

INDIA UNDER GLOBAL ECONOMIC MELTDOWN: IMPACT ON POOR IN THE CONTEXT OF FORMAL-INFORMAL SECTOR DUALISM

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Macro Perspective

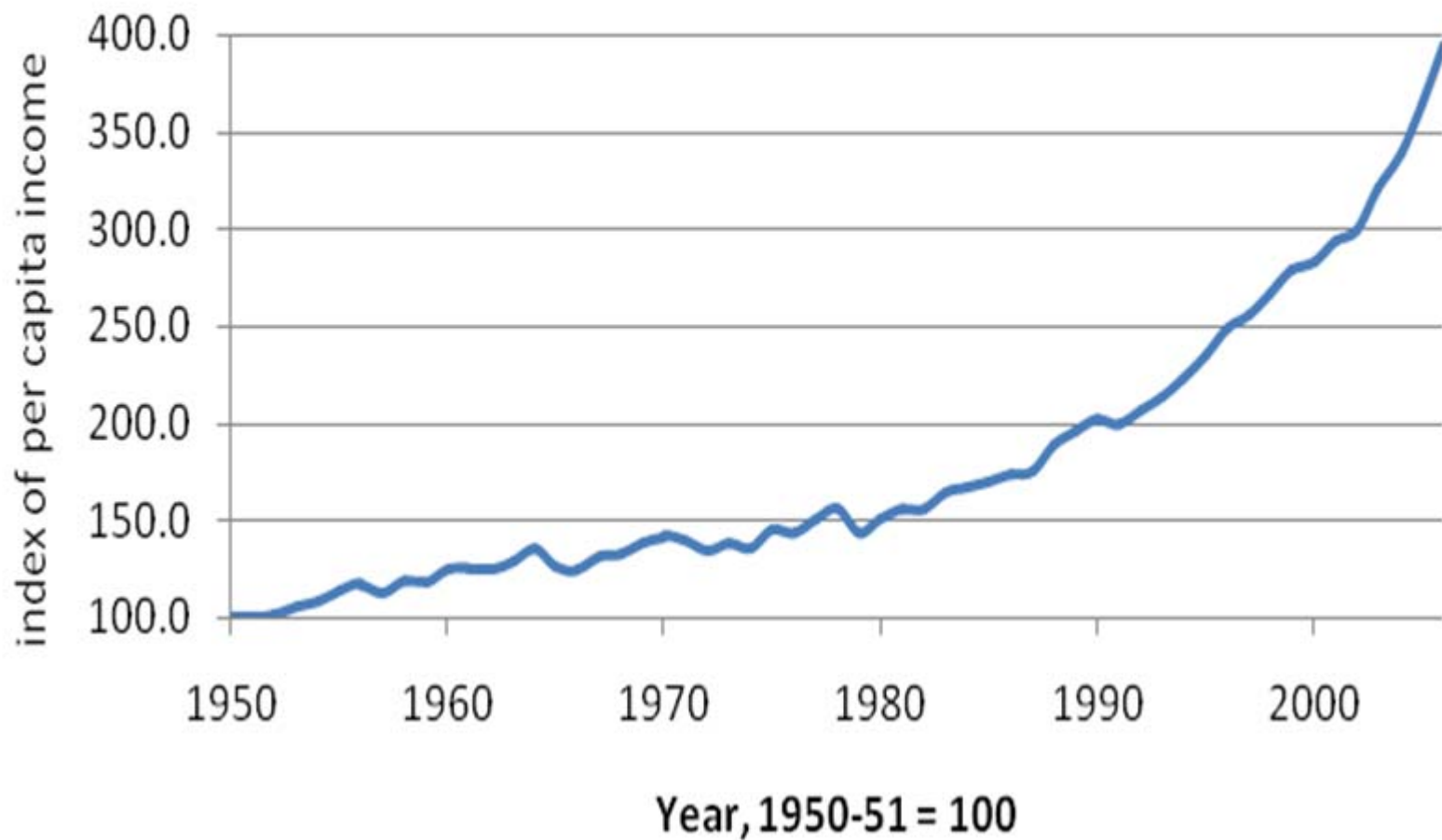
- Indian economy is predicted to grow at 6.5 per cent during 2008-09 in the backdrop 8 per cent plus growth over the past five years.
- **However**, the global economy is projected to decline by one percentage point.

Robert Zoellick, President of the World Bank.

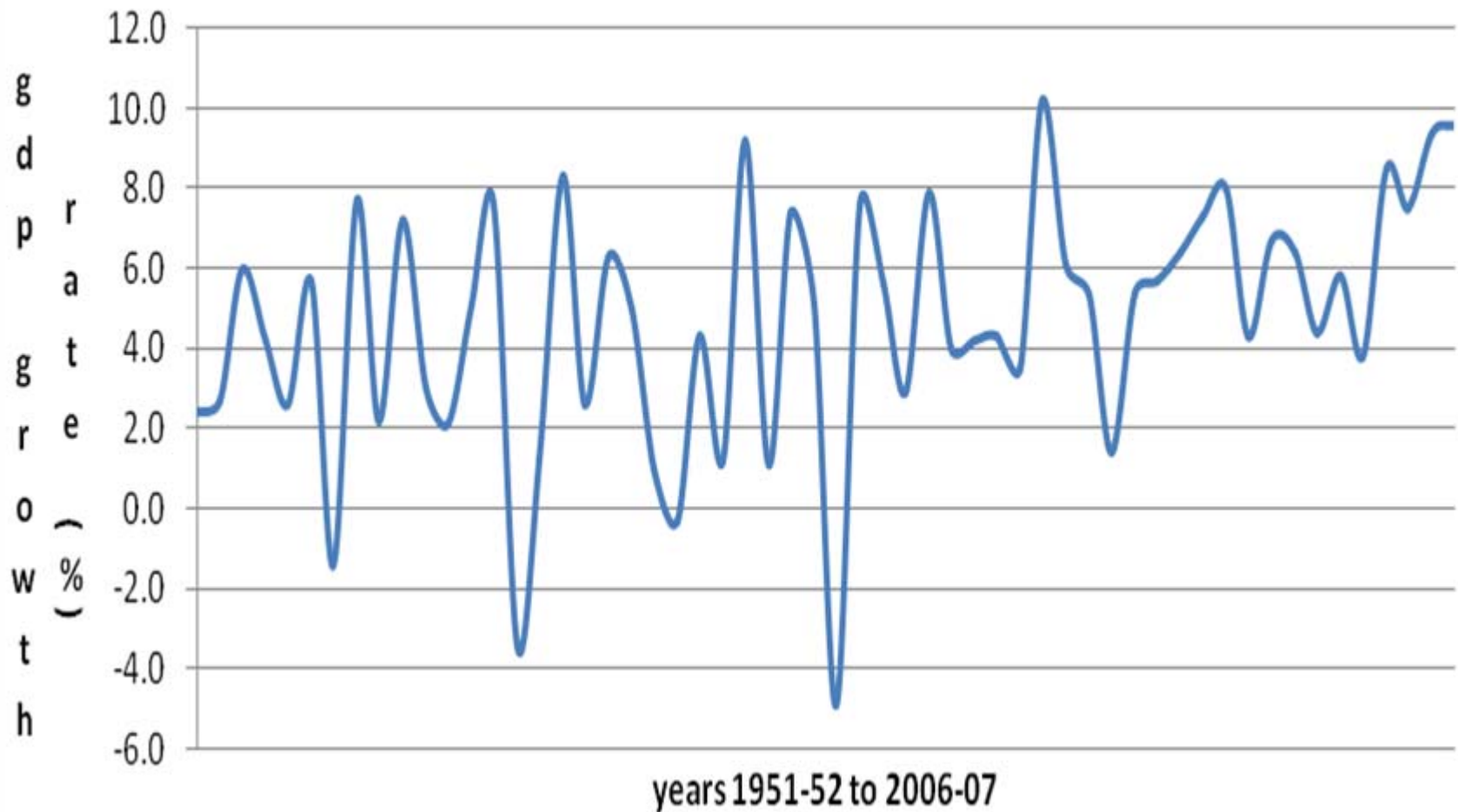
- The global crisis has not impacted on India as severely as others due to developments linked with globalization, characteristics of labour market and some longstanding traditions of financial restraint, besides stimulus measures.

Graph 2: Index of per capita income at constant prices

Source: Economic Survey, 2007-08, Government of India



Graph 3: Annual growth rate of GDP at constant prices (Source: Economic Survey 2007-08, Government of India)



Graph 4 Persons below the poverty line (in percentage)

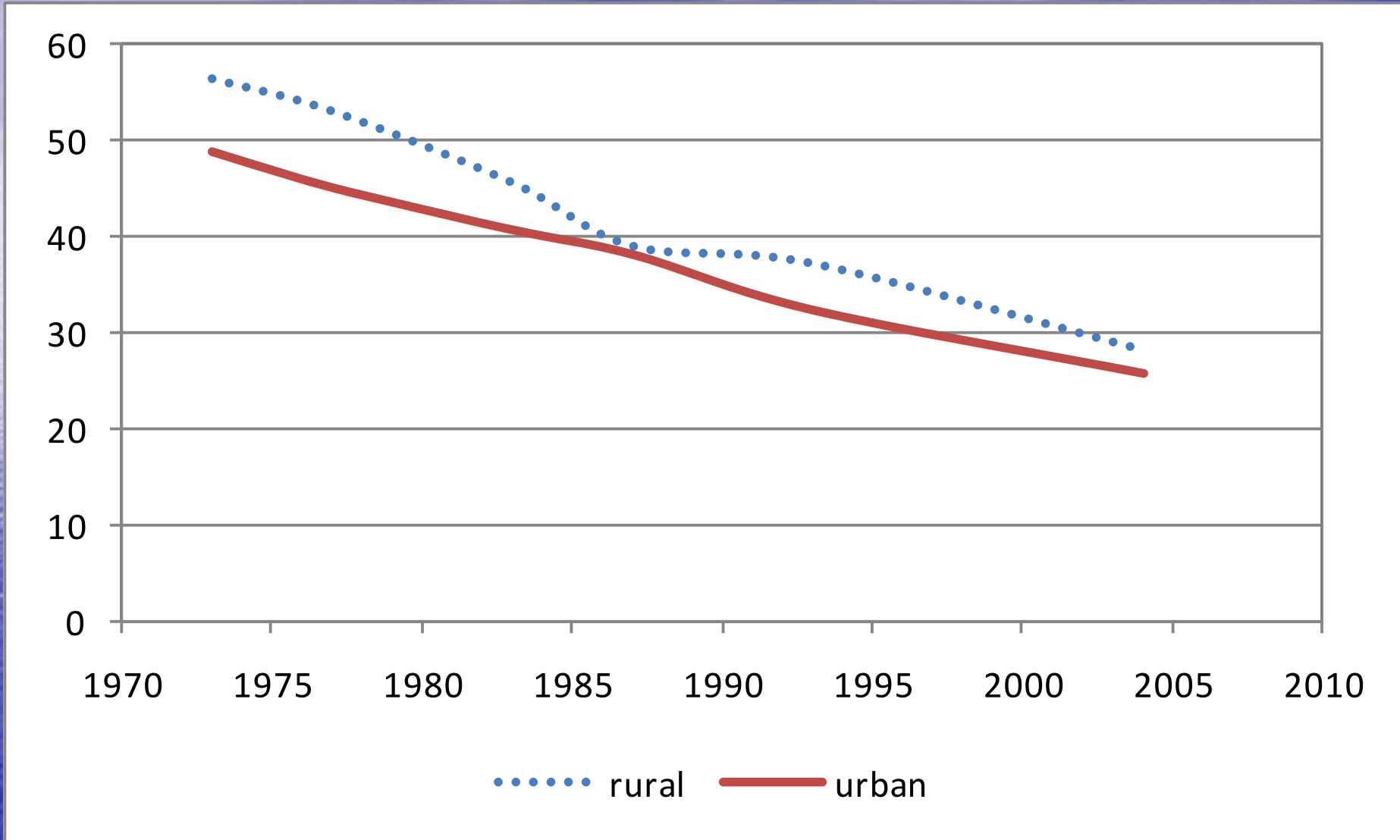


Table 1 Employment and GDP growth rates since 1972

Period	Growth rate of usual status employment (% per annum)	Annual GDP growth rate (at factor costs and constant prices)
1972-73 to 1977-78	2.7	3.9
1977-78 to 1983	2.2	4.2
1983 to 1987-88	1.5	5.8
1987-88 to 1993-94	2.4	5.2
1993-94 to 1999-00	1.0	6.7
1999-00 to 2004-05	3.0	6.0

Stimulus Packages I & II in India

Monetary Measures

- More liquidity in Banks through reduction in CRR ratio rates
- Recapitalising Public Sector Banks; strengthening global organisations like World Bank for this purpose (at G 20)
- WB loan of US \$2 billion to provide budgetary support to the Govt, enhancing capital of select public sector banks.
- Banks and SPV for supporting non-banking institutions: the latter permitted to access ECB, if in infrastructure financing.
- RBI credit to Exim Bank for post shipment credit
- India Infrastructure Finance Company Limited (IIFCL) raising funds (also tax free bonds) to refinance banks lending for infrastructure.
- State governments allowed additional market borrowings of Rs. 300,000 million due to revenue shortfall.
- The RBI injected Rs.3000,000 million liquidity into the system through these measures

Fiscal Stimulus: Government Expenditure

- Despite FRBM, the budget 2008-09 puts forward high fiscal deficit of 6.8 % against the target of 2.5 %. The govt proposes to reduce it marginally to 5.5 % next year (implying huge borrowing) and reducing to 4% only by 2010-11
- Additional plan Expenditure for Flagship Program
- Approval of 37 infrastructure projects from August 2008 to January 2009. Approval of 54 central sector infrastructure projects and 23 other projects for viability gap funding during 2008-09.
- Affordable housing for different income groups; Integrated housing projects for the Poor
- \$500 billion investment in infrastructure during this Plan.
- Commitment of no premature withdrawal of stimulus
- Lowest interest rate regime – still to continue

Infrastructural investment for tackling crisis and Long Term Development

- Bank lending liberally for infrastructural projects
- Foreign borrowing for infrastructure and real estate sectors relaxed and foreign investment limit in corporate bonds raised
- WB loan of US \$2.3 billion to India Infrastructure Finance Company, Power System Development Project and Andhra Pradesh Rural Water Supply & Sanitation Project are meeting demand deficit and strengthening infrastructural development

Incentives to Production and Business

- **Reduction in CENVAT**
- **Interest rate reduced and tax concessions for small and micro enterprises.**
Enhancement of amount under Credit Guarantee Scheme
- **Govt Banks enhancing working capital of manufacturing and business enterprises**
- Higher credit targets for Govt. Banks;
Government monitoring sectoral allocation favouring labour intensive sectors.

Stimulus for Exports and FDI

- Duty drawbacks allowing exporters claim taxes paid on inputs; extension of the scheme.
- Restoring curbs on cheap import, duties on import of cement, Zinc and ferro-alloys, TMT bars etc. removed earlier to fight inflation.
- DEPB rates hiked as incentive to exporters
- Development of integrated townships' permitted with external funds. FII investment limit in rupee denominated corporate bonds increased.
- FDI permitted up to 100 percent on automatic route, in most sectors and activities.
- Credit guarantee scheme for exporters
- Urging at G 20 colleagues not to be protectionist

Table 2: Percent workers in 15–59 age by Usual, Weekly & Daily Status

	Principal Status							
Survey Year	<i>Rural</i>				<i>Urban</i>			
	<i>Men</i>		<i>Women</i>		<i>Men</i>		<i>Women</i>	
1977–78	90.2		40.7		79.6		19.3	
1983	88.4		40.1		79.5		18.7	
1987–8	86.2		39.8		77.9		18.3	
1993–4	86.5		36.7		78.8		18.4	
1999–00	85.5		33.4		77.9		17.6	
2004-05	85.5		38.0		74.5		18.7	
	<i>Weekly status</i>	<i>Daily status</i>	<i>Weekly status</i>	<i>Daily status</i>	<i>Weekly status</i>	<i>Daily status</i>	<i>Weekly status</i>	<i>Daily status</i>
1977–8	87.1	81.5	37.7	31.4	78.6	75.7	19.6	17.1
1983	85.4	80.2	36.4	31.6	78.3	75.2	18.4	16.5
1987–8	84.0	83.5	35.3	33.2	77.3	75.1	18.5	17.0
1993–4	85.1	80.9	42.0	34.3	78.2	76.0	20.9	18.1
1999–00	83.4	78.1	40.8	32.9	77.1	74.4	19.1	16.7
2004-05	83.8	78.1	43.2	33.9	78.5	76.0	22.3	19.4

Table 3 : Percent unemployed to labourforce in rural areas

Year/	Male			Female		
	<i>Usual principal+ subsidiary status</i>	<i>Weekly status</i>	<i>Daily status</i>	<i>Usual Principal + subsidiary status</i>	<i>Weekly status</i>	<i>Daily status</i>
1977-78	1.3	3.6	7.1	2.0	4.1	9.2
Jan-Dec 83	1.4	3.7	7.5	0.7	4.3	9.0
1987-88	1.8	4.2	4.6	2.4	4.4	9.0
1989-90	1.3	2.6	-	0.6	2.1	-
1990-91	1.1	2.2	-	0.3	2.1	-
July-Dec 91	1.6	2.2	-	0.7	1.2	-
Jan-Dec 92	1.2	2.2	-	0.6	1.2	-
1993-94	1.4	3.1	5.6	0.9	2.9	5.6
1994-95	1.0	1.8	M	0.4	1.2	m
1995-96	1.3	1.8	M	0.7	0.9	m
1997	1.2	2	M	0.7	1.8	m
1998	2.1	2.9	M	1.5	2.7	m
1999-2000	1.7	3.9	7.2	1.0	3.7	7.0
2004-05	1.6	3.8	8.0	1.8	4.2	8.7
2005-06	2.0	4.3	8.3	1.2	3.3	7.5

Table 4: Percent unemployed to labour force in urban areas

Year/	Male			Female		
	<i>Usual principal + subsidiary status</i>	<i>Weekly status</i>	<i>Daily status</i>	<i>Usual Principal + subsidiary status</i>	<i>Weekly status</i>	<i>Daily status</i>
1977-78	5.4	7.1	9.4	12.4	10.9	14.5
Jan-Dec 83	5.1	6.7	9.2	4.9	7.5	11.0
1987-88	5.2	6.6	8.8	6.2	9.2	12.0
1989-90	3.9	4.5	M	2.7	4	m
1990-91	4.5	5.1	M	4.7	5.3	m
July-Dec 91	4.1	4.8	M	4.3	5.6	m
Jan-Dec 92	4.3	4.6	M	5.8	6.2	m
1993-94	4.1	5.2	6.7	6.2	8.4	10.4
1994-95	3.4	3.9	M	3.4	4	m
1995-96	3.8	4.1	M	3.1	3.5	m
1997	3.9	4.3	M	4.4	5.8	m
1998	5.1	5.4	M	6.8	7.8	m
1999-2000	4.5	5.6	7.3	5.7	7.3	9.4
2004-05	3.8	5.2	7.5	6.9	9.0	11.6
2005-06	4.5	5.8	7.9	6.3	7.7	10.1

Table 5 Growth rate of real wages of regular workers, 1999-00 to 2004-05

Education level	Rural		Urban	
	Agriculture	All	Agriculture	All
Male				
Illiterates	1.48	-1.73	-0.22	-1.73
Literate upto middle	-2.17	-0.62	-10.47	-2.92
Graduate and above	-9.19	1.94	-17.19	1.15
All	-1.78	0.51	-11.17	-0.53
Female				
Illiterates	0.96	-4.4	-5.92	-5.24
Literate upto middle	1.37	-23.25	-1.63	-3.94
Graduate and above	-13.03	-0.55	10.25	-1.39
All	-0.07	-7.54	0.05	-2.35

Table 6 Quarterly Estimate of Growth in Gross Domestic Product at 1999-00 prices

	2007-08	2008-09	2009-10	2009-10
Quarter 1	9.2	7.8	6.1	(Projected)
Quarter 2	9.0	7.7	NA	Between 6.5 & 7.0
Quarter 3	9.3	5.8	NA	
Quarter 4	8.6	5.8	NA	

Factors sustaining growth during crisis

- No increase in real wages of regular and casual workers during boom
- Low cost support system is not dismantled in early crisis; Informal employment not curtailed
- Business environment created through relaxation in regulatory controls on labour
- Organised sector including govt. units employing increasingly unorganised workers
- No compulsory social security legislation; voluntary corporate responsibility; minimising hassles of inspection
- Labour market barriers and low wages protecting informal employment
- High media mobilisation of retrenchment in formal sector, inviting Govt intervention

Macro economic Features

- FDI as percentage of GDP going up fm 0.9 to 6.7; still much below China, Asia & world
- ODI less than Asia Pacific or world
- Import + Exports as % GDP gone up from 13 in early 90s to 34 but much less than China, Asia & World
- Govt expenditure as % GDP same as Asia China and fiscal deficit high showing state's major role
Positive hiring plan for 25 % ITES for first quarter of 2009-10 (75% export linked)
- Moody holds India "top outsourcing destination" despite protectionist trend
- Export and Remittance Dependence low
- Fall in exports/investment not very significant

Long run impact on poor & marginalised

- Government's social spending, expansion of safety nets curtailed; access of poor to basic amenities adversely affected
- people spending less on education and health services and selling their "livelihood supporting assets depend"
- Long-run consequences of crisis more severe than short run.
- "Increase in social and political tensions could undermine national consensus on structural reform" Indian Prime Minister at G 20 Meet

Happy Landing