

## **GLOBLIZATION: POVERTY, UNEMPLOYMENT AND INEQUALITY IN INDIA**

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### **ABSTRACT**

This paper examines the impact of globalization on poverty, unemployment and inequality in India. India initiated economic reforms consisting of liberalization, privatization and globalization of the economy in July 1991. The impact of economic liberalization and globalization points out that Indian experience has been a mixed one. Globalization had a positive impact on the reduction in poverty ratio in India. However, unemployment rate has increased and the growth of employment was slowed down during post-globalization period. The inequality also increased in terms of sectoral share in GDP and employment, and inter-states per capita income.

*JEL Classification:*

*Keywords:* Globalization, Poverty, Unemployment, Inequality, India

### **INTRODUCTION**

Globalization has become an expression of common usage. While to some, it represents a new world with no barriers, for some others, it spells destruction. It is, therefore, necessary to have a clear understanding of what globalization means and what it stands for. Broadly speaking, the term 'globalization' means integration of economies through cross country flows of information, ideas, technologies, goods, services, capital, finance and people. The process of globalization accelerated since the beginning of 1980s and subsequent to the establishment of World Trade Organization (WTO) on 1<sup>st</sup> January 1995.

Economic liberalization and globalization has had differential impact on labour markets and employment across countries and regions. Its impact on various sectors within a country has also been different. Broadly speaking, the African and Latin American situations have indicated worsening employment and labour market conditions. The cases of countries in East Asia are often contrasted with this largely gloomy scenario. Despite a major economic and financial crisis in 1997, these countries have been overwhelmingly successful in manifesting relatively low levels of unemployment and impressive economic growth rates. In general, the experiences of a very large number of countries-both developed and developing-show that growth of

employment has declined and informalisation of the labour market has increased leading to greater insecurity in employment conditions and declining social security mechanisms. Inequality in income/earnings within and across a large number of countries has been yet another consequence of globalization. In this paper, the impact of globalization is studied on poverty, unemployment and inequality in India. While the period 1983 to 1993 has been taken as pre-globalization, the period 1993-94 onwards has been taken as post-globalization period.

India, which initiated economic reforms consisting of liberalization, privatization and globalization of the economy in July 1991, is among those countries, which adjusted relatively quickly to the adjustment process. After the initial 2-3 years of low growth rate of the Gross Domestic Product (GDP), the growth rate appreciably increased and the overall growth rate during 1990s has been about 6.5 per cent. During 2007-08, the economy grew at a rate of 9 per cent. There has been an appreciable increase in the growth of exports and the country's foreign exchange reserves are in a comfortable position with more than 300 billion dollars. As a whole, evidence on the impact of economic liberalization and globalization in India points out that Indian experience has been a mixed one. While India has not witnessed massive displacement of labour, hyper real inflation rates and drastic increase in the incidence of poverty as manifested in the case of Latin American and African countries, she has not been successful in replicating the East Asian successes either. However, very often apprehensions have been expressed over the adverse effects of liberalization and globalization on livelihoods, employment and human development. There are a large number of vulnerable groups in India which, it is feared, may have to bear the costs of globalization unless policies and programmes are put in place to prevent deterioration in their socio-economic conditions in the short run, and improve their capabilities to effectively participate in and benefit from globalization in the long run.

## **WORLD ECONOMY**

The globalization in itself is controversial. It is pushed as a strategy of economic development in the developing countries. In fact, it promised faster economic growth based on unhindered flow of goods, resources and capital across regions and countries, and based on comparative market efficiency and most efficient utilization of world resources. But it has led to some disquieting trends and consequences in the labour markets. It has generally excluded than included the already disadvantaged countries, areas (rural, inaccessible, less developed), workers (with insecure work and earnings), social groups (tribals and aboriginal communities) and women (in general, and particularly, from the lower socio-economic strata of society). The question arise that "can the developing countries like India be a global player?" If we see the size of economy and stage of development, then the answer is 'No'.

There is a considerable difference between the high and low-income economies of the world. Table 1 depicts the economic disparity in the world during 2007.

**Table 1**  
**Economic Disparity in the World During 2007**

S. No.	Economies/Group	% Shar in World				Per capita
		GDP	Population	Area	Trade	Income
						US\$
1	High-Income Economies#	74	16	25.8	57.4	37566
2	Developing Economies##	26	84	74.2	42.6	2337
	(a) Low-Income Economies@	1.5	19.6	22.6	2.5	578
3	WORLD	100	100	100	100	7958
4	EU-27	31	7.4	3.2	39.5	33482
5	NAFTA-3	28.9	6.7	16.3	16.4	35564
6	ASEAN-10	2.4	8.5	3.4	5.9	2256
7	SAARC-8	2.6	23	3.5	1.9	948

Source: World Bank (2008), *World Development Indicators database* & IMF (2008), *DOTS*.

N.B.: #GNI per capita US\$ 11456 or more, covering 56 economies of the world.

##GNI per capita US\$ 11455 or less, covering 154 economies of the world.

@GNI per capita US \$ 935 or less, covering 59 economies of the developing world.

In 2007, 56 High Income economies (per capita GNI, US\$ 11456 or more) controlled 74 per cent of world GDP/Production and 57.4 per cent of world trade with only 16 per cent of the world population. On the other hand, 154 developing economies (per capita GNI US\$ 11455 or less) constituted 84 per cent of world population and controlled only 26 per cent of the world GDP and 42.6 per cent of the world trade. Moreover, the world's 59 poorest economies (per capita GNI US\$ 935 or less) constituted 20 per cent of the world population, and controlled only 1.5 per cent of world GDP (US\$ 810 bn) and 2.5 per cent of the world trade. During 2007, the per capita income of high-income economies was US\$ 37566 as compared to US\$ 578 of the low-income economies, US\$ 2337 of the developing economies, and US\$ 7958 of the world. The per capita income of Norway was US\$ 76450 as compared to US\$ 110 of Burundi during this period.

Further, top 300 MNCs control 25 per cent of world GDP. Forbes' 2008 world's billionaires list consisting of 1125 persons had a combined wealth of US\$ 4400 bn (8.1 per cent of world GDP). The gap between the developed and the developing countries has widened due to adverse terms of trade and unequal exchange faced by the latter as their primary exports were agricultural goods. Thus, the hopes that globalization would benefit the poorer and labour surplus countries have not materialized in case of several countries and regions of the world.

## GLOBALIZATION AND POVERTY IN INDIA

During the period of globalization since 1991, the incidence of poverty in India has been declining. Planning Commission, as the Government's nodal agency, estimates the incidence of poverty at the national and state levels, on the basis of large sample

survey on household consumer expenditure conducted by the National Sample Survey (NSS) Organization approximately every five years. The poverty ratio in India can be seen from the Table 2 given below.

**Table 2**  
**Poverty Ratio (Share of Poor in Total Population) in India**

Year				(Per cent)
	Rural	Urban	Combined	Incidence of Poverty in million
1983	45.6	42.2	44.8	324
1993-94	37.3	32.4	36.0	320
2004-05	28.3	25.7	27.5	315

*Note:* Poverty ratios are estimated by Uniform Recall Period (URP) Method, which uses 30-day recall/reference period for all items of consumption.

*Source:* Govt .of India, *Planning Commission*

The data of the latest NSS 61st Round for the year 2004-05 indicate that, the poverty ratio at the national level was 27.5 per cent (28.3 per cent rural and 25.7 per cent urban). The corresponding poverty estimate for 1993-94 was 36.0 per cent (37.3 per cent rural and 32.4 per cent urban). However, during the pre-reforms period in 1983, the poverty ratio was 44.8 per cent (45.6 per cent rural and 42.2 per cent urban). Thus, poverty ratio in India declined during globalization period. Though poverty ratio has come down, but the absolute poverty in India has not declined so much. It may be noted that the number of poor in India was still very large. There were 315 million poor in 2004-05 as compared to 324 million in 1983. The World Bank (2005) estimates show that 80 per cent of India's population lives below the international poverty line of \$ 2 a day. The number of people living \$1.25 a day has increased from 421 million in 1981 to 456 million in 2005. Further, according to National Commission of Employment in the Unorganized Sector (2007), 77 per cent of India's population i.e. 836 million, have a per capita consumption expenditure of less than or equal to Rs. 20 per day. The impact of growth on curbing the poverty is higher in areas where social infrastructure is more developed. Economic reforms have failed to reduce poverty at the promised faster rate.

## GLOBALIZATION AND UNEMPLOYMENT IN INDIA

The unemployment situation in India during globalization period has also undergone some important changes. Table 3 depicts this picture.

Though during pre-globalization period, the unemployment rate decreased from 9.2 per cent in 1983 to 6.1 per cent in 1993-94, but during post-globalization period, the unemployment rate increased to 7.3 per cent in 1999-2000 and 8.3 per cent in 2004-05. Moreover, the number of unemployed persons increased from 20.3 million in 1993-94 to 34.7 million in 2004-05. Hence globalization led to negative impact on employment

in India. However, it may be noted that India generated 74.4 million new jobs during pre globalization period (1983 to 1993-94), which decreased to 71 million during post-globalization period (1993-2005). But a surge in employment was higher during 1999-2005 as compared to 1993-99.

**Table 3**  
**Unemployment Rate in India**

*(million)*

<i>Year</i>	<i>Number of Labour Force</i>	<i>Number of Workforce</i>	<i>Number of Unemployed</i>	<i>Unemployment Rate (%)</i>
1	2	3	4 = 2-3	5 = 4/2*100
1983	263.8	239.5	24.3	9.2
1993-94	334.2	313.9	20.3	6.1
1999-2000	364.9	338.2	26.7	7.3
2004-05	419.7	384.9	34.7	8.3

*Note:* Employment estimated on the basis of Current Daily Status (CDS).  
*Source:* NSSO. Employment and Unemployment Situation in India, Various Rounds

The growth of employment in India was also slowed down during post-globalization period. Table 4 shows the annual growth rate of employment in India during pre as well as post globalization period.

**Table 4**  
**Annual Growth Rate of Employment in India**

*(Per cent)*

<i>Year</i>	<i>Agriculture Sector</i>	<i>Secondary Sector</i>	<i>Tertiary Sector</i>	<i>Overall Growth</i>
1983 to 1993-94	1.41	2.60	3.81	2.04
1993-94 to 1999-2000	0.06	2.84	2.89	1.05
1999-2000 to 2004-05	1.49	5.81	3.92	2.82
1993-94 to 2004-05	0.71	4.18	3.35	1.85

*Note:* Employment is on the basis of Usual Principal and Subsidiary Status (UPSS)  
*Source:* NSSO. Employment and Unemployment Situation in India, Various Rounds

It is clear from this table that overall annual growth rate of employment in India declined from 2.04 per cent during pre globalization period (1983 to 1993-94) to 1.85 per cent during post-globalization period (1993-2005). However, annual growth of employment was higher (2.82 per cent) during 1999-2005 as compared to 1993-99 (1.05 per cent). It may be noted that in case of secondary sector, the annual growth rate of employment increased from 2.6 per cent during pre-globalization period to 4.18 per cent during post-globalization period. This increase was more than double during 1999-2005 as compared to 1993-99. The tertiary sector faced marginal decline in employment opportunities, as its annual growth rate declined from 3.81 per cent

during pre-globalization period to 3.35 per cent during post-globalization period. However, in case of agriculture sector, the annual growth rate of employment declined by about half from 1.41 per cent in 1983-94 to 0.71 in 1993-2005. During 1993-99, this growth was 0.06 per cent only. It means employment opportunities in agriculture sector suffered a lot during post-globalization period.

### **GLOBALIZATION AND INEQUALITY IN INDIA**

Indian economic development process during globalization period is characterized by very large inter-regional and inter-sectoral inequalities. Regional inequalities in the growth and human development are quite common in the Indian economy. During the post globalization period (1991 onwards), the issue has become main focus for the policy makers. It is relevant to know the reasons for the regional inequalities across the states. In fact, regional inequalities in growth and human development pose a serious challenge for the implementation of different economic programmes.

The literature on regional inequality in India substantiates this above-cited view point. Kurian (2000) argued that the inter-state socio-economic inequalities are rising in spite of various government measures to develop the backward areas. Dholkia (2003) found that regional inequality in terms of human development has been diminishing, but in income or economic development, it has almost constant over the last two decades. Krishana (2004) claimed that inter-states disparities in the growth rates have widened. For instance, during 1990s, the growth performance of Punjab registered sharp decline as compared to 1980s. Mathur (2005) argued that inequality is highest in terms of per capita income in secondary sector and least in the primary sector, with tertiary sector coming in between. Bhattacharya & Saktivel (2005) mentioned that Punjab had grown much slower during reform era in 1990s at the rate of 4.4 per cent against the all-India average of 6 per cent. However, Goa, West Bengal, Gujrat, Karnataka, Himachal Pradesh and Haryana progressed well during 1990s as compared to 1980s. Bhalla (2008) argued that the per capita income inequality remains very high between agricultural and non-agricultural workers and is increasing during globalization period in India.

Some manifestations of increasing inequality in India during globalization period are referred in this study. Firstly, structural inequality in the Indian economy is increasing over time. Table 5 depicts the sectoral share in employment and GDP.

It can be seen from this table that the share of agriculture in GDP diminished rapidly by 11.1 per cent during post-globalization period (from 33.5 per cent in 1993-94 to 22.4 per cent in 2004-05). During pre-globalization period, this reduction was merely 5.9 per cent (from 39.4 per cent in 1983 to 33.5 per cent in 1993-94). But the share of agriculture in employment declined at a slow rate by 8.9 per cent during post-globalization period (from 61 per cent in 1993-94 to 52.1 per cent in 2004-05) and 4.4 per cent during pre-globalization period (from 65.4 per cent in 1983 to 61 per cent in 1993-94). It means the share of agriculture in GDP declined more rapid than

**Table 5**  
Sectoral Share in Employment and GDP in India

*(Per cent)*

Year	Share of Agriculture in		Share of Industry in		Share of Services in	
	Employment	GDP	Employment	GDP	Employment	GDP
1983	65.4	39.4	14.8	22.0	19.7	38.6
1993-94	61.0	33.5	15.9	23.7	23.1	42.8
1999-2000	56.6	27.3	17.6	23.0	25.8	49.7
2004-05	52.1	22.4	19.5	24.0	28.5	53.6

*Note:* Employment estimated on the basis of Current Daily Status (CDS).

*Source:* NSSO. Employment and Unemployment Situation in India, Various Rounds.

employment during the post-globalization period in India. This happened because agricultural growth lagged behind the non-agricultural growth during globalization period. The annual growth of employment in agriculture sector was also low as mentioned in Table 4.

As shown in Table 5, the share of services in GDP increased by 10.8 per cent during post-globalization period and 4.2 per cent during pre-globalization period. However, this share in employment increased by 5.4 per cent during post-globalization period and 3.4 per cent during pre-globalization period. Hence service sector progressed well during globalization period. Meanwhile, the share of industrial sector in GDP increased by 0.3 per cent only, but its share in employment increased by 3.6 per cent during globalization period. Thus, increase in the share of industrial sector in employment was more than GDP during the globalization period.

It is revealed from the above discussion that structural inequality between agriculture and non-agriculture sector increased during the post-globalization period in India. While the growth of agriculture sector decelerated, the growth of services, followed by industry, accelerated well during this period. As a result, during 2004-05, agriculture sector accounted for 22.4 per cent in GDP, but absorbed 52.1 per cent employment. Hence burden of population is still on agriculture sector due to lack of employment diversification.

Secondly, inter-states per capita income inequality has also been increasing in India during the globalization period. Table 6 shows this picture.

It is clear from this table that during 1993-2006, per capita income inequality increased. While range of per capita income of 29 states increased from 15129 in 1993-94 to 62237 in 2005-06, the standard deviation increased from 3323 to 13006 during the respective period. Further, the coefficient of variation increased from 40 per cent to 47.2 per cent in the same period. In 2005-06, Goa had a per capita income of Rs. 70112 and Bihar only about Rs. 7875, whereas the all-India average was Rs. 25716. During 1993-2006, the variations in the percentage deviations of different states compared with all-India average per capita income were increased rapidly. While

Nagaland, Punjab, Madhya Pradesh, Arunachal Pradesh, Mizoram, etc experienced negative impact of globalization on their per capita income; Goa, Himachal Pradesh, Tripura, Kerala and West Bengal progressed well during globalization period. Only Tamilnadu had a neutral impact of globalization on its per capita income.

**Table 6**  
**Inter-States Inequality in the Per Capita Income in India During 1993-2006**

(Indian Rs.)

S.No.	Name of state	Per capita		Per capita		Variations 1993-2006 E=D-B
		income 93-94 A	%age Deviations from India 93-94 $B=(A-7690)*100/7690$	income 2005-06 C	%age Deviations from India 2005-06 $D=(A-25716)*100/25716$	
1	Nagaland	9129	18.7	20998	-18.3	-37.1
2	Punjab	12710	65.3	34929	35.8	-29.5
3	Madhya Pradesh	6584	-14.4	15647	-39.2	-24.8
4	Arunachal Pradesh	8733	13.6	23788	-7.5	-21.1
5	Mizoram	8319	8.2	22417	-12.8	-21.0
6	Uttar Pradesh	5066	-34.1	13262	-48.4	-14.3
7	Maharashtra	12183	58.4	37081	44.2	-14.2
8	Jammu & Kashmir	6543	-14.9	18630	-27.6	-12.6
9	Rajasthan	6182	-19.6	17863	-30.5	-10.9
10	Bihar	3037	-60.5	7875	-69.4	-8.9
11	Chattisgarh	6539	-15.0	20151	-21.6	-6.7
12	Jharkhand	5897	-23.3	19066	-25.9	-2.5
13	Assam	5715	-25.7	18596	-27.7	-2.0
14	Tamil Nadu	8955	16.4	29958	16.5	0.0
15	Meghalaya	6893	-10.4	23420	-8.9	1.4
16	Manipur	5841	-24.0	20326	-21.0	3.1
17	Orissa	4896	-36.3	17299	-32.7	3.6
18	Delhi	18166	136.2	61676	139.8	3.6
19	Karnataka	7838	1.9	27291	6.1	4.2
20	Sikkim	7550	-1.8	26412	2.7	4.5
21	Gujrat	9796	27.4	34157	32.8	5.4
22	Andhra Pradesh	7416	-3.6	26211	1.9	5.5
23	Haryana	11079	44.1	38832	51.0	6.9
24	Uttaranchal	6755	-12.2	24585	-4.4	7.8
25	West Bengal	6756	-12.1	25223	-1.9	10.2
26	Kerala	7983	3.8	30668	19.3	15.4
27	Tripura	5534	-28.0	24706	-3.9	24.1
28	Himachal Pradesh	7870	2.3	33805	31.5	29.1
29	Goa	16588	115.7	70112	172.6	56.9
	India	7690		25716		
	Standard Deviation	3323		13006		
	Coeff. Of Variation	40		47.2		
	Range	15129		62237		

Source: Government of India, *Economic Survey* (various issues), Ministry of Finance.



Meanwhile, there is no doubt that the top 20 per cent of the population has benefited enormously from globalization. At the same time, widening of regional inequality in poverty reduction in different states is of deep concern. The greater advancement by some states serves as a stimulus to the laggard states in order to promote growth.

## CONCLUSIONS

From the above analysis, it can be concluded that globalization had a positive impact on the reduction in poverty ratio in India. However, there is marginal decline in the absolute poverty. Further, unemployment rate in India has increased during globalization period. The growth of employment in India was also slowed down during post-globalization period. The employment opportunities in agriculture sector suffered a lot during this period. The inequality in India also increased in terms of sectoral share in GDP and employment, and inter-states per capita income. The share of agriculture in GDP declined more rapid than employment during the post-globalization period in India. This happened because agricultural growth lagged behind the non-agricultural growth during this period. The annual growth of employment in agriculture sector was also low. While the growth of agriculture sector decelerated, the growth of services, followed by industry, accelerated well during this period. The inter-states per capita income inequality has also increased in India during the globalization period. While Nagaland, Punjab, Madhya Pradesh, Arunachal Pradesh, Mizoram, etc experienced negative impact of globalization on their per capita income; Goa, Himachal Pradesh, Tripura, Kerala and West Bengal progressed well during this period.

Now, given the noble aim of globalization, one may reasonably expect that most of the countries in the world are likely to be able to reap the benefits of globalization through their access to the liberalized multilateral trade system and to the modern technology which is non-rival in character. Consequent on this, the domestic production possibility frontiers of the countries are also likely to shift outward thereby leading to the increase in the productivities of the countries. This, in turn, is also expected to boost not only the level of real per-capita income, but also its growth. Now, given the objective of the creation of fair and equitable distribution of gains of multilateral trade system, one can plausibly expect that process of globalization would help reducing cross-country inequalities in the levels of living of the people. Further, it is also likely to expect that the incidence of poverty across the countries in the world would be reduced as an outcome of globalization. But surprisingly, it has been found that in spite of the promise of world without poverty, the actual number of people living in poverty has been increased now by 100 million, though the world GDP grew at an average rate of 2.5 per cent. On the other, the conventional theoretical wisdom suggests that with the expansion of multilateral trade system, the output mix of the countries participating in this process will change and this will bring about a change in the pattern of utilization of factors thereby leading to the reallocation of resources

within the trading countries and across the countries also. Obviously, the outcome will be the change in income distribution such that the abundant factor will benefit from trade and the scarce factor will be worse affected. It is quite likely that the multilateral liberalized trade will benefit the factors specific to export sector, and affect adversely the factors specific to import competing sector if they lack mobility. In poor developing countries which are mainly characterized by the domination of unskilled immobile labour force, the benefit of globalisation is likely to be less pronounced whereas the same in opulent countries will be higher. As an outcome the global inequality is likely to increase. Interestingly it is found that the poor developing countries have failed to reap the benefit of fair trade system and the richest countries in the world appropriating the seignior age through expansion of world trade.

On the other hand, since in the era of globalization the countries in the world are experiencing a stiff competition of technology, the use of more labour saving devices is also likely to cause the income distribution to be more biased towards the owner of capital as well as technology, thereby resulting into the increase in the intra-country inequalities in the distribution income vis-a-vis consumption. So, it seems that the cross-country differentials in the level of well being of the people will be widened as an outcome of globalization unless the nation, states of the economies, adopt adequate direct public action programmes to provide safety net to the worse affected people of their countries.

#### NOTE

1. It may be noted that the NSSO defines Current Daily Status (CDS) employment as the working of person for whole day, if he worked for more than 4 hours during the day. If the worker spends relatively longer time of the preceding 365 days and also spends some time in another activity, it is called Usual Principal and Subsidiary activity Status (UPSS).

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