globalisation reach out to the Indian "masses".

Even with all the firm growth and development achievements, India's business environment, with deficient infrastructure, bureaucratic hurdles, rigid labour laws, is still considered to be shoddy as compared to the international best practice.

The order of the day is perpetual structural reforms so as to grow to the size of third largest economy of the world and to ensure complete elimination of poverty, good living standard for the people and eradication of illiteracy from the Indian society.

A good number of sectors need introduction of a new set of reforms. Agriculture has a major role to play in the growth success of India. Appropriate structural, legislative, technological changes in this sector would facilitate the achievement of "inclusive growth" agenda. Financial sector, specifically the debt markets, requires further liberalization and foreign participation.

The labour market has been kept isolated from the reform procedure so far. Streamlining of Indian industrial sector with the global mold necessitate labour reforms. The inadequate education system in India has been responsible for making the gap between "globalisation" and "growth" wider. Government should do away with the shyness it has been showing towards allowing foreign universities in India. The exposure of Indian students to education system of international standards would help in improving the quality of domestic institutions and would also ensure competent human resource suitable for the industry's requirement.

The GDP growth rate ranging between nine to ten per cent for next fifteen years to come is a realistic target. India needs to enter the next phase of "Globalisation", to make possible double digit "growth" rates and the "people" becoming its real beneficiaries.

Contact us

For more information please contact

SWATI GUPTA

Assistant Director
Assocham Research Bureau
Tel: 91 11 46550 557
e-mail: swati.gupta@assocham.com

JYOTI BHUTANI

Assistant Director
Assocham Research Bureau
Tel : 91 11 46550 561
e-mail : jyoti.bhutani@assocham.com

NUSRAT AHMAD

Executive
Assocham Research Bureau
Tel: 91 11 46550 560
e-mail: nusrat.ahmad@assocham.com

SAMREEN

Executive
Assocham Research Bureau
Tel : 91 11 46550 560
e-mail: samreen@assocham.com

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