

ECONOMIC THREATS TO INDIA'S SECURITY

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CERTIFICATE

This is to certify that the dissertation entitled **ECONOMIC THREATS TO INDIA'S SECURITY** submitted by **Mr. Saurabh** for the award of **Master of Philosophy** is an original work and has not been previously submitted for any degree of this or any other University.

We recommend that this dissertation be placed before the examiners for evaluation.

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*Dedicated to
all my teachers
who inspired me to move ahead*

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Preface

The present work "*Economic Threats to India's Security*" is a modest attempt to study the changing aspects of India's security, giving special attention to the economic security.

Chapter one of the dissertation discusses the changing aspects of security with special reference to the non-military threats to security.

Chapter two deals with the trajectory of growth rates in India and shows how the growth of the Indian economy has been slow, particularly as compared to the growth rates of the high performing asian economies.

Chapter three analyses unequal income distribution both inter-personally and between different states and sections of the society.

Chapter four describes and analyses the balance of payment position and external debt burden of India.

Chapter five analyses the destitution and marginalisation of the weaker sections of the Indian population.

The Concluding chapter contains the conclusions derived from the above chapters.

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*Introduction: The Changing
Aspects of Security*

Introduction

Mankind has always been concerned about security or safety - whether it is the security of the individual, family, clan, tribe, nation, region or the globe. People felt insecure whether it was in the state of nature as depicted by Hobbes in his *Leviathan*¹ or in the civil society as portrayed by Locke in his *Treatise on Civil Society*² or in the regime of general will as depicted by Rousseau in his *Social Contract*.³

However, the study of security as a separate academic discipline started much later, in the period following the World War II. The process of decolonisation in Asia and Africa which started in the post-Second World War period brought to the limelight the security concerns of the new nations. In the United States itself, the US Congress passed the National Security Act in 1947.

The Concept of Security

Recently security has come under closer scrutiny and its study has started to develop quite significantly. A decade ago Buzan said that "in its prevailing usage the concept is so weakly developed as to be inadequate".⁴

¹ Thomas Hobbes (1588-1679), was one of the greatest social thinkers. His works include *The Elements of Law* (1640), *De Cive* (1642) and *Leviathan* (1651).

² John Locke's (1632-1704) works include *Essay Concerning Human Understanding* (1690), *Treatises on Civil Government* (1690), and *Some Thoughts Concerning Education* (1691).

³ For a detailed explanation, see J.J. Rousseau, *Social Contract* (Everyman's Library Series), London, Dent.

⁴ Barry Buzan, *People, States and Fear. The National Security Problem in International Relations* (Transasia Publishers, New Delhi, 1987), p.1.

Within modern international relations, security was initially looked at from a western historical perspective, that is the security of the state mainly from the external military threat, and not the security of the people or the threats of a non-military character. Between the First and Second World Wars, both sides of the "realist-idealist" debate were preoccupied with security defined as relationship between military powers.⁵

Because of the Second World War, Idealism came to be discredited and Realism came to dominate the study of international relations. This dominance of the Realist school was reflected in a continued bias in security definitions towards great powers and absolute security.⁶ Security came to focus on wars, the ability to fight wars and the external threats to the state which might lead to wars. Security depended on the ability of a nation to deter an attack or to defeat any that might come.⁷

Work on security which took account of the Third World exhibited the tendency simply to adapt the concept applied to the developed states. Walter Lippman said that "a nation is secure to the extent to which it is not in danger of having to sacrifice core values and if it wishes to avoid war and is able, if challenged, to maintain them by victory in such a war."⁸ To make this notion of core values applicable to the Third World, it is necessary to reduce it to the minimum core values of any nation. These are: 'political independence and territorial integrity'. However,

⁵ Lloyd Pettiford, "Changing Conceptions of Security in the Third World", *Third World Quarterly*, Vol.17, No.2, 1996, pp.289-306.

⁶ Buzan, *n.4*, p.4.

⁷ Pettiford, *n.5*, pp.289-306.

⁸ Walter Lippman, *US Foreign Policy: Shields of the Republic*, (Boston, 1943), p.5.

the maintenance of these values may have contributed to security at the level of inter-state relationship but it has no meaning for those living in insecurity within a state.⁹

With the end of the Cold War, a whole range of security issues that until recently seemed absolutely critical, has turned out to be of purely historical interest. Consequently, several works on security have become out of date very quickly. Works done by Ayoob, George and Latebar examines Third World insecurity in the context of relations between the USA and USSR, a relationship which no longer exists.¹⁰

In the post-Cold War era, security implies not only the preservation of the prevailing political and economic system and the maintenance of positions of dominance and superiority that a nation or group of them has come to occupy among the community of nations, but also the advancement of their cherished values and traditions. For instance, the United States gave up its traditional policy of isolationism, and joined the camp of the Allied powers not to defend its territorial integrity but to guard the western political institutions and economic setup and the values of democracy and freedom which were under attack by the Axis powers. As

⁹ T. Maniruzzaman, *The Security of Small States in the Third World* (Canberra: Australian National University, 1982).

¹⁰ Md. Ayoob, *Conflict and Intervention in the Third World* (London: Croom Helm, 1980); George, A.L., *Managing US-Soviet Rivalry: Problems of Crisis Prevention* (Boulder: Colo: West View Press, 1983) and Walter Latebar, *America, Russia and the Third World* (New York: Knopf, 1985).

Orvik has pointed out, 'if there were no threats to national values and institutions, security would be a matter of course.'¹¹

Moreover, there is a greater emphasis in the post-Cold War era than before, on the multi-dimensional character of security. This is because modern societies are increasingly characterised by political instability, widening economic disparities, regional imbalances in development and cultural, linguistic and ethnic conflicts. Therefore, a nation, today, can be said to enjoy security only when it is economically and technologically on sound footing, politically it is stable and socially and culturally it is cohesive.

In the contemporary age, force as an instrument of solving security problems has become futile because of the horrid implications of deploying force in the nuclear age. Therefore the importance of non-military and diplomatic methods in tackling security problems has increased a great deal.

According to Robert McNamara "Security is not military hardware though it may include it; security is not military force though it may encompass it, security is development and without development there is no security."¹²

The founders of the United Nations, when considering security, gave equal weight to territories and people. In 1945, the US Secretary of State thus reported to his government on the results of the conference in San Francisco: "The battle of peace has to be fought on two fronts. The first is the security front where victory spells

¹¹ Nils Orvik, "Threat: Problems of Analysis", *International Journal*, Toronto, Vol.26, No.4, Autumn, 1971, p.675.

¹² Robert McNamara, *The Essence of Security*, (London, 1968).

freedom from fear. The second is the economic and social front where victory means freedom from want. Only victory on both fronts can assure the world of an enduring peace.... No provisions that can be written into the Charter will enable the Security Council to make the world secure from war if men and women have no security in their homes and jobs."

This developmentalist aspect of national security was recognised by the United Nations in several of its resolutions during the 1950s and in the 1960s. The UN Charter actually outlines and establishes a system of international security and uses the expression, "international peace and security" many times. In this, it attaches due importance to non-military aspects of security. For example, Article 55, provides that with a view to the creation of conditions of stability and well-being which are necessary for peaceful and friendly relations among nations based on respect for the principles of equal rights and self-determination of peoples, the United Nations shall promote:

- a. higher standards of living, full employment, and conditions of economic and social progress and development;
- b. solutions of international economic, social, health and related problems.

Furthermore, in Article 13, the UN Charter stipulates to ensure, with due respect for the culture of the peoples concerned, their political, economic, social and educational advancement, their just treatment, and their protection against abuses.

The United Nations made a categorical statement on economic security in its resolution adopted at the 25th session of the General Assembly. The resolution called for "eliminating as far as possible the economic gap between developed and

developing countries, which is closely and essentially co-related to the strengthening of security of all nations and the establishing of lasting international peace."¹³

A group of government experts appointed by the General Secretary of the United Nations in 1983 for carrying out a comprehensive study of the concepts of security defined it in these terms: "Security is a condition in which states consider that there is no danger of military attack, political pressures or economic coercion so that they are able to pursue freely their own development and progress."¹⁴

K. Subrahmanyam, in his definition, has further clarified the concept of security. He says, "National security does not merely mean safeguarding territorial integrity. It means also ensuring that the country is industrialised rapidly and has a cohesive, egalitarian and technological society. Anything which comes in the way of this development internally or externally is a threat to (India's) national security."¹⁵ This definition, though made with reference to India, holds true of the conditions prevailing in a very large number of the Third World countries.

The study of security whether national, regional or global will be incomplete unless we try to clearly understand the different circumstances or factors that have led to its evolution to the present stage.

¹³ *Resolution No.3314(XXIX)* of 14th December 1974.

¹⁴ UN Publication, No.14, on Disarmament, Study Series, *Concepts of Security* (New York, 1986), p.2.

¹⁵ K. Subrahmanyam, *Our National Security* (Minerva Associates, Delhi, 1972), p.vii.

The term 'superpower' has dominated the language of power politics for so many decades that one is left floundering for words to describe the new power structure that is emerging. The precipitate economic and political decline of the Soviet Union has clearly removed it from this category, despite its still formidable military strength. The rise of Europe, particularly the consolidation of the European Community as an economic and political entity, emergence of Japan and Germany as economic powers, accretion in China's economic and military strength to a point where it is in a position to play an effective role in world's decision-making process, has created several independent centres of power. Multipolarity suggests a system that is both less rigid and less sharply divided within itself than under bipolarity.

The shift from the superpowers to several great powers should mean a reduction in the intensity of global rivalry for influence. For such rivalry thrives more in a bipolar world than in a multi-polar world. This in turn points to the rise of regional politics. Because the great powers¹⁶ are spread across several regions and are not engaged in an ideologically based power rivalry among themselves, they can be expected to project their own conflicts into the periphery¹⁷ much less forcefully and systematically than under the zero-sum regime of the Cold War. Because regions are less constrained by the impact of the conflicts on the global scorecard, of two rival superpowers, local rivalries and antagonisms have come to have more autonomy.

¹⁶ United States, England, France, Germany, Australia, Japan. As quoted in Barry Buzon, *The Logic of Anarchy, Neo-Realism to Structural Realism*. (New York, Columbia University Press, 1992).

¹⁷ 'Periphery' implies a set of industrially, financially and politically weaker states operating within a set of relationships largely constructed by the great powers.

The First World War gave birth to fascist and communist state challengers to the liberal capitalist West. The Second World War saw the Western and Communist powers combining to eliminate fascism as a serious ideological player. The Cold War saw a long period in which active pursuit of the nuclear doctrine led to an intensification of the arms race, and development of new weapon systems through technological innovation. The competition ended peacefully in 1989 with the comprehensive collapse of the communist challenge.

The defeat of fascism and communism as alternative ideologies for advanced industrial society has been so definitive that it is hard to imagine either of them reviving their challenge. Liberal capitalism has many critics, but no serious rivals. This development means that the great powers are less ideologically divided among themselves. This further reduces political and military incentives for competitive intervention in the periphery.

The dominant feature of the post-Cold War era is a 'security community' among the great powers. This means a group of states that do not expect, or prepare for, the use of military force in their relations with each other. During the Cold War the Western Alliance System constituted a security system of its own. The capitalist powers had formed an alliance against the communist states. But equally important was the fact that they developed independent reasons for eliminating the use of military force in their relations with each other.

The existence of this capitalist security community - in effect, Europe, United States, Japan, Germany, and Australia, standing back to back - gave the great powers an immense advantage in the global political economy. Because they did not have to compete with each other militarily, they could meet other challengers more easily, whether singly or collectively.

The most obvious political impact of the end of the Cold War is the demise of big power bipolarity and ideological rivalry. One immediate consequence of this is to lower the value of periphery countries as either ideological spoils or strategic assets in great power rivalry. During the Cold War, Third World alignments were important both for serving military purposes as well as for the success and failures in the global competition between the United States and the Soviet Union. This fact gave Third World governments a useful lever on the divided great powers, though it also exposed them to unwanted intervention in their own domestic affairs. But in a new security arena there will be little or no ideological or strategic incentive for great powers to compete for Third World allegiance.

This loss of leverage was accompanied by the loss of Non-alignment as a useful political platform for the periphery. Non-alignment was a reaction to the Cold War and provided many Third World countries with a moral and political position from which to play in the game of world politics. But with the end of the Cold War, there is no longer the divided superpowers to be non-aligned against.

As James Mayall has noted, "this attempt to freeze the political map is unprecedented, and at least so far as the territorial division of the world is concerned, seems unlikely to be successful".¹⁸ The ending of the Cold War is opening up boundary questions in a rather major way. The two Germanys have been unified eliminating a state. The Soviet Union disintegrated into many sovereign states. The consolidation of the European countries also changed the significance of boundaries, though not the positions.

¹⁸ James Mayall, *National and International Society*, (Cambridge University Press, Cambridge, 1890), p.56.

Saddam Hussain's attempt to eliminate Kuwait and more broadly to unify the Arab world was an explicit assault on the post-colonial boundaries. Arab nationalism and the concept of *Umma* that could wash away the territorial boundaries are strongly associated with the divisions and humiliations of colonization.¹⁹

This has put to question the security of states as organised during the post-war period. This has posed a much greater threat to the security of the Third World than to that of the major powers. Because it is mainly in the Third World that the assertion of ethnic identities and demands for self determination is most strongly in evidence.

The large scale movements of refugees pose another threat to the security of modern state. The end of the Cold War has generated flows of refugees due to the collapse of barriers in the 'east'. The inevitable consequence of the above is the creation of conditions of insecurity within as well as between the states that either generate such flows or receive them. The home state, by driving the refugees out, exposes itself to international criticism and embarrassment, pressures and even intervention, for atrocities on its own people.

Security implications of the refugees in the host country are far-reaching and multi-dimensional. Presence of millions of refugees creates conditions for destabilisation and disruption of political, economic and social systems in the host country. The violent conflicts within the refugees groups due to variations in their respective socio-economic strata, regional and clan loyalties, religious and ethnic identities and political or ideological predilections, builds up internal destabilisation.

¹⁹ Edward Mortimer, "Christianity and Islam", *International Affairs*, 67.1, 1991, pp.7-13.

This leads to the rise of sub-nationalist and 'sons of the soil' movements that may threaten peace and stability in the host country.²⁰

Today, problems of internal security, including armed separatist movements and domestic ethnic strifes, particularly of developing countries, have altered the security environment. Violent struggles for self-determination among the Muslims of Kashmir, the Sikhs of Punjab and the Assamese-speaking Hindus of Assam, the continued civil war in Sri Lanka, armed separatist movements in Sindh, Balochistan and Pashtunistan in Pakistan and Chakma insurgency in Bangladesh, have questioned the integrity of these states.²¹

Pervasive violence associated with separatist movements contributes to the militarization of both society and the state. Militarization includes not only rearmament and the growth of armed forces, but also, and more importantly, an increasing resort to force in conflict resolution, and the spread of militaristic values. This in turn legitimizes the use of violence to attain political goals. The ultimate outcome is widespread insecurity in every sphere of socio-political life.

The trafficking in narcotic drugs is one of the most corrosive threats to security. During the past twenty years, the narcotics industry has progressed from a small cottage enterprise to a highly organised multinational business that employs hundreds of thousands of people and generates annual profits of roughly \$200 billion

²⁰ S.D. Muni and L.R. Baral (eds.), *Refugees and Regional Security in South Asia* (Konark Publishers, Delhi, 1996).

²¹ Baladas Ghoshal, "South Asian Security Dynamics: Domestic and Internal Factors, the Case of India" in Iftekharuzzaman (ed.), *South Asia's Security: Primacy of the Internal Dimension*, (Academic Publishers, Dhaka, 1994).

to \$300 billion.²² The retail value of drugs, as estimated in a recent study²³ now exceeds the international trade in oil.

Narcotics industries in countries such as Myanmar, Afghanistan and Colombia are associated with extreme anti-state violence or with the disintegration of national authority. United States intelligence officials believe that drug-trafficking networks and routes can be easily reconfigured to smuggle chemical weapons, plutonium, or tactical nuclear weapons into terrorist nations and groups. The destructive consequences of drug trafficking can include a soaring violent crime rate, an enormous waste of human potential and the squandering of vast financial resources. Thus drug trafficking also constitutes a threat to security.

The rapid rate of population growth is overcrowding the planet, adding to the enormous pressures on diminishing non-renewable resources. This growth - at the root of much of global poverty, international migration and environmental degradation - is unprecedented in history. It took one million years to produce the first one billion people on earth. It will now take only ten years to add the next billion to today's 5.5 billion.²⁴

India's population continues to grow at a very fast rate. Its population increased at an average of 16.8 million per annum during the 1985-95.²⁵ There is

²² Rensselaer, W. Lee III, "Global Reach: The Threat of International Drug Trafficking", *Current History* 94(592), May 1995, pp.207-11.

²³ Louis Kraar, "The Drug Trade", *Fortune*, 20th June 1988, pp.27-38.

²⁴ *Human Development Report*, UNDP, 1994.

²⁵ Sudha Raman, "Population and Its Security Implications", *Mainstream*, November 11, 1995, pp.27-31.

increasing pressure of population on water and land resulting in an imbalance to the environment. One of the worst non-military threats to security faced by India today is her population explosion.²⁶

With the passing of the Cold War, the deteriorating global environment seems to have replaced nuclear war as the greatest threat to life on earth.²⁷ The emission of chlorofluorocarbons has a truly global effect - as the gases released in individual countries attack the ozone layer. In 1993, satellite measurements over the heavily populated mid-latitudes of the Northern Hemisphere, showed the ozone layer to be at record lows - only 50% of its 1979 level - with serious implications for human health. It is feared that the life of many plant and animal species, which are required as nature's support base, will be threatened by the higher dose of ultraviolet radiation if the depletion of the ozone layer cannot be reversed.

The production of greenhouse gases in individual countries also has a global impact. Layers of these gases, including carbon dioxide and methane, accumulating in the upper atmosphere contribute to global warming because they reflect back infra red radiation that would otherwise escape into space.

At the present rate of warming the global temperature will rise 3°C in the next forty years which is greater than the temperature rise of the past one million years.²⁸ The result will be the melting of ice caps in the pole and frightening prospects of the rise of the sea level. This will seriously "affect approximately 50% of earth's popula-

²⁶ Ibid., p.29.

²⁷ Quoted in M. Abdul Hafiz, "New Challenges to Security Studies", *BISS Journal*, Vol.II, No.4, 1990.

²⁸ David A. Writh, "Climate Chaos", *Foreign Policy*, No.74, Spring 1989, p.8.

tion that inhabits coastal regions. Entire countries, such as Maldives, could disappear."²⁹ In Bangladesh it "would inundate 11.5 per cent of the country's land area and displace 9% of its 112 million people".³⁰

The other environmental threats, which are equally important, are increasing water scarcity, deforestation, air pollution, soil erosion, desertification etc. Among others, they pose a threat to biological existence. Biological diversity is being lost at a rate estimated at 2% to 10% of all species per decade. This rate of loss is unparalleled since the last mass extinction of species 65 million years ago.³¹ This loss would dramatically reduce the chances of discovering natural genes and substances that might hold the cure for existing and future diseases. And genetic uniformity of the world's foodcrop varieties carries the risk that diseases or pests that develop resistance to pesticides could destroy a large proportion of the crops on which most of the world's population depends. The genes of relatives of those varieties that grow in the wild, and are needed to respond to such threats to food security, are now threatened by deforestation and conversion of land to agriculture.

The trends of the past 20 years show an accelerated destruction of coastal marine habitats, increases in coastal pollution, and in many areas, a shrinking of the marine fish catch. In 1990, the global fish catch declined for the first time in 13 years - a result of overfishing, coastal habitat destruction and water pollution.³²

²⁹ M. Abdul Hafiz, *op. cit.*, p.6.

³⁰ David A. Writh, *op.cit.*, p.9.

³¹ Gareth Porter, "Environmental Security as a National Security Issue", *Current History*, 94(592), May 1995, pp.218-222.

³² *Human Development Report*, UNDP, 1994.

As habitats are fragmented, altered or destroyed, they lose their ability to provide ecosystem services - water purification, soil regeneration, watershed protection, temperature regulation, nutrient and waste recycling and atmospheric maintenance. All these changes threaten global security.

Economic security is determined by the size and structure of a country's economy, the degree of its self sufficiency in foodstuffs and raw materials, and the share of imports in the volume of the outputs of strategically important industries. It also depends on such factors as the extent of access to export-import markets and protection against arbitrary manipulations of the world prices of raw materials.

Today, the rates and levels of economic development of a nation are strongly influenced by the extent of a country's involvement in the world economic exchanges, the state of its trade balance and its balance of payment, the direction and intensity of international finance and credit flows, the dynamics of the import and export of capital and advanced technology, the situation in the world market of services etc.. As a result, the economic development of a country depends on internal efforts as well as external economic forces.

Uneven development encourages rural-urban, class, regional, and cast divisions. These cause social tensions and thus pose a threat to security. Indebtedness is another economic threat with internal and regional security implications for developing countries. The massive financial burden of servicing and amortisation of debts amounted to a total of \$ 688 billion over the period 1982-87.³³ This can be a

³³ World Bank, *World Debt Tables, 1987-88*, Vol.1, Table-1.

serious constraint to pursuing development activities, apart from increasing the dependence of the indebted states on the donor countries.

Countries that perceive distinct security threats but are not weapons producers have tended to risk high level of indebtedness in order to be able to buy arms in the search of greater security. Syria and Pakistan are good examples of states facing serious internal and external threats and relying heavily on arms imports funded by foreign loans, with the resultant aggravation of the problem of indebtedness.

International agencies such as the World Bank and the International Monetary Fund get very closely involved in the economies of the developing countries in the process of negotiations of rescheduling of debts. Such negotiations have regularly required the imposition of measures such as devaluation, reduction of subsidies on basic commodities, removal of trade barriers and exchange controls, and the privatization of national industry. These all have actual and potential impact on the security of the developing countries concerned.

Given this high degree of reliance on single exports, changes in world prices of these commodities concerned have a severe impact on the economies of these countries, frequently with security implications. The drop in price and the changing international market for sugar caused the loss of 25,000 jobs in the Philippines in the mid-1980s, at a time of growing upheaval and armed insurgency. Falling income from phosphate exports forced Jordan to postpone major weapons purchases in 1982-83, although its defence procurement was already lagging well behind the military growth of its neighbours.

In the above background of various threats to the security of developing countries, an attempt is made in this dissertation to study the economic threats to

India's security. The threats analysed in this study are those that arise from 'low rates of growth', 'unequal income distribution and regional disparities', 'balance of payment position and external debt burden', and 'marginalisation and destitution'.

Low Rate of Growth

India, with all its natural resources and massive manpower, was economically backward when it won its independence in 1947. The foremost challenge before the country was to eliminate poverty, deprivation and want through the reconstruction of its stagnant economy.

Trends in National Income Growth and Structure

From the data given in Table 2.1, it is seen that during the 30 year span (1950-51 to 1980-81), the annual average rate of growth of the national income was of the order of 3.4 per cent and that of per capita income was merely 1.2 per cent.

A further break-up of the data into three periods reveals that during the first 10 years of planning (1950-51 to 1960-61), net national product increased at the annual average rate of 3.8 per cent. The performance of the economy declined during the decade 1960-61 and 1970-71, the rate of growth of NNP came down to 3.4 per cent and that of per capita NNP to 1.2 per cent per annum.

The Second Five Year Plan had in its long term perspective the goal of doubling the per capita income by 1977. However, the increase of per capita income by merely 50 per cent during the 30 years period (1950-51 to 1980-81) underlines the fact that the achievement was less than half of the long term projection made in the Second Plan. It was only by 1993-94 (Table 2.2), that is over a period of 43 years, that the per capita income could be doubled. Thus a target set for 1977 could be achieved only in 1993-94, after a lag of 16 years. This is indeed disappointing.

Table 2.1

Net National Product at Factor Cost and Per Capita NNP

NNP	At 1980-81 Prices NNP (Rs. Crores)	At 1980-81 Prices Per Capita NNP (Rs.)	At Current Prices NNP (Rs. Crores)	At Current Prices Per Capita NNP (Rs.)
1950-51	40,454	1,127	8,526	238
1960-61	58,602	1,350	14,160	326
1970-71	82,211	1,520	36,362	672
1980-81	110,685	1,630	110,685	1,630
1984-85	133,808	1,811	185,018	2,504
1990-91	1,86,469	2,223	418,057	4,983
1991-92	1,86,412	2,178	479,001	5,596
1992-93	194,093	2,226	543,566	6,234
1993-94	207,264	2,282	637,996	6,929
1994-95	221,406	2,449	748,652	8,281
1995-96 [^]	236,738	2,573	857,570	9,321

Rates of Growth (per cent)

1950-51 to 1960-61	3.8	1.8	5.2	3.2
1960-61 to 1970-71	3.4	1.2	9.9	7.5
1970-71 to 1980-81	3.0	0.7	11.7	9.2
1950-51 to 1980-81	3.4	1.2	8.9	6.6
1990-91 to 1995-96	4.9	3.0	15.6	13.5

Note : [^] quick estimate

Source : National Statistics (New Series) 1950-51 to 1979-80 and Economic Survey, 1994-95, 1996-97.

There was a perceptible improvement in the growth rate during the eighties. During 1980-81 and 1990-91, net national product showed a growth rate of 5.4 per cent per annum. The per capita NNP at 1980-81 prices increased on an average by

3.1 per cent per annum. Commenting on the effects of the policy reform initiated in the eighties, Ahluwalia³⁴ argued that "the growth rate over the past 10 years or so averages about 4.5 per cent. The underlying growth rate of the economy in the mid-eighties is nearer to 5 per cent per year".

Table 2.2

Net National Product at Factor Cost and Per Capita NNP

NNP	At 1980-81 Prices NNP (Rs. Crores)	At 1980-81 Prices Per Capita NNP (Rs.)
1950-1951	40,454	1,127
1960-1961	58,602	1,350
1970-1971	82,211	1,520
1980-1981	110,685	1,630
1984-1985	133,808	1,811
1990-1991	186,469	2,223
1991-1992	186,412	2,178
1992-1993	194,093	2,226
1993-1994	207,264	2,282
1994-1995	221,406	2,449
1995-1996 [^]	236,738	2,573

Note : [^] Quick estimates

Source : Data obtained from *National Accounts Statistics (New Series) 1950-51 to 1979-80* and *Economic Survey, 1994-95, 1996-97*.

³⁴ Ahluwalia, Montek S (1988) : 'India's Economic Performance, Policies and Prospects' in Robert E B Lucas and Gustav F Papnek (eds), *The Indian Economy : Recent Development and Future Prospects*, (Oxford University Press, New Delhi).

When the reform process started, the growth in NNP and per capita NNP declined. But there was rapid recovery in the overall economy with about 5 per cent growth in each of the following two years, 1992-93 and 1993-94, and a further acceleration to above 6% from 1994-95 onwards (Table 2.1). The Economic Survey (1995-96) states : "Despite the deep crisis of 1991-92, average growth over the first four years of the Eighth Plan (1992-97) at 5.7 per cent is higher than the plan target of 5.6 per cent. This is a remarkable post-crisis achievement by international standards."³⁵

But this claim looks somewhat exaggerated. Firstly, the Economic Survey of 1995-96 has given the revised figures of NNP for the last three years, 1992-93, 1993-94, and 1994-95. This falls short of the earlier estimates by a large margin. Secondly, even the Planning Commission has questioned the optimistic nature of the estimated growth of 6.8 per cent for 1994-95 and 6.9 per cent for 1995-96. Lastly, even if it is assumed that these estimates are correct, the average growth rate of NNP works out to be 4.9 per cent for the period 1990-91 to 1995-96, as against the 5.4 per cent for the preceding ten year span (1980-81 to 1990-91). Obviously, the success of economic reforms in terms of the average growth rate for the post-reform period is not as striking as it is made out to be.

In spite of the high rate of growth in GNP in the 1980s and the dynamism shown by the economy in the last 3-4 years, the overall performance of the Indian economy since independence has been unsatisfactory. Given the rate of growth the population, this has resulted in a very modest improvement in the per capita income. Moreover, the overall size of GNP has remained small as compared to most

³⁵ Government of India, *Economic Survey (1995-96)*, p.1.

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developed countries and a number of developing countries whose economies have performed better than that of India.

Annual Growth Rates and Planning Targets

The basic aim of economic planning in India has been to bring about rapid economic growth. The First Five Year Plan aimed at increasing the national income at the rate of 2.1 per cent per annum. As against this, the actual achievement was 3.6 per cent per annum. (Table 2.3)

Table 2.3

Annual Growth Rates and Planning Targets

(in per cent)

Plan	Target Rate	Actual Rate
I (1951-56)	2.1	3.6
II (1956-61)	4.5	4.0
III (1961-66)	5.6	2.2
IV (1969-74)	5.7	3.3
V (1974-79)	4.4	5.2
VI (1980-85)	5.2	5.3
VII (1985-90)	5.0	5.6
VIII (1992-97)	5.6	6.1 [^]

Note : [^]- Relates to 1992-93 to 95-96.

Source : Economic Survey 1996-97.

After that, until the mid 1970s, the performance invariably fell short of the target. The Second Plan aimed at increasing the national income at the compound annual rate of 4.5 per cent. However, the annual growth rate was only 4.0 per cent. The Third Plan fixed the target for increasing the national income by 5.6 per cent per annum, but the increase was only 2.2 per cent during this period. The Fourth Plan established the target for increase in national income by 5.7 per cent per annum, but the actual achievement was merely 3.3 per cent per annum.

The Fifth Five Year Plan envisaged a rate of growth of 4.4 per cent per annum while actual rate of growth was approximately 5.17 per cent. India's national income registered a growth rate of 5.3 per cent during the Sixth Plan as against the target of 5.2 per cent. The Seventh Plan set the target for increase in national income at 5.0 per cent per annum while the actual growth was 5.6 per cent. The Directional Paper for the Eighth Plan-issued in December 1991-had worked out two alternative growth scenarios - 5.6 per cent per annum growth and 6.0 per cent per annum growth. However, the Planning Commission opted for a growth target of 5.6 per cent per annum. The achieved growth rate was 6.1 per cent per annum during 1992-93 to 1995-96.

The above figures show that in the Second, Third and Fourth Five Year Plans, the rate of growth failed far behind the targeted rate of growth. Though since then the plan targets have been fulfilled the actual performance has been only marginally better than the targets set. This has not been sufficient to compensate for the sharp decline in the economy during the 15 year period, between the Second to the Fourth Plan.

Sectoral Rates of Growth

The share of the sector which includes agriculture and forestry, has gone down from 55.3 per cent of the GDP in 1950-51 to 44.5 per cent in 1970-71 and to a still lower figure of 28.75 per cent in 1995-96 (Table 2.4). Agriculture contributed 48.6 per cent of GDP in 1950-51. Its share, however, declined to 39.7 per cent in 1970-71 and further declined to 28.1 per cent in 1992-93.

The performance of the First Plan on the agricultural front was satisfactory. The production of foodgrains rose from 54 million tonnes in 1950-51 to 64.8 million tonnes in 1955-56 against the target of 61.6 million tonnes. (Table 2.5). The target for foodgrains production was fixed at 75.0 million tonnes in the Second Plan while achievement was 76.0 million tonnes. The actual production of foodgrains was far behind the target in Third, Fourth, Fifth and Seventh Plans. In the Sixth Plan also, the target was only marginally exceeded. In absolute terms, the foodgrains production increased from 64.8 million tonnes in the First Five Year Plan to 171.0 million tonnes in the Seventh Plan. This is indeed an impressive growth but this is just inadequate to keep pace with the growth of population. In any event, the increase in the availability doesn't mean that those who are in need of it will really have access to foodgrains. That very much depends upon the growth rate and distribution of income.

The share of the secondary sector which includes manufacturing industries, construction, electricity, gas and water supply has shown a steady increase from 16.1 per cent of GDP in 1950-51 to 28.9 per cent in 1992-93, and 29.24 per cent in 1995-96 (Table 2.4). The major component of the secondary sector is manufacturing sector. Its share in GDP has increased from 11.4 per cent in 1950-51 to 20 per cent in 1992-93. But this sector has also failed to achieve the target growth rate for the plan periods.

Table 2.4

**Share of Gross Domestic Product By Industry of Origin
(at 1980-81 prices)**

Percent distribution

	1950-1951	1970-1971	1980-1981	1992-1993	1993-1994	1994-1995	1995-1996 [^]
I. Agriculture etc. (including forestry and fishing)	55.3	44.5	38.1	31.3	32.1	30.7	28.7
Agriculture	48.6	39.7	34.7	28.1	29.4	28.7	26.7
II. Mining, Manufacturing etc.	16.1	23.6	25.9	28.9	27.3	28.0	29.2
1. Mining & Quarrying	1.1	1.3	1.5	2.0	1.4	1.5	1.5
2. Manufacturing	11.4	16.1	17.7	20.0	19.2	19.6	20.1
3. Electricity, Gas & Water Supply	0.3	1.2	1.7	2.5	2.2	2.2	2.24
4. Construction	3.3	5.0	5.0	4.4	4.6	4.7	5.4
III. Transport, Communication & Trade etc.	11.0	14.2	16.7	18.3	18.4	18.9	20.0
IV. Finance & Real Estate	9.0	8.0	8.8	10.9	11.6	11.6	11.2
V. Community & Personal Services.	8.5	9.6	10.5	11.5	11.1	10.8	10.7
A. Community Sector (I + II)	71.5	68.1	64.0	59.2	59.4	58.7	57.9
B. Service Sector (III + IV + V)	28.5	31.9	36.0	40.8	40.6	41.3	42.1
TOTAL	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Note : [^] quick estimates.

Source: CMIE, *Basic Statistics Relating to the Indian Economy, Vol. I : All India, Aug 1994 and Economic Survey, 1996-97*

Table 2.5

Production of Foodgrains

(million tonnes)

Plan	Target	Actual
I (1951-56)	61.6	64.8
II (1956-61)	75.0	76.0
III (1961-66)	100.0	72.0
IV (1969-74)	129.0	104.66
V (1974-79)	140.0	131.90
VI (1980-85)	153.6	152.4
VII (1985-90)	178.0	171.0

Source: *Economic Survey and Planning Commission - Seventh and Eighth Five Year Plan.*

The share of the tertiary sector which includes trade, transport, communications, banking, insurance and community and personal services improved from 28.5 per cent in 1950-51 to 32.0 per cent in 1970-71 and further increased to 41 per cent in 1995-96 (Table 2.4).

The process of economic growth involves a rapid expansion of public administration, specially a rapid expansion of economic and welfare services such as education, health and family welfare. Taking the personal services and community as a group, it was observed that there was a marginal improvement in its share from 8.6 per cent of GDP in 1950-51 to 10.70 per cent in 1995-96 (Table 2.4).

The share of transport, communications and trade improved from 11.0 per cent of GDP in 1950-51 to 20.0 per cent in 1995-96. The share of finance and real estate, which includes banking and insurance, improved marginally from 9.0 per cent in 1950-51 to 10.9 per cent in 1992-93 and 11.25 per cent in 1995-96 (Table 2.4).

The structural change in the composition of national income by industrial origin is the consequence of the process of economic growth during the plans. Since the growth process involved a rapid expansion of manufacturing in the organised sector, the share of manufacturing was bound to register relatively sharp increase. The share of tertiary sector in total GNP also increased in the process of growth, and generally even at the faster rate than that of the manufacturing sector. There has consequently been a decline in the share of the agriculture sector. The Indian experience confirms the general pattern of structural change in the composition of national income in the process of economic growth.

Table 2.6 shows that the rate of growth of agriculture showed a decline from 3.0 per cent during 1950-51 and 1960-61 to 1.5 per cent during 1970-71 and 1980-81 and thereafter, it picked up to 3.6 per cent during 1980-81 and 1990-91. Taking the 40 year period (1950-51 to 1990-91), the average rate of growth of agriculture was 2.6 per cent per annum, but the average rate of growth in the manufacturing sector was 5.6 per cent per annum. Similarly, the rate of growth of service sector was of the order of 4.9 per cent per annum during the 40 year period (1950-51 to 1990-91), though during 1980-81 and 1990-91, it shot up to 6.6 per cent per annum.

Table 2.6

**Rates of Growth of GDP by Industrial Origin
(At 1980-81 prices)**

(Per cent)

Compound Annual Growth Rate between	Agriculture Forestry Fishing	Mining and Quarrying, Manufacturing, Construction, Electricity, Gas & Water	Service Sector, Transport, Trade, Banking, Insurance, Public Administration and Defence.
1950-51 and 1960-61	3.0	6.2	4.1
1960-61 and 1970-71	2.3	5.4	4.6
1970-71 and 1980-81	1.5	4.0	4.3
1980-81 and 1990-91	3.6	6.7	6.6
1950-51 to 1990-91	2.6	5.6	4.9
1991-92	-2	-1.7	5.6
1992-93	6.1	4.2	5.5
1993-94	3.6	6.8	7.3
1994-95	4.6	9.4	7.5
1995-96	-0.1	11.6	8.8

Source : CMIE, *Basic Statistics Relating to the Indian Economy* Vol.1, August, 1992 and Government of India-Economic Survey, 1996-97.

Though the share of manufacturing sector rose impressively and the rate of growth in the manufacturing sector was much higher than that in the agricultural sector, it still failed to achieve the targets in the successive plans.

The targeted rate of growth of output in the manufacturing sector was 7.0 per cent in the First Plan, 10.5 per cent in the Second Plan, 10.75 per cent in the Third Plan and 9.0 per cent in the Fourth Plan. As against this, the achievements were 6.0 per cent in the First Plan, 7.2 per cent in the Second Plan, 8.0 per cent in the Third Plan and merely 3.9 per cent in the Fourth Plan (Table 2.7).

Table 2.7

**Planning Targets and Rate of Growth in the
Manufacturing Sector**

(Per cent)

Plan	Target Rate	Actual Rate
I (1951-56)	7.0	6.0
II (1956-61)	10.50	7.2
III (1961-66)	10.75	8.0
IV (1969-74)	9.0	3.9
V (1974-79)	8.2	6.1
VI (1980-85)	7.6	6.9
VII (1985-90)	6.8	7.5
VIII (1992-97) [^]	7.5	8.0

Note : [^] Relates to 1992-96

Source : *Economic Survey and Planning Commission. The Seventh and Eighth Five Year Plan, 1985-90 and 1992-97.*

The Fifth Plan fixed a target of 8.2 per cent annual increase in industrial output but the actual rate of industrial growth turned out to be only 6.1 per cent. Under the Sixth Plan, the performance of the industrial sector was less disappointing. As against the target of 7.6 per cent, the actual growth was 6.9 per cent.

The period from 1985-86 to 1990-91 saw an impressive industrial growth, as in this period industrial production rose at the rate of 7.5 per cent per annum. However, this tempo of industrial growth could not be sustained in the next three years. There was near stagnation in 1991-92 and the industrial production rose at an average rate of 3.2 per cent per annum in the years 1992-93 and 1993-94.³⁶ After the 1993-94 period, there is a sign of recovery and industrial rate of growth is above the plan target.

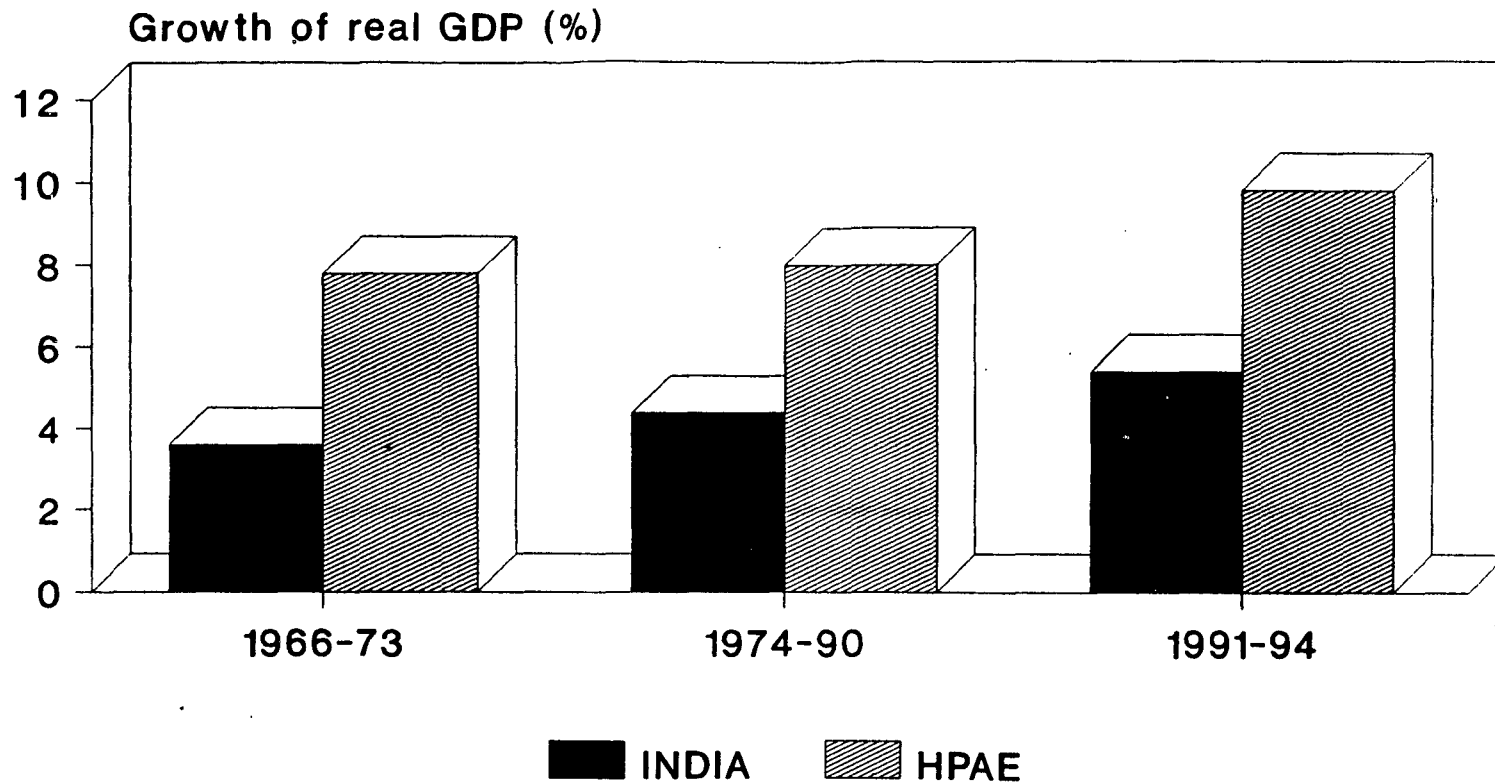
The pattern of India's economic growth would indicate that the growth during the 1980s and the early 1990s is satisfactory as compared to the experience in the earlier decades. But it was still not comparable to those of the East Asian and South East Asian countries.

East and South-East Asian Growth Experience

East Asia has a remarkable record of high and sustained economic growth since the early 1960s. Most of this achievement is attributed to the miraculous revival of growth in eight High Performing Asian Economies (HPAEs) : Japan, the "Four Tigers"-Hong Kong, the Republic of Korea, Singapore, and Taiwan; and the three newly industrializing economies (NIEs) of South East Asia - Indonesia, Malaysia and Singapore.

³⁶ Kumar, Arun, "New Economic Policies, Instability and Policy Ineffectiveness", *Economic and Political Weekly*, Nov.23, 1996, pp.3061-3070.

FIGURE 1
Falling Behind in
Equitable Growth



Source: World Bank (1996), Trends in
Developing Economies, 1996, Washington
D.C.

The above figure clearly indicate that in the last three decades HPAEs real GDP has grown consistently at a rate almost twice as fast as has India's GDP. This remarkable economic performance of the HPAEs has enabled these countries to achieve a standard of living unimaginable in India.

Liberal investment in basic education marks the most critical difference between HPAEs and India. Even though the income levels in HPAEs and India were almost the same three decades ago, the HPAEs already enjoyed much higher levels of human capital. In 1960, per capita GDP (in PPP \$) was only 30 per cent higher in HPAEs as compared to India. But by the same year, primary school enrolment had already reached a level of 120 per cent in HPAEs, in contrast to a low level of 73 per cent in India.³⁷

The HPAEs also reduced gender gaps in basic education more rapidly than India. Age-specific literacy rates bring out another crucial feature to the HPAEs' advantage : HPAEs have achieved virtually universal literacy among younger age groups, while in India there is still a massive problem of illiteracy among young boys and girls. The corresponding figures for India in 1987-88 were 26 per cent for boys and 48 per cent for girls.

The HPAEs built up these human capital through major public and private investments in education. For instance, in 1960, India was spending only about 2.3 per cent of its GNP on public expenditure on education, while the HPAEs were spending twice as much.³⁸ The cumulative benefits of such major investments in

³⁷ UNCTAD (1996). *The Least Developed Countries : 1996 Report*. New York and Geneva : United Nations.

³⁸ UNESCO (1995). *World Education Report, 1995*. Paris.

human capital have become increasingly evident with the passage of time. HPAEs GDP per capita had climbed to above \$ 11,000 (in PP dollars)*, by 1993, compared to a level of \$ 1,240 in India. The gap in their per capita incomes had widened from only \$200 in 1960 to over \$9,700 by 1993.³⁹

In HPAEs, the emphasis was placed squarely on universal, high-quality primary education, accompanied by a largely self financed university education system. The Republic of Korea, Hong-Kong, Thailand and Malaysia all devote nearly 70 per cent of their education budgets to basic education. In 1985, Singapore spent \$ 834 on every primary school student, compared to \$ 28 per primary school student in India. This reflects the prevailing feudal structure in the Indian society, where a large proportion of the economic patronage of the state is pre-empted by the ruling elites.

The Indian educational spending is inequitable, because educational policies are elitist and skewed towards subsidies at the university level, where there is a greater concentration of students from high income groups. While this had created many highly qualified graduates for a limited number of high-tech, skill-centred industries (for example, the computer software boom in Bangalore), the fact remains that the absence of a broad base of workers with basic education means that the benefits of industrialization cannot be widely shared.

* Real GDP per capita in PPP \$ is calculated by multiplying the ratio of the regional per capita income to the national per capita income.

³⁹ Haq, Mahbub Ul, "*Human Development in South Asia 1997*", (Oxford University Press, Karanchi, 1997).

A detailed World Bank study⁴⁰ shows that primary education is the most important factor-much ahead of physical investment-in explaining East Asian growth over the last three decades; in Taiwan, for instance, it accounted for 87 per cent of the overall growth.

The poor quality of education further reduces the benefits of India's meagre expenditure on schooling. Real expenditure per pupil is one input-based measures of educational quality. Between 1970 and 1989, real expenditure per pupil rose by 355 per cent in the Republic of Korea and by only 14 per cent in India.⁴¹

Output-based measures further reinforce this impression of poor quality of education in India. For instance, tests of cognitive skills show that student skill levels are limited in India compared to HPAEs. A UNICEF Survey⁴² revealed that one-half of fourth grade teachers in India could correctly answer only 80 per cent of the mathematics test for their own students. The national curriculum is often cluttered with too many subjects, leaving less time available for core subjects. Effective learning time is extremely scarce-teacher and student absentees, unscheduled school closures, and agricultural production schedules make for a highly disruptive learning environment. And the essential tools of learning from textbooks to blackboards -are often missing, as are school buildings themselves.

⁴⁰ World Bank (1993), *The East Asian Miracle : Economic Growth and Public Policy*, (New York : Oxford University Press).

⁴¹ Haq, Mahbub Ul, "*Human Development in South Asia 1997*", (Oxford University Press, Karachi, 1997).

⁴² UNICEF, 1996, *The Progress of Nations 1996*, New York.

Another important difference in educational experience of HPAEs and India lies in technical education. Secondary and tertiary school technical enrolment is 28 per cent in China and 29 per cent in the Republic of Korea, compared to 14 per cent in India.

The HPAEs took their chance on the international markets by adopting outward-looking trade strategies. Growing human capital and increasing access to technological skills enabled HPAEs to manufacture low-tech consumer goods for world markets and to compete aggressively on the basis of low wages, high productivity, and a vigorous export policy. HPAEs maintained macro economic stability by containing budget deficits. It included preferential financing, tax incentives, subsidized infrastructure, and incentives for foreign investment. As a result, the HPAEs increased their share of world exports from 8 per cent in 1965 to 13 per cent in 1980, to 18 per cent in 1990, and to 20 per cent in 1994 (Table 2.8).

Table 2.8

Share of HPAEs exports in World exports

Total Exports (%)	1965	1990	1994
Japan	5.0	9.0	9.1
Four Tigers	1.5	6.7	8.0
South-East Asian NIEs	1.5	2.4	3.3
HPAEs	8.0	18.1	20.4
INDIA	0.6	0.5	0.8

Source : World Bank, *The East Asian Miracle : Economic Growth and Public Policy*, (New York : Oxford University Press); Government of India, *Economic Survey, 1996-97*.

On the other hand, trade strategies in India in the 1960s and 1970s relied a great deal on the export of primary commodities and on industrialization policies which attempted to substitute domestic products for imported goods. Import-substituting industrialization was neither sufficient nor equitable, as quantitative controls led to corruption and rent-seeking behind high-tariff walls. The domestic markets in India failed to provide a stimulus for sustained expansion since the total purchasing power in the economic system was very low, despite its large population. Production patterns also became distorted in favour of goods and services consumed by the elite.

In Asian countries where the monopolistic power of the landowning class is an obstacle to social and economic modernization, land reform is an essential step in loosening the strong hold of landlords on the political and economic system. In East Asia, land reforms also helped create widespread support in rural areas for the overall economic reform process by creating an opportunity for the benefits of future economic growth to be distributed among all sections of the society. The record of land reforms in India has, with a few notable exceptions in the case of Kerala and West Bengal, been dismal.

Another institutional innovation that extended opportunities to all in East Asia concerned the revamping of the credit system. The two vital ingredients for empowering people are education and credit. The first builds human capabilities, while the second enables them to take advantage of market opportunities.

A classical example of successful institutional reform in the financial sector is the government-run postal saving system in Japan, South Korea, Malaysia, Taiwan and Singapore. Postal saving schemes were designed to encourage the saving efforts of low-income and rural households. These households were immediately attracted to

the scheme by the low transaction costs associated with a postal delivery system, and the greater security offered by government backing. Longer working hours also meant that rural households could easily deposit money at the post office, even when other financial institutions had closed for the day.

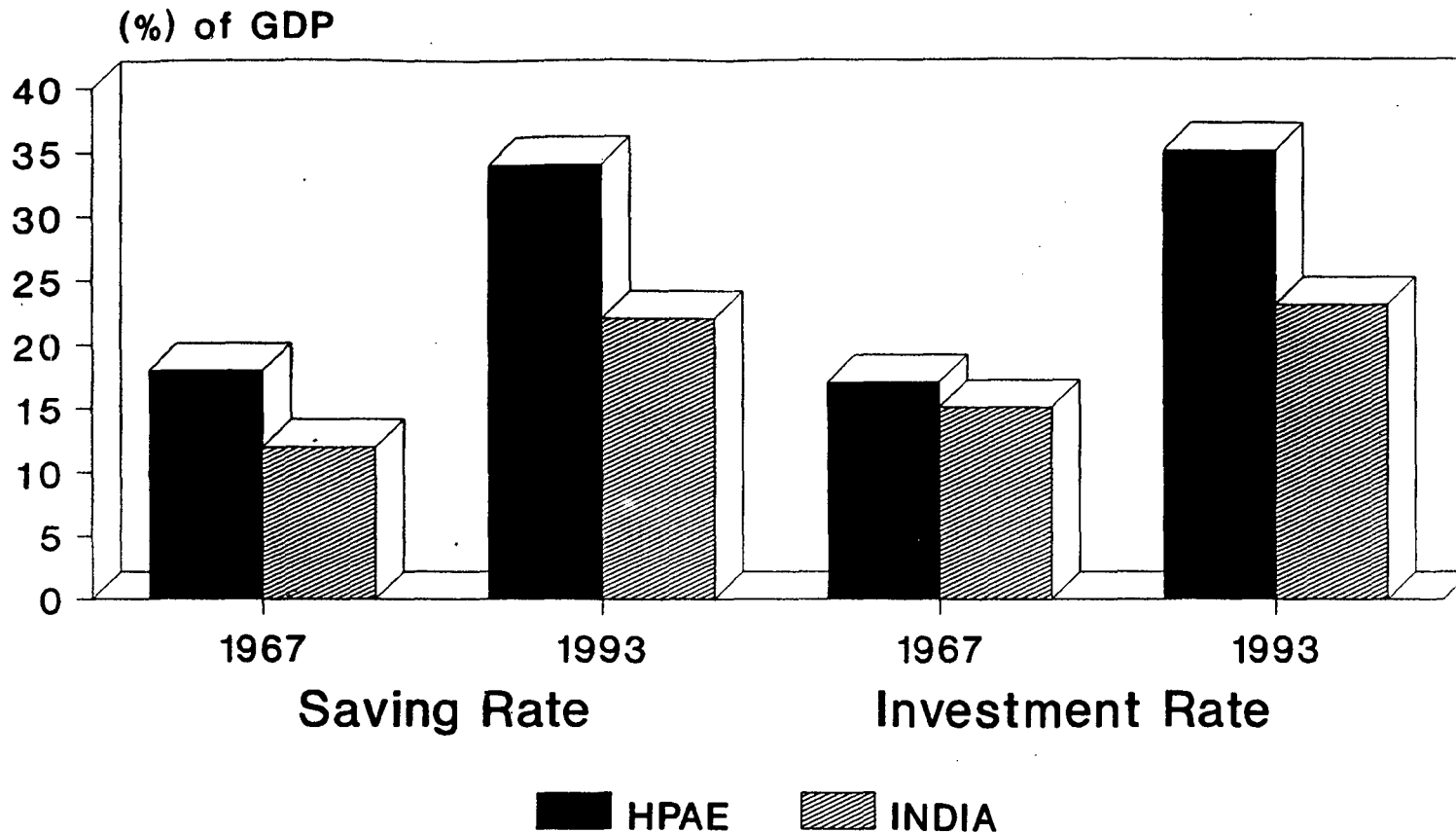
In contrast, the main strategy for credit reform used in India has been nationalizing major banks. India nationalized the major banks in 1969. The result of this reform was that the financial market was dominated by a few very large and inefficient banks, whose size was based not on economies of scale but resulted from the bank licenses.

One of the key stated aims of nationalization was that the government could compel banks to set up branches in rural areas and to extend credits to farmers. However, merely forming government-run banks to open rural branches does not ensure that these branches will be successful. Commercial banks have often failed to operate profitably in rural areas because of their inability to design solutions to the three key features : the problem of screening genuine borrowers from fraudulent loan applicants, the problem of ensuring that borrowers have an incentive to make projects work; and the problem of enforcing loan defaulters to make prompt repayment

In fact, the lending and saving activities of state-owned banks usually serve only a relatively small part of the population in rural areas--loans are often provided only to the wealthy and influential, excluding vast sections of the rural people. Debt forgiveness programmes - where a government announces that farmers are forgiven their past debts - have been documented in India. Essentially, rich farmers who fail to repay are not penalized because the political costs of enforcement are too high, thereby also considerably weakening the incentives for them to use the funds wisely.

Domestic savings and investment have increased dramatically in HPAs between 1960 and 1990 (Figure 2).

FIGURE 2
Saving and Investment



Source: World Bank, World Tables 1995,
Baltimore and London: John Hopkins
University Press.

In, 1967, India's domestic saving was around 13 per cent compared to HPAEs' 18 per cent. Twenty-five years later, the saving rate had risen dramatically to 33 per cent in the HPAEs, when India just managed 21 per cent. HPAEs excellent saving record was helped by a high GDP growth rate and by a fall in the dependency ratio-allowing household to save more as they had to support fewer young or old people.

Low inflation policies in HPAEs reduced price volatility and helped ensure that real interest rates were more predictable. The confidence of depositors in the financial institutions was enhanced by close government regulation of saving institutions, the expansion of the formal banking sector through postal savings schemes and rural branches, and the protection of depositors from the bank defaults.

In India, low rate of growth, high dependency ratio, and double digit inflation rates have limited the savings - generating potential of the government.

*Trends of Income Distribution &
Regional Disparities*

India presents a picture of extreme regional variations, in terms of indicators of economic growth, per capita income, the proportion of literacy rate among different sections of society, gender disparities, total fertility rate, life expectancy at birth etc.. Relatively speaking, some states are economically advanced while others are backward. Even within each state, some regions are more developed while others are almost primitive.

The Constitution adopted by the Indian Parliament after the attainment of the independence, sought to ensure social and economic justice to the Indian people. As Jawaharlal Nehru declared, "Long years ago we made a tryst with destiny, and now the time comes when we shall redeem our pledge". He reminded the country that the task ahead included "the ending of poverty, ignorance and inequality of opportunity".⁴³

There are provisions in the Constitution for ensuring and forstoring inter-personal, inter-social and inter-regional equality. The Constitution guarantees to all its citizens, irrespective of sex, religion, caste or creed, social, economic and political justice and equality of status and opportunity. To quote Pandit Nehru, "Democracy has been spoken chiefly in the past as political democracy, roughly represented by every person having a vote. But a vote by itself doesnot represent very much to a person who is down and out, to a person, let us say, who is starving or hungry. Political democracy, by itself, is not enough except that it may be used to

⁴³ Jawaharlal Nehru's speech at the Constituent Assembly, New Delhi, on 14th August 1947; reprinted in Gopal, Sarvepalli (ed), *Jawaharlal Nehru : An Anthology*_(Oxford University Press, New Delhi, 1983).

obtain a gradually increasing measure of economic democracy, equity and the spread of good things of life to others and removal of gross inequalities".⁴⁴

The Indian Constitution enjoins upon the state to avoid concentration of wealth and means of production in the development process and secure redistribution of material resources.⁴⁵ Article 41 of the Indian Constitution says that "The State shall, within the limits of its economic capacity and development, make effective provision for securing the right to work, to education and to public assistance in the cases of unemployment, old age, sickness, and disablement, and in other cases of undeserved want".⁴⁶

Article 43 provides that the state shall endeavour to secure, by suitable legislation or economic organisation, to all workers, agricultural, industrial or otherwise, work, a living wage, conditions of work ensuring a decent standard of life and full employment of leisure and social and cultural opportunities.⁴⁷ Further Article 46 declares that the State shall promote with special care the educational and economic interests of the Scheduled Castes, Scheduled Tribes and other weaker sections.⁴⁸ Thus the Constitutional provisions aim at removing all types of imbalances to promote all round economic growth and fostering equitable economic development in the various parts of the country.

⁴⁴ Inaugural address by Pandit Nehru at the Seminar on Parliamentary Democracy on 25.02.1956; reprinted in Gopal, Sarvepalli (ed), *no.1*, pp.76-77.

⁴⁵ Art.39, *The Constitution of India*, Government of India, Ministry of Law, Justice & Company : Rajbhasha Khand, New Delhi, 1991, p.13.

⁴⁶ Art. 4, *no.3*, p.14.

⁴⁷ Art. 43, *no.3*, p.14.

⁴⁸ Art. 46, *no.3*, p.14.

Prof. Dubey remarks, "The tragedy of the Indian social situation today is the breach of the social contract embodied in the Constitution and the dismal failure of the people of India to live up to the Constitutional provisions on equality and social justice. A yawning gap between legal and formal equality on the one hand and widening inequalities and disparities on the ground on the other, is staring at us in the face today. On the traditional structure of inequality between men and women, between upper and lower castes, between the urban and rural population is now superimposed a new divide of those who have benefited from the lopsided development process and those who have been left behind and marginalised by this process."⁴⁹

Planning was taken up in India essentially to give economic content to political freedom. Indian planners tried to transform a backward society into a society of equals and provide them, not only with the basic necessities of life--food, cloth, shelter, employment, and living wage--but also with advanced education, scientific and technological skills, medical care, and diverse cultural pursuits of life.

Because of the glaring disparities in India, the planners accepted the importance of balanced regional development ever since the initiation of the planning process in India. In this context, the Second Plan stated, "In any comprehensive plan of development, it is axiomatic that the special needs of the less developed areas should receive due attention. The pattern of investment must be devised so as to lead to balanced regional development. The problem is particularly difficult in the early stages when the resources available are very inadequate in relation to needs. But, as development proceeds and larger resources become available for investment, the

⁴⁹ Dubey, Muchkund (ed), "*Indian Society Today : Challenges of Equality, Integration and Empowerment*", (Har-Anand Publication : New Delhi, 1995).

stress of developmental programmes should be on extending benefits of investment to underdeveloped regions. Only thus can a diversified economy be built.⁵⁰

The Third Plan devoted a separate chapter to the "Balanced Regional Development." It was again emphasised that "balanced development of different parts of the country, extension of the benefits of economic progress to the less developed regions and widespread diffusion of industry are among the major aims of planned development."⁵¹

The approach in the Third Plan was to :

- a) help the states in reducing intra-state disparities, and
- b) initiate new programmes and extend programmes adopted in the previous plans to reduce inter-state inequalities.

The Planning Commission evolved the following criteria to identify the backward areas in all the states :

- (a) per capita income,
- (b) people below poverty line,
- (c) level of industrialisation,
- (d) literacy rates,
- (e) per capita expenditure on health, family welfare, water supply and sanitation,
- (f) per capita expenditure of electricity.

⁵⁰ Government of India, Planning Commission, *Second Five Year Plan*, p.36.

⁵¹ Government of India, Planning Commission, *Third Five Year Plan*, p.142.

The Sixth Plan took into account the need for balanced growth and the necessity to prepare schemes for backward area development on the above criteria. A high level National Committee for the Development of Backward Area (NCDBA) was constituted. The mechanism of area planning and sub-plan approach was promoted to provide an integrated approach to the problems of regional imbalances, so that the area plans could be integrated fully with the national development plan.

The Seventh Plan recognised that the two critical determinants of a region's economic status were agricultural productivity and human resource potential, and that a reduction in inter-regional disparities in these two elements could help greatly in the task of reducing regional imbalances.⁵² As far as raising agricultural productivity was concerned, the Plan laid great stress on increasing agricultural productivity for rice, coarse cereals, pulses and oilseeds, in the eastern region, in the dryland. This shift in agricultural strategy along with area development programmes for drought prone, desert, hill and tribal areas was expected to help raise agricultural productivity in the backward regions and ultimately "help to reduce disparities in per capita income".⁵³

The Seventh Plan envisaged a major programme in human resource development through primary health care, universalisation of elementary education and greater emphasis on minimum needs programmes like water supply, rural roads and rural electrification.

The Eighth Plan (1992-97) states "Although in the Eighties, some signs of improvement in certain less advanced states have been observed, regional disparities continue to exist. Development institutions and organisational capabilities in the

⁵² Government of India, Planning Commission, *Seventh Five Year Plan*, Vol.1, p.44.

⁵³ *Opt. cit*, p.44.

backward regions of the country and the delivery system for development programmes would need to be strengthened to deal effectively with the problem of development and redistributive justice".⁵⁴ Unfortunately, these provisions in the successive plans for the redressal of regional imbalances have remained unimplemented.

In fact, serious regional imbalances have come to the surface during the period of planned economic development since 1950-51. Even though balanced development was strongly endorsed by the Industrial Policy Resolution of 1956 and accepted as one of the principal objectives of the economic planning from the Second Plan onwards, this was not reflected in the choice of projects or allotment of resources.

In fact, the planning mechanism itself accentuated the disparity between the states by having a strong bias in favour of the developed states and neglecting less-developed states. Table 3.1 shows that by and large, the more developed states were favoured and less developed states were neglected in the plan outlay. Punjab and Haryana have always received the highest per capita plan outlays. At the same time, the poorest states like Bihar, Orissa, Uttar Pradesh and Assam have continued to receive the smallest allocation per capita in all the plans. Accordingly, the disparity between the states in India has been widening. The widening disparity in per capita plan outlays between the states has affected the levels of their development.

⁵⁴ Government of India, Planning Commission : *Eighth Five Year Plan (1992-97)*, Vol.1, Ch.1.

Table 3.1

Per Capita Plan Outlays

(Rupees)

	I Plan 1951-56	II Plan 1956-61	III Plan 1961-66	IV Plan 1969-74	V Plan 1974-78	VI Plan 1980-85	VII Plan 1985-90
Haryana	358	481	1,385	1,871
Punjab	175	146	212	316	531	1,179	1,695
Gujrat	58	76	108	204	376	1,037	1,485
Maha- rashtra	37	57	103	199	372	983	1,434
Orissa	56	54	120	113	207	536	897
U.P.	25	32	72	132	237	535	803
Assam	29	57	103	136	190	526	850
Bihar	25	40	67	85	155	456	626

Source : Centre for Monitoring Indian Economy, *Basic Statistics Relating to the Indian Economy*, Vol.2, States.

Table 3.2

Per Capita State Net Domestic Product
(at current prices)

(Rupees)

	1980 - 1981	1988 - 1989	1995 - 1996 [^]
Punjab	2,674	7,624	14,188
Maharashtra	2,435	6,353	13,112
Haryana	2,370	6,233	12,158
Gujrat	1,940	5,304	10,578
Assam	1,284	3,723	5,999
Madhya Pradesh	1,365	3,306	5,845
Orissa	1,314	3,218	5,175
Bihar	917	2,312	3,816
All India	1,595	4,577	8,873

Note : [^] quick estimates.

Source: Government of India, *Economic Survey*, 1996-97.

Table 3.2 clearly shows that the states of the Punjab, Maharashtra, Haryana and Gujrat have continuously maintained a considerable lead in terms of per capita state net domestic product over other States. From 1980-81 to 1995-96, these states have a higher per capita income continuously by a big margin in comparison to other states.

The table also brings out clearly that many states have continuously remained backward in terms of per capita income. The bottom poorest states with per capita income below the national average since 1980-81 to 1995-96 are Assam, Madhya Pradesh, Orissa and Bihar. To highlight inter-state inequalities we can calculate the per capita income of different states as a percentage of per capita income of Punjab - the state with the highest per capita income. It is found from this method that the per capita income of Bihar was only 32.26 per cent of Punjab's per capita income in 1980-81 which declined to 30.32 per cent in 1988-89 and further to 26.89 per cent in 1995-96. The comparable figures for Orissa were 45.76 per cent in 1980-81, 42.20 per cent in 1988-89 and 36.34 per cent in 1995-96 ; for Madhya Pradesh 43.97 per cent in 1980-81, 43.36 per cent in 1988-89 and 41.19 per cent in 1995-96; and for Assam 44.60 per cent in 1980-81, and 42.28 per cent in 1995-96. This shows that as far as per capita income save concerned, the position of some major states vis-a-vis Punjab has deteriorated over time, and regional disparities, instead of being reduced, are actually widening.

In terms of regional concentration of poverty only two states - Bihar and Uttar Pradesh, together accounted for 34 per cent of the total poor population in 1987-88. Another six states - Andhra Pradesh, Madhya Pradesh, Orissa, West Bengal, Tamil Nadu and Rajasthan - accounted for a further 43 per cent of the poor.⁵⁵

⁵⁵ B. Ozler, G. Dutt and M. Ravallion, *A Database on Poverty and Growth in India*, The World Bank, January, 1996.

The initial distribution of industries in India was determined by the historical processes of growth reflected in the interest of the British rulers. As a result, most of the industries got concentrated at a few centres. The pattern continued in the post-independence period as well. In the 1950s, the share of the western region and West Bengal accounted for 63.03 per cent of total persons employed, and 60.41 per cent of value added by manufacture.

This pattern of concentration has not changed substantially during the planning period despite all attempts made at regional dispersal of industries. For instance, as late as in 1989-90, the two states of Maharashtra and Tamil Nadu accounted for 27.3 per cent of factory employment, 31.8 per cent of gross output and 34.6 per cent of value added by manufacture. Maharashtra, West Bengal, Gujrat and Tamil Nadu - the four industrially advanced states having 28.9 per cent of the total population of the country according to the 1991 census, accounted for 49.6 per cent of gross output, 50.7 per cent of value added and 45.8 per cent of employment in factory sector.⁵⁶ The mere fact that approximately half of total output, value added and employment in factory sector is found in these four states alone, while the remaining 21 states and Union Territories contribute the remaining half or less than half, of total value added and total output, is a proof of substantial regional concentration of industries in the four industrially advanced states of Maharashtra, Gujarat, West Bengal and Tamil Nadu.

The Indian economy is beginning to open up in rapidly globalizing world, where international opportunities will depend more and more on the quantum and efficiency of the human capital of the society. The human capital of India, at present, deficient in both its quantity and quality. Indian education is characterised by sharp

⁵⁶ Data obtained from Centre for Monitoring Indian Economy: *Basic Statistics relating to the Indian Economy* (1993), Vol.III, Tables 11.1 to 11.5.

contrasts not only between one part of the country and another but also between males and females, between rural and urban populations and between caste based sub-groups. Such contrasts are the manifestation of the differences in the socio-economic background of the concerned areas / populations.

Table 3.3

Literacy Rate, 1991

States	Literacy Rate	Urban	Rural	Male	Female	SCs	STs
Kerala	89.81	92.25	88.90	93.21	86.17	79.66	57.22
Tamil Nadu	62.66	77.99	54.39	73.75	51.33	6.74	27.89
Karnataka	56.04	74.20	47.69	67.26	44.34	38.06	36.01
Andhra Pradesh	44.09	66.65	35.74	55.13	32.74	31.06	17.16
Madhya Pradesh	44.02	70.81	35.87	58.42	28.85	35.08	21.54
Uttar Pradesh	41.60	61.00	36.66	55.73	25.31	26.85	35.70
Rajasthan	38.55	65.33	30.37	54.99	20.44	26.30	19.44
Bihar	38.48	67.89	33.83	52.49	20.89	19.49	26.78
INDIA	52.21	73.01	44.54	64.13	39.29	37.41	29.60

Source: *INDIA, 1996*, Publication Division.

The table 3.3 above shows that Kerala with 89.81 per cent literacy rate continues to occupy the first rank among the Indian States. It is followed by Tamil Nadu and Karnataka. The literacy rates of other states i.e. Andhra Pradesh, Madhya Pradesh, Uttar Pradesh, Rajasthan and Bihar are less than half that of Kerala. These states failed to reach the national average of literacy which is 52.21. In terms of rural and urban literacy rates, the performance of the first three States - Kerala, Tamil Nadu and Karnataka, is above the national average. Andhra

Pradesh, Madhya Pradesh, Uttar Pradesh, Rajasthan and Bihar have failed to compete with the leading states.

Similar inequalities exist between states with regard to the literacy of male and female population. Kerala continues to be the state where male and female education weighs equal. Rajasthan is the most backward state in terms of female education. Bihar's position is almost similar. What is more alarming is that the states are not giving equal attention to female education.

Trends of literacy among SCs and STs are also different in different states. In Bihar only 19.5 per cent of SCs and 26.8 per cent of STs are literate as compared to 79.66 per cent of SCs and 57.22 per cent of STs in Kerala. The literacy rates among SCs and STs are also at low levels in Rajasthan, Madhya Pradesh and Andhra Pradesh. Actually Table 3.3 clearly shows that only Kerala, Tamil Nadu and Karnataka are doing well in urban-rural, male-female and SCs-STs literacy rates, compared to other states.

Table 3.4 presents the percentage of households having safe drinking water and electricity in rural and urban areas and its distribution among scheduled castes and scheduled tribes in different states.

This table shows that Punjab, Himachal Pradesh, Haryana, Tamil Nadu and Gujarat are far ahead, in terms of availability of safe water and electricity to its people, than Bihar, Andhra Pradesh, Madhya Pradesh, Assam and Orissa. The latter states failed to reach the national average not only in safe water supply but also in having electricity. Bihar's performance in distribution of electricity to its rural, SCs and STs population is extremely low. Orissa and Assam are also not doing much better.

Table 3.4

**Percentage of Households Having
Safe Drinking Water and Electricity**

STATES	WATER				ELECTRICITY			
	Rural	Urban	SCs	STs	Rural	Urban	SCs	STs
Punjab	92	94	90	-	77	94	67	-
Himachal Pradesh	75	92	73	72	86	96	81	72
Haryana	67	74	72	-	63	89	49	-
Tamil Nadu	64	87	71	50	50	77	30	30
Gujrat	56	73	74	41	56	83	65	32
Bihar	49	73	55	31	05	59	07	6
Andhra Pradesh	46	79	57	50	37	73	24	13
Madhya Pradesh	43	64	55	42	34	72	49	29
Assam	35	63	45	35	12	63	16	7
Orissa	34	62	43	35	17	62	14	7
INDIA	55	81	63	43	31	77	28	23

Source : CMIE, *India's Social Sectors*, Feb., 1996.

The continuously widening gulf between the rich and the poor of the country also poses one of the most serious non-military threats to its security. India lacks data which may be used for estimating income distribution directly. Income distribution in different years/periods during the 1950s was estimated by F.H.Lydall⁵⁷, N.S. Iyengar

⁵⁷ F.H. Lydall, "The Inequality of Indian Incomes", *Economic Weekly*, Special Number, June 1960.

& M.Mukherji⁵⁸, and the RBI.⁵⁹ During the 1960s, important surveys were carried out by the NCAER (National Council of Applied Economic Research) who estimated personal income distribution. The World Bank and International Labour Organisation jointly estimated the level of income inequalities in the 1980s. In 1987, N.S. Iyengar and P.R. Brahmananda⁶⁰ calculated the distribution of nominal per capita households' private consumption expenditure. Actually no time series is available to indicate the pattern of distribution over the years. Though the different estimates referred to above suffer from various data problems, yet their results are strikingly similar to what the World Bank estimated for 1983 and 1989-90.⁶¹

The World Bank estimates show that in 1975-76, the lowest 20 percent households accounted for 7 percent of the household income while the highest 20 percent accounted for 49.4 percent (Table 3.5).⁶²

⁵⁸ N.S. Iyengar and M. Mukherji, "*A Note on the Derivation of size Distribution of Personal Household Income from a Size Distribution of Consumer Expenditure*" (Mimeo). June, 1961.

⁵⁹ RBI, "Distribution of Income in the Indian Economy: 1953-54 to 1956-57", *RBI Bulletin*, Sept. 1962.

⁶⁰ N.S. Iyengar and P.R. Brahmananda, "Estimated Distribution Parameters and their Behaviours", in P.R. Brahmananda and V.R. Panchmukhi (eds), *The Development Process of the Indian Economy*, (Himalaya Publishing House, Bombay, 1987).

⁶¹ World Bank, *India: Poverty, Employment and Social Sectors, 1989*, Washington, D. C.

⁶² For 1975-76, World Bank, *World Development Report, 1988*, (Oxford University Press, New York, 1987).

Table 3.5

**Percentage Share of Households Income/Expenditure by
Percentile Groups of Households (1975-76,1983,89-90).**

Percentile groups of households	Percentage share of household income 1975-1976	Percentage share of household expenditure 1983	Percentage share of household expenditure 1989-1990
Lowest 20%	7.0	8.1	8.8
Second Quintile	9.2	12.3	12.5
Third Quintile	13.9	16.3	16.5
Fourth Quintile	20.5	22.0	21.3
Highest 20%	49.4	41.4	41.3
Highest 10%	36.6	26.7	27.1

Source : World Bank, *World Development Report*, (New York, Oxford Univ. Press, 1995).

The World Bank's estimates for 1983, and 1989-90 (Table 3.5) relate to distribution of household expenditure. It is clear that between 1983 and 1989-90 there was very little change in the expenditure distribution. In 1983, the top 20 per cent households had accounted for 41.4 per cent of expenditure. In 1989-90 also their share in household expenditure remained the same (41.3 per cent). However, the share of lowest 20 per cent of households rose from 8.1 per cent in 1983 to 8.8 per cent in 1989-90 at the cost of the fourth quintile group of households. The inequality of incomes both in 1983 and 1989-90 must have been far greater than expenditure inequalities because the first and second quintile groups of households constituting the households below the poverty line could do no savings, the highest 20 per cent households did the country's most of the savings. The large and growing chasm between the rich and the poor is retarding and obstructing the process of orderly and balanced growth of the economy.

While growing up in India is a perpetual struggle, to be a women in this region is to be a non-person. The discrimination against women in India takes several forms. From the cradle to the grave, there is a record of preferential treatment for boys - in provision of food, nutrition, health care, education and a litany of violence against women : from infanticide to child abuse, to rapes, to dowry, deaths to pyreburning. In India's rural Punjab, 21 per cent of girls in low-income families suffer severe malnutrition, compared with 3 per cent of the boys in the same families. About 80 per cent of pregnant women in India are afflicted with anaemia, contributing to extremely high rates of maternal mortality. Neglect of women in India cannot be related only to their low economic position in the society. It is a pervasive phenomenon. For example, the Punjab is the richest state in India but it has the lowest ratio of women to men.

The economic opportunity for women are fairly limited. Only 34 per cent of the female population is economically active in India, compared to the average of 50 per cent in the developing world. Women earn only one-fifth of the total income. Only 2 per cent of women were administrators and managers in India in 1992.⁶³

Women are marginalized politically also. In 1996, only 8 per cent of parliamentary seats were occupied by women, compared to an average of 11 per cent in the developing world.⁶⁴

For the most part, the neglect of women can be related to their perceived low status in society. There is an overwhelming preference for the male child in India - a phenomenon observed all over the world, of course, but carried to an extreme in

⁶³ Haq, Mahbub Ul, *Human Development in South Asia*, (Karanchi : Oxford University Press, 1997).

⁶⁴ *Ibid.*

Indian society, resulting in the outnumbering of women by men. The biological norm in all societies is that women live longer than men and that is why, there is an overall ratio of 1060 women to 1000 men. In India, this ratio is reversed : there are only 929 women to every 1000 men. The missing women of India are a telling indictment of the neglect of the basic rights of the women.

*Balance of Payment Position
and External Debt Burden*

Since the beginning of the Second Five Year Plan, India has experienced balance of payments (BOP)⁶⁵ problems of varying intensity. India entered the decade of the ninties with large internal and external financial imbalances which made the economy highly vulnerable to exogenous shocks. These imbalances were exacerbated by the Gulf crisis and the uncertain and disturbed situation in the domestic polity during 1990-91 and the first quarter of 1991-92. The Finance Minister in his budget speech for 1991-92, described the economic crisis as being acute and deep and observed that 'we have not experienced anything similar in the history of independent India'. These developments contributed to erosion of international confidence in India. The international credit rating agencies started placing India either under watch or downgraded credit rating of Indian entites between August, 1990 and July, 1991. There has been some improvement in India's credit rating after the subsequent buoyancy in the economy; but India's credit rating even now remains less than optimal.

Trends in the BOP during the 1980's

Table 4.1 summarises trends in the key variables as a proportion of GDP, during the 1980s (Sixth and Seventh Five Year Plan periods). The table shows that both the trade balance and current account balance were in deficit throughout this period.

⁶⁵ BOP, as described by Reserve Bank of India - is a systematic record of all economic transactions between the 'residents' of a country and the rest of the world. It presents a classified record of all receipts on account of goods exported, services rendered and capital received by 'residents' and payments made by them on account of goods imported and services received from the capital transferred to 'non-residents' or 'foreigners'.

Table 4.1

Key Indicators of India's BOPs

(as percent of GDP)

Year	Exports	Imports	Net - Invisibles	Trade Balance	Current Account Balance
1980-81	4.8	9.2	3.2	-4.4	-1.2
1981-82	4.9	8.7	2.4	-3.8	-1.5
1982-83	5.1	8.4	2.0	-3.2	-1.3
1983-84	4.9	7.7	1.7	-2.8	-1.1
1984-85	5.2	8.1	1.7	-2.9	-1.2
1980-85 (Average)	5.0	8.4	2.2	-3.4	-1.3
1985-86	4.4	8.1	1.4	-3.7	-2.3
1986-87	4.5	7.7	1.2	-3.2	-2.0
1987-88	4.9	7.7	0.9	-2.8	-1.9
1988-89	5.3	8.9	0.8	-3.5	-2.7
1989-90	6.4	9.3	0.6	-2.9	-2.3
1985-90 (Average)	5.1	8.3	1.0	-3.2	-2.2

Source: Government of India, *Economic Survey*, Various Issues.

The balance of trade deficit increased to 3.7 percent of GDP in 1985-86 due to a decline in volume growth in exports and showed a declining trend during 1986-87 and 1987-88, due to an acceleration in volume growth of exports and a contraction in volume growth of imports. Net earnings on the invisible account fell

from an average of 2.2 percent of GDP during the Sixth Plan period to less than half, at 1.0 percent of GDP, in the Seventh Plan. Erosion of net invisible earnings thus exacerbated the current account deficit during the Seventh Plan. As a percentage of GDP, the current account deficit averaged around 2.2 percent during the Seventh Plan as against the projection of 1.6 percent and the average of 1.3 percent during the Sixth Plan period.

The large and sustained current account deficits in the BOPs had to be financed by substantial inflows of capital in the form of loans from multilateral and bilateral sources, commercial borrowings and inflow of funds from Non-Resident Indians.

During the periods 1980-85 and 1985-90, the average cost of multilateral assistance had been rising as Official Development Assistance had declined. Net availability of assistance from bilateral concessional sources had also been declining. Though annual commitment of assistance is still quite high, most of it is tied to projects and actual utilisation has been slow. These factors have led to larger reliance on external commercial borrowings and non-resident deposits.

The budget speech of the Finance Minister during this period reflects a similar concern about the balance of payments problem. While presenting the budget for 1985-86, the then Finance Minister observed : "Some of the factors that have worked in our favour in the Sixth Plan will not operate with the same vigour in the Seventh Plan. Oil production, which had increased by about 18 million tonnes during the last five years, may not increase at the same rate in the future. Repayments of the International Monetary Fund Loan and external commercial borrowings would also increase sharply..... there can be little doubt that if we have to reconcile a manageable balance-of-payments situation with a tolerable debt profile, export earnings would

have to finance a larger and larger proportion of our imports so that the deficit in our balance of payments is reduced".⁶⁶

Balance of Payments development since 1990

Table 4.2 summarises trends in the key variables as a proportion of GDP during the 1990s.

Table 4.2

Key Indicators of India's BOPs

(as percent of GDP)

Year	Exports	Imports	Trade Balance	Invisibles Balance	Current Account Balance
1990-91	6.2	9.4	-3.2	0.1	-3.1
1991-92	7.3	8.3	-1.1	0.7	-0.4
1992-93	7.8	9.8	-2.0	0.2	-1.8
1993-94	8.8	9.7	-0.9	0.5	-0.4
1994-95	8.8	10.5	-1.7	0.8	-0.8
1995-96	9.9	12.6	-2.7	1.1	-1.6

Source : Government of India, *Economic Survey, 1996-97*.

The worsening in the current account deficit in 1990-91 was partly on account of the Gulf War and the consequent higher prices of petroleum, oil and lubricants

⁶⁶ Government of India, *Budget Speeches of Union Finance Ministers, 1947-48 to 1990-91* (New Delhi : Ministry of Finance, 1990), p.539.

(POL) imports. The worsening in the current account deficit in 1990-91 came at a time when the ability to finance the deficit had weakened massively. Political uncertainty at home, coupled with rising inflation and widening fiscal deficits, led to a loss of international confidence. External commercial borrowings dried up and there was an outflow from Non-Resident Indian deposits. This forced substantial recourse to the IMF with net borrowings of US \$ 1.2 billion and a large reserve drawdown of US \$ 1.3 billion.

The situation continued to deteriorate in the first quarter of 1991-92. In October, 1991, the Government negotiated a stand by arrangement with the IMF for a total loan of US \$ 2.3 billion over a 20 month period i.e. up to May, 1993. This was followed by the negotiation of a Structural Adjustment Loan from the World Bank in 1991.

The year 1993-94 saw a significant improvement in the country's balance of payments. Exports increased by 20 percent. The trade deficit was only 0.9 percent of GDP which was less than half of 1992-93. India received its last tranche of IMF stand by arrangement in June, 1993, which amounted to US \$ 325 million.

The balance of payments position was further consolidated in 1994-95. The build up in foreign currency reserves, which reached a level of US \$ 19.6 billion at the end of January 1995, continued at the same pace as in the second half of 1993-94. There was a sharp decline in the trade deficit from about US \$ 4.4 billion in 1992-93 to about US \$ 1.3 billion in 1993-94.

The deficits in trade and current account of the balance of payments widened significantly after 1993-94. The current account deficit, as a proportion of GDP, rose from 0.4 percent in 1993-94 to 1.6 percent in 1995-96.

Foreign Exchange Reserves

India's foreign exchange reserves since 1980-81 and the comprising foreign currency assets, gold holdings of the Reserve Bank of India and the Special Drawing Rights (SDR), are summarised in the table 4.3.

India's plans have involved huge adverse balance of payments. On one side, there has been considerable increase in imports, particularly of machinery, and of petroleum, oil and lubricants. On the other hand, exports have not increased correspondingly, among others, because of the increased demands within the country due to a rapid rise in population, incomes and standard of living of certain sections of the population.

Table 4.3

Foreign Exchange Reserve

Year	Foreign Reserves (US \$ Million)	Import Cover* (no. of months)	Current Payment Cover** (no. of months)
1980-81	5850	4.3	3.8
1985-86	5972	4.1	3.5
1990-91	2236	1.0	0.8
1991-92	5631	3.2	2.3
1992-93	6434	3.3	2.5
1993-94	15068	7.2	5.4
1994-95	20809	7.8	5.8
1995-96	17044	4.9	3.8

Source: Government of India, *Economic Survey, 1996-97*.

* based on foreign exchange reserves of respective year-end levels.

** current payments represent sum of merchandise imports and invisibles payments.

In 1980-81, India's foreign exchange reserve position was good enough to cover approximately 4-5 months' import reserve. The years 1990-91 and 1991-92 were exceptions when the foreign exchange reserves declined to dangerously low levels. The heavy drawdown of reserves in nominal terms reflected a combination of worrisome trends in current and capital side of BOP transactions.

Foreign exchange reserves (FERs) stood at US \$ 5631 million at the end of March, 1992. By the end of March, 1993, FERs had reached US \$ 6434 million. But this growth is not very significant because the FERs were capable of covering 4.3 months of imports as compared to only 3.3 months of imports in 1992-93.

Since 1993-94, FERs have registered a significant improvement. FERs rose to US \$ 15,068 million in 1993-94. They continued to rise rapidly in 1994-95 when they reached the level of US \$ 20,809 million. A major contribution to the improvement in FERs is assistance from international lending institutions. This contribution has however come under heavy conditionalities like the devaluation of the rupee, import tariff reductions, hike in excise duties and cuts in public expenditure.

External Debt

The growing payments, deficits and external borrowings after the mid-eighties coincided with a deterioration in the quality of external financing. Table 4.4 provides a picture of India's external debt since 1980-81. The table shows that India had a mammoth external debt of Rs. 284.20 thousand crores in 1993-94 (equivalent to US \$ 90.72 billion), 2904.04 thousand crore rupees (equivalent to US \$ 92.69 billion) in

1994-95 and Rs. 311.68 thousand crores in 1995-96 which is equivalent to US \$ 99.08 billion (Table 4.4).

The external debt stood at Rs. 19.47 thousand crores in 1980-81. It is clear that it rose by more than sixteen times in a span of fifteen years.

Table 4.4

India's External Debt*
(1980-1996)

	'80-81	'85-86	'89-90	'91-92	'92-93	'93-94	'94-95	'95-96
Period and Outstanding debt stock								
US \$ billion	23.50	37.35	58.63	85.33	89.99	90.72	92.69	99.08
Rs. Thousand Crore	194.70	45.96	100.37	250.03	280.63	284.2	290.04	311.68
Change in debt stock								
US \$ billion	-			9.38	4.65	0.74	1.97	6.39
Debt Service Payments								
US \$ billion	1.41	2.61	6.02	8.13	8.09	8.32	10.9	12.37
Debt as per cent of GDP	13.7	17.4	21.5	41.1	39.9	36.1	32.7	28.7
Debt Service as percent of Current receipts	9.3	16.7	25.2	29.8	30.3	24.8	27.5	25.7

* This does not include debt to Russia. Debt owed to Russia denominated in Rupees is Rs.8233 crore, and converted at current exchange rates payable in exports.

Source : Government of India, *Economic Survey*, Various issues.

In dollar terms, India's external debt was US \$ 23.50 billion in 1980-81 and it rose to US \$ 99.08 billion in 1995-96, i.e., about 4 times. Thus, in rupee terms, the external debt rose by about sixteen times and in dollar terms by more than four times over the fifteen year period (1980-95).⁶⁷

The total external debt as a percentage of GDP rose to a figure as high as 41.1 per cent in 1991-92 and was around 40 per cent in 1992-93. Debt service payments hovered around US \$ 8.2 billion per annum during the period 1990-91 to 1995-96.

Various difficulties and constraints arise as a result of external debt. The most serious of these problems is the regular drain on resources which can be utilized for development purpose. Heavy debt & debt payment burden enhance external dependence on countries and institutions.

⁶⁷ The relatively much larger increase in rupee terms is due to the sharp depreciation in the value of the rupee in the eighties and the devaluation in 1991.

Marginalisation & Destitution

A common characteristic of the developing countries is the widespread prevalence of extreme poverty as a result of which millions of people living in these countries suffer from severe and chronic deprivation. India is no exception. After 45 years of planning, India is still one of the poorest countries in the world. Every third person of the world's poor is an Indian, and the number is on the increase.

Reduction of poverty has received attention in all the Five Year Plans in India, specially so in the past decade. But given the extent of poverty in India, there has only been a marginal improvement in the situation which has not contributed significantly to the reduction of poverty. A study of the poverty levels shows that in the last two decades, in terms of the percentage of the population, poverty is showing a decline but the absolute number of the poor people has been increasing (Table 5.1).

Table 5.1

Poverty in India

Year	Poor as percent of total population	Number of poors (in millions)
1970-1971	52.4	301.8
1983	45.5	333.3
1984-1985	42.3	336.1
1987-1989	39.6	310.1
1989-1990	34.3	281.8
1990-1991	34.1	297.9
1991-1992	37.8	354.8

Source: World Bank (1995), *Economic Development in India, Achievements and Challenges*, Washington D.C..

The table gives an indication of the trend over 20 years. It shows that the overall percentage of the poor fell from 52.4 per cent in 1970-71 to 43.3 percent in 1984-85 and further it declined to 37.8 percent in 1991-92. However, in terms of absolute number, it has increased from 301.8 millions in 1970-71 to 354.8 millions in 1991-92. There was a decline in the absolute number of the poor in 1987-89 and 1989-90, when it was 310.10 millions and 281.8 millions respectively. But the absolute number of the poor, was at 354.8 millions in 1991-92, touched the highest mark since 1970-71.

Unemployment is the root cause of poverty and inequality today. Unemployment and low productivity employment, together with their fall out in the shape of poverty, income inequality and the denial of even minimum development opportunities to large identifiable subsets of Indian population, have become one of India's most enduring socio-economic problems.

Unemployment is a violation of basic human rights. The unemployed are among the most frustrated, impatient and restless lot in a society. It is not a mere co-incident that a world-wide increase in violence is occurring side by side with an increase in the intractability of the unemployment problem.⁶⁸ The problem of unemployment has contributed a lot to violence, be it the naxalite movement, the militancy in the Punjab and Kashmir or the insurgency in the North-East. The problem of ethnic conflicts in many parts of the world has partly been fed by unemployment or the fear of losing one's job.⁶⁹

⁶⁸ Dubey, Muchkund, (ed), *Indian Society Today Challenges of Equality, Integration and Empowerment*, (Har-Anand Publications : New Delhi, 1995).

⁶⁹ Mandal, Nityanand, "Unemployment and Social Development in India" in Dubey, Muchkund, No.1, pp. 92-93.

The unemployment problem amongst educated youth is also an important contributing factor to separatist violence. Kohli argued that the presence of unemployed, educated Sikh youths was an important factor in the insurgency in the Punjab.⁷⁰

Table 5.2

Labour Force and Employment in the Indian Economy

Years	Labour Force (million)	Employment (million)	Unemployment (million)	Unemployment Rate (%)
1990-91	356	345	11	3.1
1991-92	364	347	17	4.7
1992-93	372	353	19	5.1
1993-94	380	359	21	5.5

Source : CMIE, *Basic Statistics Relating to the Indian Economy*, August, 1996.

Table 5.2 shows an increasing trend of unemployment since 1990-91. It is seen from this table that unemployment rose sharply from 11 million in 1990-91 to 17 million in 1991-92 and further to 21 million in 1993-94. The rate of unemployment which was 3.1 per cent in 1990-91 rose to 5.5 per cent in 1993-94.

The supply of food to meet nutritional requirements is one of the important indicators which reflect upon the core dimension of poverty. The daily calorie supply, that is 2400 calorie per person in rural areas and 2100 in urban areas, fell

⁷⁰ Kohli, Atul *"Democracy and Discontent : India's Growing Crisis of Governability"* (Cambridge : Cambridge University Press, 1991), p.355.

below the requirement. Child malnutrition, as measured by percentage of those below 5 years of age who are under-weight, was 53 per cent, in 1994, which constituted 62 millions malnourished children.⁷¹

The accessibility to health services is also quite poor in India. The number of people per physician at 2439 in 1991 was still quite high. The percentage of births attended by health personnel was quite low, that is, 33 percent in 1991.⁷²

One of the consequences of inadequate food and nutrition supply and health facilities is higher infant mortality rate, higher under five mortality rate, disability among children, and relatively lower life expectancy at birth.

About 85 million children in India have never seen the inside of a school. Only half of the total number of school age children enrol in schools. Of these, 42 percent drop out before reaching grade V.⁷³ While many children are forced to leave school due to family circumstances and the compulsion to provide economic support to the household at the tender age, one of the main reasons for the high rate of school drop-outs in India is the poor quality of the education the children receive.

Even more worrying than the state of education is the fact that there are an estimated 55 million children in India employed as child labours⁷⁴---the largest

⁷¹ UNICEF, *The State of the World's Children 1996* (New York : Oxford University Press, 1996).

⁷² *Ibid.*

⁷³ UNICEF, 1996, *No. 4*.

⁷⁴ *Ibid.*

child labour force in the world-working in inhuman conditions and for paltry wages.

Another shocking problem in India is the sexual exploitation of children for profit. Child prostitution is a virtually invisible form of abuse. Every day more and more children in the country fall victim to it. In a survey of six urban centres by the Central Social Welfare Board in 1991, 15 per cent of sex workers were found to be children at the time of entry. 71 per cent of the prostitutes were illiterate, and 44 per cent cited poverty as their reason for entering prostitution.⁷⁵ These exploited children have to face both the physical dangers of violence and torture and the medical dangers of contracting HIV or AIDS.

The situation in India, so far as social security is concerned, is characterised by lack of a policy. So, old age people, workers, including women and children are suffering. There are a variety of schemes providing social security type of benefits or protection. But taken together they are utterly inadequate. Besides, they have been framed piecemeal and do not conform to any over all plan or design.

Actually, social security and work and income are closely related and interlinked. Without an adequate social security support, the work ability of a worker decreases. For example, without adequate health care, his or her ability to do manual work decreases; without a proper house, the housebased workers are not able to work during rainy season; without proper childcare, the mother is unable to devote her full attention to work and also to the child.

⁷⁵ Government of India, *Child Prostitution in the Twilight : A Status Report*. (India: Department of Women and Child Development, 1994).

There has been a marginalisation of women at different levels. The broad process of development has not only marginalised women workers who are peasants, artisans, dalits and tribals, of their traditional work and occupations but has also failed to reintegrate these women into the mainstream of the state economy. Nirmala Banerji observes that technological improvement has an adverse effect on female labour force participation. Modernisation has increasingly marginalised the women workers.⁷⁶ She points out that in regions where new agricultural technology has gained ground there is clearly an established pattern of casual female operations.⁷⁷

Marginalisation of women is manifested in different forms. These are : firstly, exclusion of women from productive employment, either in the form of a decline in the overall work participation rates of women or a decline in their share in wage and salaried employment; secondly, concentration of all working women in the informal sector or in the unpaid categories; thirdly, segregation of women in certain type of jobs which are low in the occupational hierarchy and are low paying and low status; finally, economic inequality reflected through wage differentials and casualisation of female labour force. Still another form of manifestation of women's marginalisation is the lack of decision-making power of women in the economic development.⁷⁸

⁷⁶ Banerji, Nirmala, Modernisation and Marginalisation, *Social Scientist*, Vol. XIII, No.10-11, Oct-Nov., 1991, p.49.

⁷⁷ *Ibid*, p.61.

⁷⁸ Scott, A.M., Women and Industrialisation : Examining the Marginalisation Thesis, *Journal of Development Studies*, Vol.22, No.4, 1989.

Trends in work participation rates by sex and residence are shown in Table 5.3. The table indicates that the work participation rates have tended to decline since 1983. The work participation rates for urban females are much lower, roughly one-half of the work participation rates observed for rural areas. The ratio of females to male workers participation rates shows a steady decline from 0.62 in 1983 to 0.58 in 1990-91.

Table 5.3

**Work Participation Rates
by Sex & Residence**

Years	Rural Males	Rural Females	Ratio of Females to Males	Urban Males	Urban Females	Ratio of Females to Males
1972-73	54.5	31.8	0.58	50.1	13.4	0.27
1977-78	55.2	33.1	0.60	50.8	15.6	0.31
1983	54.7	34.0	0.62	51.2	15.1	0.29
1987-88	53.9	32.3	0.60	50.6	15.2	0.30
1990-91	55.3	29.2	0.53	51.3	14.3	0.28

Source: Sarvekshana *special number*, September, 1990 and Sarvekshana *58th Issue*, Jan-March 1994.

The degree of casualisation of labour is taken as an index of marginalisation since casualisation is associated with insecurity of employment. Distribution of casually employed by activity status, by sex and residence is shown in Table 5.4.

Table 5.4

**Percent Distribution of Casually Employed by
activity status, Sex and Residence**

Status	1972-1973	1990-1991
Rural Males Regular Employees (RMRE)	12.1	12.8
Rural Males Casual Labour (RMCL)	22.0	31.5
Ratio of RMCL to RMRE	1.84	2.5
Rural Females Regular Employees (RFRE)	4.1	3.0
Rural Females Casual Labour (RFCL)	31.4	37.6
Ratio of RFCL to RFRE	7.75	12.53
Urban Males Regular Employees (UMRE)	50.7	44.2
Urban Males Casual Labour (UMCL)	10.1	15.1
Ratio of UMCL to UMRE	0.20	0.34
Urban Females Regular Employees (UFRE)	27.9	25.9
Urban Females Casual Labour (UFCL)	23.7	25.1
Ratio of UFCL to UFRE	0.85	0.97
Rural Ratio of Female CL to Male Casual Labour	1.43	1.19
Urban Ratio of Female CL to Male Casual Labour	2.35	1.66

Source : Sarvekshana, *special number*, September 1990, and Sarvekshana, *58th Issue*, Jan.-March 1994.

The degree of casualisation is found to be more in the case of rural females as compared to rural males during the 20 year period from 1972-73 to 1990-1991.

There were 59.1 percent males in agricultural occupations and 77.6 percent of females were occupied in agriculture during 1987-88. Female participation in the non-agricultural sector is about half of male participation. The ratio of females to males is 0.55. (Table 5.5).

Table 5.5

**Occupational Distribution of Males
and Females in Rural & Urban Areas for 1987-1988.**

(per cent)

Occupation	Male	Female	Ratio of Females to Males
Agriculture	59.1	77.6	1.31
Non-agriculture	40.9	22.4	0.55

Source: Sarvekshana, *special number*, September, 1990.

The benefits of the emergence of non-agricultural occupations have gone much more to males than to females. The examination of male-female wage rates indicates that women are forced to choose low paid occupations. Even when women shift to non-agricultural occupations, they shift to jobs at much lower wage rates (Table 5.6).

Table 5.6

**Wage Rates of Age Group (15-59 years) by Sex
and Occupation in Rural Areas for 1987-88.**

(Rupees)

Occupation	Male	Female	Ratio of Females to Males
Cultivator	10.82	7.20	0.66
Non-agricultural manual work	15.69	9.05	0.58

Source : Sarvekshana, *special number*, September, 1990.

The above analysis clearly brings out the marginalisation of women in the Indian society today.

Colonialism exemplified exploitation among the depressed classes or caste, such as the shudras, adivasis, panchamas and the minority communities of the artisans and craftsmen. Dr. Ambedkar identified dalit peasants as the most exploited group.

The control and exploitation of natural resources, and fiscal and economic policies destructive of the traditional rural and urban economy left the poorest and the weakest sections of the Indian society, such as the depressed castes, peasants, labourers and tribal groups, totally pauperised.

While marginalised groups have significant achievements to their credit in educational and cultural areas, since independence, as regards economic and social mobility, there is cause for concern. Take for instance the SC's. Political empowerment through reservation of constituencies, removal of social and cultural disabilities through legislation and protective discrimination in education, employment in state services, and their overall economic, educational and social development have contributed to their mobility in significant measure. But their occupational mobility has been relatively low. The majority of them (above 70 per cent) are marginal farmers; about 12 percent are landless and only 0.28 per cent can be categorized as 'large farmers'.⁷⁹

⁷⁹ National Sample Survey, *Round 48*, 1992.

The role of caste is very detrimental to the progress of the untouchables. While analysing the caste-class tie-up, Ramakrishna Mukherji observes that "caste riots are frequent in those areas where the caste-wise social deprivations are manifestly co-related with the class-wise economic deprivation such as, in Bihar, Maharashtra, Tamil Nadu etc.."⁸⁰ In June, 1996, in Maharashtra, riots began on the question of the statue of Dr. Baba Saheb Ambedkar. The conflict took place between the dalits and the non-dalits. The movement provoked violence, including the killing of people, molestation and rape of Harijan women, burning of Harijan houses and huts, pillaging their bastis etc.. Actually incidents of atrocities due to land disputes, payment of wages at lower rates and forced labour have become a routine matter in Bihar, Uttar Pradesh, Maharashtra, Tamil Nadu, Rajasthan etc..

The resurgent movements of tribes and dalits and continuing atrocities against them show that in spite of constitutional provisions, these marginal groups have failed to get their due status and position in the Indian society.

⁸⁰ Mukherji, Ramkrishna, 'Realities of Agrarian Relations in India, *Economic and Political Weekly*, Vol. XVI, No.4, 1981.

Too often the issue of security has been analysed in terms of power relations between states and military defence against external threats. It has also been looked at from a western historical perspective, that is the security of the state mainly from external military threats and not the security of the people or the threats of a non-military character.

The third world countries, most of whom achieved independent statehood after the Second World War came to perceive security in western perspectives and like many colonial legacies, they inherited this concept too.

The post-war world order and the deliberate transfer of many unresolved inter-state problems by the colonial powers in the wake of the process of decolonisation, are the factors which helped the penetration of the western military dominated security concept into the third world. This western perception of security saw almost all third world countries bent on developing and renovating their war machines and avoiding and ignoring the discussion of domestic factors determining security.

In the past Cold War era, there is a serious rethinking on the the earlier concept of security. Nations have started putting greater emphasis on the multi-dimensional character of security. Today, a nation can be said to enjoy security only when it is economically and technologically on a sound footing, politically stable and socially and culturally, cohesive.

In the contemporary age, the importance of non-military and diplomatic methods in tackling security problems has increased above all because of the horrid implications of the nuclear war.

The precipitate economic and political decline of the Soviet Union, the rise of Europe-particularly the consolidation of the European community as an

economic and political entity, emergence of Japan and Germany as economic powers, and accretion in China's economic and military strength, are factors which have created independent centres of power. It means a reduction in the intensity of global rivalry for influence.

The defeat of Communism as an alternative ideology for advanced industrial society means that the great powers are less ideologically divided among themselves. This further reduces political and military incentives for competitive intervention in the periphery.

One immediate consequence of the end of the Cold War is to lower the value of the periphery countries as either ideological spoils or strategic assets in the great power rivalry. In a new security arena there is little or no ideological or strategic incentive for great power to compete for the Third World allegiance.

The end of the Cold War has opened up boundary questions in a rather major way. This has posed a much greater threat to the security of the Third World than to that of the major powers. This is because it is mainly in the Third World that the assertion of ethnic identities and demands of self determination is most strongly in evidence.

The end of the Cold War has also generated flows of refugees which are creating conditions of insecurity within the states that either generate such flows or receive them.

Problems of internal security including armed separatist movement and domestic ethnic strifes, particularly in developing countries-have altered the security environment. Pervasive violence associated with separatist movements contributes to the militarization of both society and the state. Militarization includes not only rearmament and the growth of armed forces, but also, and more

importantly, an increasing resort to force in conflict resolution, and the spread of militaristic values. This, in turn, legitimizes the use of violence to attain political goal.

The trafficking in narcotic drugs is one of the most corrosive threats to security. The destructive consequences of drug trafficking can include a soaring violent crime rate, an enormous waste of human potential and the squandering of vast financial resources. Thus drug trafficking also constitutes a threat to security.

The rapid rate of population growth is overcrowding the planet, adding to the enormous pressures on the diminishing non-renewable resources. This growth, at the root of much of global poverty, international migration and environmental degradation-is unprecedented.

The deteriorating global environmental a seems to have replaced nuclear war as the greatest threat to life on the earth. The production of greenhouse gases in individual countries also has a global impact. Layers of these gases-including carbon dioxide and methane-accumulating in the upper atmosphere contribute to global warming which can seriously affect the inhabitants of coastal regions. Increasing water scarcity, deforestation, air pollution, soil erosion and desertification are other important environmental threats which are posing a threat to biological existence.

Then there are threats to security of an economic nature. Economic security is determined by the size and structure of a country's economy, the degree of its self sufficiency in food stuffs and raw materials, and the share of imports in the volume of the outputs of strategically important industries.

Today, the rates and levels of economic development of a nation are strongly influenced by the extent of a country's involvement in the world

economic exchanges, the state of its trade balance and its balance of payment, the direction and intensity of international finance and credit flows.

Uneven development and indebtedness are other economic threats which are posing both internal and regional security problems for developing countries.

Economic threats to India's security arise from low rates of growth, unequal income distribution and regional disparities, chronic adverse balance-of-payment position, heavy external debt burden, and the marginalisation and destitution of large sections of population.

India was economically backward when it became independent in 1947. In spite of the high rate of growth in GNP in the 1980s and the dynamism shown by the economy during the last 3-4 years, the overall performance of the Indian economy since independence has been unsatisfactory. The overall size of GNP has remained small as compared to most developed countries and a number of developing countries whose economies have performed better than that of India.

The rate of growth fell far behind the targeted rate of growth in the second, Third and Fourth Five Year Plans. Though, since then the plan targets have been fulfilled, the actual performance has been only marginally better than the targets set. This has not been sufficient to compensate the sharp decline in the economy during the 15 year period, between the Second to the Fourth Plan.

The foodgrain production registered an impressive growth but this is just adequate to keep pace with the growth of population. Besides, an increase in the availability of foodgrains doesn't mean that those who are in need of them will really have access to foodgrains. That very much depends upon the growth in income and distribution of it.

The share of the secondary sector which includes manufacturing industries, construction, electricity, gas and water supply has shown a steady increase from 1950-51 to 1995-96. But this sector has also failed to achieve the target growth rate for the plan periods.

The pattern of India's economic growth would indicate that the growth during the 1980s and the early 1990s was satisfactory as compared to the earlier decades. But it was still not comparable to those of the East Asian and South East Asian countries.

The High Performing Asian Economies (HPAEs) have grown consistently at a rate almost twice as fast as India. India has also failed to match the HPAEs in terms of investment and in basic education. This has resulted in low rate of primary school enrolment and gender-gap in basic education. Today, India is facing a massive problem of illiteracy. And it has not been able to spread the benefits of technical education on a large scale, which is necessary for industrial advancement.

The domestic markets in India failed to provide stimulus for sustained expansion since the total purchasing power in the economic system was very low.

Production pattern also became distorted in favour of goods and services consumed by the elite.

In terms of saving and investment, India is far behind HPAs. In fact, in India, low rate of growth, high dependency ratio, and double digit inflation rates have limited the savings-generating potential of the government.

Apart from low rate of growth, inequality in income distribution and regional disparity have been accentuated during the planning process.

Indian planners tried to transform a backward society into a society of equals. So, the planners have accepted the importance of balanced regional development ever since the initiation of the planning process in the country. But, the planning mechanism itself accentuated the disparity between the states, having a strong bias in favour of developed states in planned outlays. The widening disparity in per capita plan outlays between the states has affected the levels of their development.

In terms of per capita state net domestic product, the position of some major states i.e. Bihar, Assam, Orissa, Madhya Pradesh etc., vis-a-vis Punjab has deteriorated over time, and regional disparities instead of being reduced, are actually widening.

Indian education is characterised by sharp contrasts not only between one part of the country to another but also between males and females, between rural and urban populations and between caste based sub-groups. Such contrasts are the manifestations of the differences in the socio-economic background of the concerned area/population.

Access to safe drinking water and electricity supply vary in different states. Bihar, Assam, Orissa, Andhra Pradesh, Madhya Pradesh have failed to reach the national average not only in safe water supply but also in having electricity.

The continuing widening gulf between the rich and the poor of the country poses one of the most serious non-military threats to its security. The large and growing chasm between the rich and the poor is retarding and obstructing the process of orderly and balanced growth of the economy.

Both unemployment and under-employment have been a major feature of the Indian labour market. The recent economic reforms seem to have resulted in a deterioration in the employment situation.

As regards the fulfillment of the basic needs of the people of India, particularly nutrition, health services and education, long years of planned development have not brought about any significant improvement in the conditions prevailing at the time of country's independence. The daily calorie supply is still below the requirement. India has the largest number of children in the world suffering from malnutrition. Access to health services is quite poor. And only half of the total number of school children enrol in school. The drop out rate among them is almost half of those enrolled. India also harbours the largest number of child labour in the world—living in inhuman conditions and working for paltry wages. Like most other developing countries, India does not have a really worth while system of social security for those who are weak, marginalised and deprived.

The neglect of the basic rights of the women should cause serious concern. Women are marginalised politically, socially and economically. In India, men are outnumbering women, reversing the global biological trends. The depressed classes or castes of India, consisting of the Scheduled Castes and Scheduled Tribes and other backward castes, were the worst victims of exploitation during the colonial period. In spite of the affirmative actions taken in favour of these groups and the progress in this empowerment achieved after independence, by and large they continued to remain exploited, and the poorest and the weakest section of the Indian society.

The pattern of the development in the post independence era, particularly uneven distribution of income has left the ground free for the elite class of the society to exploit the lower classes. This has often taken the forms of violence,

giving rise to counter-violence. The long term effect of this violence has been the weakening of the democratic values and causing a serious threat to the integrity of the state.

India has experienced ever since the beginning of the Second Five Year Plan, a chronic balance-of-payments problem. This factor, alongwith external borrowings indulged particularly in the decade of 1980s has led to the accumulation of massive external debt burden. India's debt burden quadrupled since the early 1980s in real terms. The debt repayment today amounts to more than \$ 8 million per annum.

Relatively slow rate of growth has kept India economically weak and hence a minor player in the world power politics. India's clout among the nations of the world has declined. Many countries which were behind India at the time of India's independence, in terms of the size of the GNP and per capita incomes, have since forged ahead of India. This has been an important factor undermining India's position and prestige in the world. As a result, India has frequently failed to safeguard its interest in strategic bargainings on economic and security issues and has come under severe pressure in these negotiations.

Slow rate of growth has not generated income large enough to satisfy the basic needs of the expanding population of India. This, along with maldistribution of income, has been mainly responsible for the continuation, and aggravation in absolute terms, of the massive problem of poverty in the country. This has also resulted in destitution and deprivation and contributed to the continuing problem of large scale unemployment and under-employment. Unemployment in turn has aggravated poverty, income inequality and destitution and deprivation. These factors have contributed to the increasing violence in the country. This has futher weakened the Indian state and made the governance of the country difficult. This cannot but have adverse implications on India's security.

Widening regional disparity have been yet another factor posing a threat to national security. Decades of neglect of the genuine demands of some of the states in India, their marginalisation from the mainstream of national life and widespread & deeply-entrenched corruption in some of these states, have led to their alienation from the nation. As a result, ethnic urges have come to the fore as never before and there is an increasing demand for self-rule and self-determination. These demands and assertions have increasingly taken the form of armed militancy and uprising. This has weakened the fabric of the nation, put tremendous strain on the resources of the state and undermined national unity and cohesion. Widening regional disparity has thus emerged as one of the most serious threats to India's security.

Heavy burden of external debt and large and continuing debt payment liability poses another threat to India's security. The most serious of the problems created by external debt is the regular drain of resources which can be utilised for development purposes. Large scale debt repayment shackles growth as few other factors do. And we have already examined the security implications of slow rates of growth or stagnant growth. Heavy external debt and debt repayment burden enhances the external dependence of the country on foreign countries and international financial institutions like the IMF and the World Bank. The conditionalities imposed by these countries and institutions are not only of an economic nature but are also increasingly assuming political forms--like seeking change in governance, insistence on adherence to human rights' norms determined by the foreign countries and institutions, adjuring weapons of mass destruction, and reducing military expenditure. These conditionalities have both indirect and direct bearing on the country's security.

The economic component of the conditionalities has, among others, weakened the grip of the state over the economy and made the country

increasingly dependent on foreign capital and foreign markets. The economic reforms prescribed by the IMF, World Bank and creditor countries, call for a shift in emphasis, from capital goods to consumer goods industries and much greater reliance on private enterprises--both domestic and foreign, foreign capital and foreign markets. This has the effect of exposing the economy to external shocks in conditions where the institutional infrastructure and policy mechanism for coping with such shocks have all but been surrendered. This has serious implications for the sovereignty of the country and independence of judgement and action in foreign policy matters.

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