India And The Eurozone Crisis

Like most of Asia, India is affected by the crisis that has spread from the US to engulf the Eurozone. Exports have fallen and many foreign institutional investors have moved out. The country, under pressure from the IMF has taken some steps to reform and liberalise its business laws but is unable to effectively address its major problems such as inflation, poor governance, corruption and inadequate infrastructure and services in on economy still dominated by the informal sector. To control the fiscal deficit, the government has generally followed neoliberal prescriptions, which have led to an explosive increase in inequality. India is threatened by widening political and social conflict and a rise in poverty rates. Profound changes in the economic system are thus required.

JAYSHREE SENGUPTA

India like most of South Asia is going through a critical period with a sharp slowing down in the growth of its gross domestic product (GDP). All the countries of the region except perhaps the Maldives and Sri Lanka have a huge population of unemployed youth as well as problems of governance and infrastructure. The Government of India has blamed the Eurozone Crisis for the slowdown of its economy, which started in 2011–12. After the Global Financial Crisis (GFC) of 2008, India's growth recovered and was at a high of 8.4 per cent in 2009–10. However, it has slowed down since 2011, reaching 5.3 per cent in the latter half of 2012. India's GDP is expected to grow only between five and six per cent in the coming year and the International Monetary Fund's (IMF) prediction is even lower at 4.9 per cent.

India's industrial growth declined for four consecutive months to minus (-) 1.8 per cent in June 2012. It was 2.4 per cent in September 2012 but suddenly rose to 8.2 per cent in October 2012. Whether the rise in industrial growth is sustained, remains to be seen. Capital goods production declined by 28 per cent and export growth fell by 11 per cent in September 2012 and 4.2 per cent in October 2012. Indian industry contributes 29 per cent to the GDP and a slowdown in manufacturing growth means fewer jobs in the future. Service sector growth has been impacted by the Eurozone Crisis as well and by the slowdown in the American economy, which has led to a greater control over outsourcing services. The service sector has been the fastest growing sector in India contributing 58 per cent to the GDP and even during the GFC it had double-digit growth. Today however, the prospects are less bright and it grew at only 7.2 per cent in October 2012.

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Not only have exports fallen significantly due to the Eurozone Crisis, but foreign institutional investors (FIIs) have also become volatile. They suddenly left for safer assets in Canada, the United States of America (US) and elsewhere at the beginning of 2012 and the rupee fell against the dollar especially when the Eurozone Crisis deepened. This led to the widening of India's current account deficit (CAD) to 4.3 per cent of the GDP, which fell to 3.8 per cent in September–October 2012, due to a fall in imports. FIIs have started returning but the uncertainty regarding their outflow is troublesome and only $22 billion came in 2012. The rupee has appreciated somewhat and there is hope of a further shrinkage of the CAD.

While the CAD may be blamed on the Eurozone Crisis and slack external demand, the other big deficit—the fiscal deficit—is due to India's own policies. After the GFC, the government indulged in generous populist social policies like hikes in public sector salaries, loan waivers and the National Rural Employment Guarantee Scheme. These policies helped the United Progressive Alliance (UPA) government led by the Congress return to power in 2009. However, corruption, populist policies and scams in public goods procurement and distribution since the GFC, have led to a widening of the fiscal deficit, which was 5.8 per cent of the GDP in 2012. As a result of the twin deficits, investment rating agencies like Fitch, Moody's and Standard & Poor's have downgraded India's investment rating, adding to the government's woes. The US media (*Time* magazine) even called the Indian prime minister an underperformer and blamed economic problems on a "policy paralysis" of the government.

The European Union (EU), IMF, World Bank, etc have advised more economic reforms, that is, a greater opening up of the economy. Last year, the government took some bold steps—the multibrand retail sector was opened up to 51 per cent foreign direct investment (FDI), a move approved by both houses of parliament; kerosene prices were raised by 14 per cent in a bold gesture to cut the fuel subsidy; the aviation sector was opened to up to 49 per cent FDI in equity and the broadcasting sector to 74 per cent. The government is also trying to open up the insurance sector to 49 per cent FDI. Although the government has opened up FDI in the multibrand retail sector, it has not solved the larger issues of inflation, poor governance and a lack of infrastructure. Small retailers remain at the core of Indian society and their micro enterprises are a source of livelihood for millions. They are a regular feature in weekly markets in Indian villages and in big cities as well, where itinerant traders put up stalls in weekly *bazaars*. Many may not be able to compete with multinational retail stores in neighbourhoods, as these would offer better quality and cheaper imported goods. *Bazaars* and village markets however, are also the centre of social life and people go there not just to buy and sell but for social exchanges as well. These are a part of the social fabric and many of the small retailers are women. Even if a small number lose their livelihood, there will be wide protests. Only nine out of 29 states have given their consent to Walmart and other EU multinational retailers setting up businesses.

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Retail trade is lucrative—a $450 billion market with 44 million small retailers, though organised retail accounts for only five per cent of the total trade. The government is hoping that multinational retailers will develop infrastructure and cold chains to carry perishable produce from farmers to storage facilities. Reducing wastage of perishable produce however, cannot be achieved overnight and the government needs to invest in cold storage warehouses. Even though the government opened FDI in cold storage many years ago, there have been few takers. Investors may be waiting for multibrand retail stores to open first. However, it is doubtful whether FDI in retail will bring down food inflation in the short-term by establishing cold chains. The malaise in the Indian economy goes deeper. Inflation remains persistent, as does inadequate infrastructure. Inflation (consumer price index) has been in double-digits for more than three years due to high food and fuel prices. The Central Bank has raised interest rates 13 times to control inflation but it has not been able to do so. High interest rates on the other hand, led to a slowing down of investment by industry and attracted FIIs or hot money, which however, left in due course. Thus, high interest rates have been mainly responsible for the industrial slowdown, affecting consumer spending.

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Infrastructure development has also remained weak. $1.3 trillion are needed to upgrade India's infrastructure. Thousands of villages are cut-off from nearby towns during the monsoons. People from remote villages are unable to reach towns to sell their produce on a regular basis because of a lack of proper roads and transportation. Incomes remain low and poverty has persisted in remote villages. India spends only five per cent of its GDP on infrastructure. The power sector has many problems and out of 600,000 villages, 80,000 remain without power. There is a 13.8 per cent power deficit and per capita power consumption is only 803 kilowatts. India imports 80 per cent of its fuel needs and the power sector mainly utilises thermal energy from coal and oil. The rise in international oil prices has fuelled inflation and created a heavy burden on the exchequer, as subsidies have had to be raised. In fact, in view of the rise in international oil prices, the likelihood of inflation coming down is low. In addition, the monetary easing followed by the US could flood emerging markets with liquidity and the overall impact would be inflationary.

Another major problem in India and other South Asian countries is the need to create jobs for their young populations. In India, the organised sector has been expanding very slowly (0.5 per cent). There has been jobless growth in the past and as a result, new jobseekers are moving into the informal or unorganised sector, which has low wages and no job or social security. Around 92 per cent of the labour force of 465 million workers is in the unorganised sector whose productivity and income generation is low. In addition, agricultural growth has also remained low or stagnant at around 2.5 per cent and recently fell to only 1.2 per cent. There are few jobs in agriculture even though about 58 per cent of the population is occupied in it. Agricultural productivity has remained low, contributing only 14.5 per cent to the GDP. About 80 per cent of farmers have less than two hectares of farmland, with low quality inputs and incomes.

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Another feature in Asian countries is rapid urbanisation—due to a lack of jobs in villages, thousands move daily from rural to urban centres. While population growth is at 1.34 per cent, the 2011 Census of India revealed that for the first time the urban population increase of 90.99 million exceeded the rural population growth of 90.47 million. The rate of urbanisation is 3.1 per cent. A lack of adequate housing in urban areas has led to the growth of slums, with many people living without human dignity and basic amenities in dwellings often without electricity, sewerage, water, etc. About 80 million people live in slums and although not all slum dwellers are poor, 25 million households or 35 per cent of all urban households cannot afford housing at current market rates. A huge deficit exists and there is a need to build at least two million housing units per year.

The neoliberal policies of the UPA government at the centre are akin to those being followed in the EU aimed at controlling the budget (fiscal) deficit by cutting subsidies. Unlike in the EU where most citizens have a social safety net, in India such policies adversely affect the poorest sections of society. Essential expenditure like the introduction of universal healthcare is negatively affected by austerity measures. Indians have the highest out-of-pocket expenditure on healthcare in the world. There are only 0.6 doctors per thousand persons. The government spends $40 per person per year on health. Malnourishment is also a serious problem and 45 per cent of children below the age of five are malnourished. The Indian government spends less than two per cent of the GDP on healthcare. The World Health Organization recently announced that India had the most malnourished people in the world. Investment in improving healthcare and the quality of primary education is needed to reduce the 6.8 per cent dropout rate. India still has around eight million children out of school. Absenteeism among primary school teachers especially in villages is common, while the same teachers offer tuition to pupils for a fee outside school premises.

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Imparting skills training to young people, especially school dropouts, for future jobs is essential. There are 200 million young people today between 15 and 24 years of age, about 35 per cent of the labour force remains illiterate and there will be 423 million young job seekers by 2030. Investment in higher education has to be raised to graduate qualified doctors, engineers and teachers. Rich Indians send their children abroad to study—300,000 Indian students are overseas and the expenditure incurred is $5.5 billion, an equivalent of half the government's outlay on education, which spends 4.1 per cent of the GDP on education.

Huge inequalities have emerged in India and South Asia with a change in values among the rich who now consume more luxury goods rather than indulging in philanthropy, a customary practice in earlier times. Globalisation has also favoured those with assets, connections and education, though many others have risen out of poverty and moved up the income ladder, joining the burgeoning middle class. There are 69 dollar billionaires and 12,000 dollar millionaires in India today. The rich live in great luxury while 30 per cent of the population is extremely poor and around 69 per cent earn less than two dollars a day.

India has tremendous social heterogeneity and economic inequality, which could lead to a conflict ridden society. A big problem is land, which is getting scarcer and tribal land, which is often full of mineral wealth, is increasingly being taken over from the tribal population by private, often illegal, mining companies. Land acquisition has become a big problem and the land mafia seems to be in control of land appropriation. In some cases, the illiterate tribal population has not been resettled and out of hunger and desperation, many have joined Maoist militant groups. About one-third of India's 600 districts are affected by Maoist activities, termed by the prime minister as the "most serious threat" faced by India.

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Overall, poverty alleviation programmes have been full of "leakages". With the economic slowdown and loss of jobs, more people are likely to recede into poverty and return to villages. They may not be able to access subsidised food grains, as these would be sold to dealers in the open market. Some states have installed global positioning satellite systems in trucks carrying food grains to remote villages, to ensure they reach the poor. This measure has found success in some states. In addition, a biometric system is being introduced to check fraudulent beneficiaries and hopefully will succeed.

Furthermore, while many women have become outwardly westernised or globalised, they lag behind in real empowerment. Girl foeticide and sex selection still occur in some states despite these being a crime. Women's education also lags behind male education. The male–female literacy gap is 20 per cent. The sex ratio is also distorted at 940 females to 1000 males (2011 census) but the latest survey shows that female births have now exceeded male births—a reassuring sign. The societal exclusion of backward castes persists, although policies of affirmative action like quotas in public sector jobs have reduced the extent of discrimination. Atrocities against *Dalits* and tribal populations however continue. Certain ethnoreligious groups are also at persistent disadvantages. For instance, Muslims have a lower literacy rate of 53.6 per cent as compared to an average 74.8 per cent for India as a whole.

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A solution to the Eurozone Crisis should help revive Indian exports and increase FDI flow. There is also a need for a complete rebalancing of the international financial system in the future to avoid the recurrence of other such crises. India like the rest of South Asia has been hit by the crisis and many millions of people with low income levels may recede into poverty. Their livelihoods are at stake as an increasing number of small export units shut down and less investment comes in from India's biggest partner—the EU.