

CHAPTER I

INTRODUCTION

A. Background

India had experienced unsuccessful economic development long time ago. India involved in extremely poor state that always failed of economic progress. The idea was highlighted by the CIA World Factbook (2003), the GNP of India was \$333 billion, and GNP per capita was \$400 (1989 est).¹ World Development Report (1999) shows the GNP per capita of India in 1999 became \$430. Compared to the other developing countries, the index of social and economic sectors was left behind. There were so many jobless people and approximately 80% of Indian citizens stayed in the villages.² One third of Indian citizens were under poverty rate (among 1,2 billion people, only 300 million people have capacity for buying).³ Therefore, India was called as *Hindu growth rate* that is the symbol of disappointment and deep frustration because of its failure in completing the social and economic problem. It refers to how bad was India growth rate dominated by Hindu people. Irwan (2007, p.125) indicated this term introduced by Raj Krisna (Indian economist) and explained that the economic growth of India was averagely only 3,5 % each year between 1950 and 1980. This becomes the crucial problem to handle. The failure was caused by the planned and centralized economic system.

Slow economic development of India happened from its independence 1947 to 1989. Slow economic growth and unequal distribution of resources and income became

¹India Economy – 1990. 2003. Source: 1990 CIA World Factbook, Retrieved on October 26, 2009 from: http://www.theodora.com/wfb1990/india/india_economy.html.

² Irwan Suhandi. Kompas (2007). *India: Bangkitnya Raksasa Baru Asia, Calon Pemain Utama Dunia di Era Globalisasi*, p.6.

³ Indianchild. 2000. *India's Economic Growth since 1980*. Retrieved on October 26, 2009, from: http://www.indianchild.com/india_economy_growth.htm.

problems.⁴ An annual per capita income of India was only \$50 for its 350 million people, literacy rate of India was 17 percent, and national savings rate was averagely only 10 percent.⁵ Per capita food production and per capita income of Indian people had been also declining continuously. This shows that the socialist policies could not be able to improve India's people welfare significantly. As finance minister under Narasimha Rao, Manmohan Singh found a nearly bankrupt India: "A very severe deficit to minus 8.5 percent of gross domestic product (GDP). National foreign exchange reserves decreased to U.S. \$ 1 billion compared to the value of foreign exchange reserves of U.S. \$ 67.6 billion in 2002, as reported by "The Economist."⁶

Today, the economic development of India grows sharply. Central Intelligence Agency recommends in 2008 the GNP per capita of India raises sharply become \$2900.⁷ Manmohan Singh has the important role in changing the condition of India entirely to be fastest growth state. The first and foremost priority is to finish the unfinished task which the founding fathers of India had set out for people at the time of India's independence that are to get rid of chronic poverty, ignorance, and disease, which have afflicted millions and millions of people (Atanu Dey:2005). His economic steps have brought significantly India to the economic stability. People still remembered the time he uttered his first speech as a reported in *The Tempo* (May 24, 2009) that Manmohan Singh said that there is no power on earth that can stop the birth of an idea. Indian people could accept Manmohan Singh as leader in India, it is not only because of his ideas to restore

⁴ Myrdal, Gunnar, *Asian Drama, an Inquiry into the Poverty of Nations*, (Harmondsworth, Middlesex: Penguin Books, 1971), p. 107-119; Krishna Kapur, *India's Foreign Policy 1947-92* (London: Sage Publications, 1994), p. 68.

⁵ Atanu Dey. December, 19th 2003. *India's Development Experience*, from: <http://www.deeshaa.org/2003/12/19/indias-development-experience/>

⁶ Hermien Y.Kleden. (*BBC, The Economist, The Independent*). May 24, 2004. *Tempo*, from: <http://majalah.tempointeraktif.com/id/cetak/2004/05/24/LN/mbm.20040524.LN91521.id.html>

⁷ Central Intelligence Agency. Retrieved on October 26th 2009, from: <http://www.cia.gov/library/publications/the-world-factbook/rankorder/2004rank.html>.

the economic growth of the people but also because Singh could be received as the Prime Minister because he is widely known as the cleanest politicians in the country.

India was still affording to change its economic and social status to be more prosperous country under Manmohan Singh government. When the other developing countries such as Indonesia, Korea, African countries have been experiencing de-industrialization process caused by globalization, India has succeeded in maximizing its innovation to become a new economic power. A report in *The Indian Economic Overview* (May 3, 2009) revealed that India's economic progress has become one of the stars in economic realm in recent years that has grown 9.2% in 2007 and 9.6% in 2006. India's economic has developed up to 9% since the three years, and it has been successful a decade of 7% growth.⁸ This could reduce Indian poverty by 10%. The Indian service sector has climbed significantly during this era of steady growth. In 2007, the growth rate was 11.8% and now 53% of Gross Domestic Product (GDP). India's GDP crosses US\$1 trillion. As a consequence, the international community could accept the market of India and raise the foreign investment significantly because of the development of India has increased sharply.

India is one of the developing countries that has cheap and smart (high IQ) experts that could influence the United States. According to Pete (2007, p.xi), emerging of India and its potential economy to complete technology and industrial services and it is first showing in United States magazine as new economic block. As stated in *Economy Watch* (2009), the industrial sector developed in the same period and is now 29% of Gross Domestic Product (GDP) and the agriculture sector is 17% of the Indian economic development. Manufacture sector of India has also increased well from 8.98% in 2005 to

⁸ Indianchild. 2000. *India's Economic Growth since 1980*. Retrieved on October 26, 2009, from: http://www.indianchild.com/india_economy_growth.htm.

12% in 2006. In the same year, communication and storage sector of India has risen firmly 16.64% of growth rate. India's investment and saving rates has encouraged this steady growth. It could be seen from 22.8% in the fiscal year 2001, to 35.9% in the fiscal year 2006. Moreover, in the same year, the gross rate of savings grew from 23.5% to 34.8%. This shows that the government policy reform gives positive effects and accelerates India's sectors growth significantly.

Since its independence in 1947, India has followed a generally socialist economic policy. The previous leaders implemented the limitation to the foreign direct investment that decreased India's development progress. India has been governed by Jawaharlal Nehru who became India's first prime minister that strongly influenced by the socialist policies. The role of private sectors is controlled by the government strictly using the "Nehru Model". Under his government, the heavy industrial development accepted the substantial support from the Soviet Union. Therefore economically and politically, the Soviet Union became a model for India.⁹ It strongly emphasized the 'Fabian socialism' that its policies tended to protectionism with state intervention in labor and financial market, public sectors, regulations of business.¹⁰ Economic activities in India merely relied on the government sectors. So, this could be said as victim of paradigm which tends to socialism without using the market mechanism. Besides, the economic and political condition in India was chaos because of the economic program through Five-Year Development Plan could not be run. This matter appeared in 1990 when Iraq invasion to Kuwait and the oil price raised. As a consequence, there were so many Indian workers lost their jobs. Automatically, all above mentioned reduced India's income

⁹*Development Strategis in China and India*. Student literature, 1979 p.125

¹⁰ Kelegama, Saman and Parikh, Kirit. 2000. Political Economy of Growth and Reforms in South Asia. Second Draft, from: <http://www.eldis.org/static/DOC12473.htm>

sharply.

In 1991 the new government of Prime Minister P.V. Narasimha Rao and Manmohan Singh as economic advisor (today he becomes India Prime Minister) instituted a market oriented reforms that moved India away from its socialist orientation. There is agreement between India and International Monetary Fund (IMF) that the liberalization process has to be faster. Besides, The End of the Cold War (1989) and the Soviet Union collapsed (1990) have made India have to take new breakthrough (reforming its policies). India's economic development is not based on the government planning (*top-down development*), but it is because of small intervention (*bottom-up development*).

As India Prime Minister, Manmohan Singh does not do intervention excessively toward the industrialization process and the economic modernization. India is called as the *Indian Growth Miracle* that is changing autarchy economy becomes an open and market-driven (Atanu: 2003). The liberal economic reform of the government has encouraged India to become one of the fastest global economic growths. Economic growth is primary factor to raise the economic and social status. Manmohan Singh as India Prime Minister has important role in improving social and economic condition significantly and even brought India to become new economic power. His efforts have brought India successful to reach high growth constantly, capital accumulation, overwhelming agriculture and also mastering technology in recent years. Its economic liberalization policies followed by building good relationship with US and China because it becomes important point for India economic development. Industrialization especially in information, computer, electronic, and services has been growing rapidly in India. The role of energy also influenced in advancing India economic growth. Here, energy is

sources, projected production, and public utility. From above mentioned, therefore, India has high competency to compete in world market well and emerge as a modern power. It could be shown through the state's GDP in above the world's GDP, the state has large economies and its growth is understood to have resulted from engagement with globalization¹¹ (the world's average was 3,3 percent in 2004 and India reached 6,7 percent).

This paper would like to explain more details about how India's process to be a new economic power in the world since Manmohan Singh government in 2004-2008.

B. Research Question

What is the effort of India to become new economic power under Manmohan Singh Government (2004-2008)?

C. Purpose of the Research

1. To describe and explain the effort of India to become new economic power in recent years.
2. To explain the steps of Manmohan Singh that influenced the India development progress.
3. To utilize both of the World System Theory and Industrialization Concept over the phenomena of India economic development.

¹¹ The Rise of New Economic Power. Retrieved on December 17, 2009. From: <http://www.google.co.id/#hl=id&q=new+economic+power&meta=&aq=f&oq=new+economic+power&fp=57685942c1055500>

D. Theoretical Framework

In order to understand the phenomena of India development, the writer uses one theory that is the World System Theory and one concept that is industrialization. Both of them will be explained more details as follows:

World System Theory by Immanuel Wallerstein explains the definition of world system. In his own first definition, Wallerstein (1974) said that a world-system is

“A world-system is what Wallerstein terms a “world economy”, integrated through the market rather than a political center, in which two or more regions are interdependent with respect to necessities like food, fuel, and protection, and two or more polities compete for domination without the emergence of one single center forever.”

World System Theory by Immanuel Wallerstein explains the phenomena of development in the third world. It is as a power to move state's position in the world. Brewer stated that a world system does not mean that it occupy the world, this system is formulated as a unit with a single division of labor and multiple cultural system. It is a world system without a centered power.¹² The world system is global capitalism. The new capitalist world system was based on an international division of labor that determined relationships between different regions as well as the types of labor conditions within each region. In this model, the type of political system was also directly related to each region's placement within the world economy. As a basis for comparison, Wallerstein proposes different categories, core, semi-periphery, periphery into which all regions of the world can be placed as follows¹³:

¹² Brewer, 1980 :165

¹³ A Summary of Immanuel Wallerstein, *The Modern World System: Capitalist Agriculture and the Origins of the European World Economy in the Sixteenth Century* (New York: Academic Press, 1974). Retrieved on December 1st, 2009, from: <http://marriottschool.byu.edu/emp/WPW/Class%209%20%20The%20World%20System%20Perspective.pdf>

Core

Among the most important structures of the current world-system is a power hierarchy between *core* and *periphery*, in which powerful and wealthy “core” societies dominate and exploit weak and poor peripheral societies. Technology is a central factor in the positioning of a region in the core or the periphery (Immanuel Wallerstein, 1974). Advanced or developed countries are the core, and the less developed are in the periphery. Peripheral countries are structurally constrained to experience a kind of development that reproduces their subordinate status (Chase-Dunn and Grimes, (1995). The core regions benefited the most from the capitalist world economy. The United States and European Countries (like French, British, and Dutch) are the example of the core. Wallerstein argues that they moved towards the establishment of a capitalist world economy in order to ensure continued economic growth. Politically, the states within this part of Europe developed strong central governments, extensive bureaucracies, and large mercenary armies. This permitted the local bourgeoisie to obtain control over international commerce and extract capital surpluses from this trade for their own benefit. By the 1900s, with the shift toward manufacturing, core areas encouraged the rise of industries in peripheral and semi-peripheral zones so that they could sell machines to these regions.

Semi Periphery

“The core-periphery relationship is structural. Semi-peripheral states acts as a buffer zone between core and periphery, and has a mix of the kinds of activities and institutions that exist on them.” (Skocpol, 1977).

Between the two extremes lie the semi-peripheries. These areas represented either core regions in decline or peripheries attempting to improve their relative position in the world economic system. They often also served as buffers between the core and the

peripheries. Industrial rather than agricultural capitalism represented in 1990s. Asia and Africa entered the system in the nineteenth century as peripheral zones.

Periphery

These areas lacked strong central governments or were controlled by other states, exported raw materials to the core, and relied on coercive labor practices. The core expropriated much of the capital surplus generated by the periphery through unequal trade relations.

Immanuel Wallerstein provided a model for understanding both change in the global system and the relationship between its parts that divided into three poles that are core, semi periphery and periphery. The strong state is the core that takes the advantages too much because it could manipulate the world system. Then the semi periphery takes the advantages from the periphery as exploited states. They determined by the world system. All of social system must be seen totally. The states could moves on or down class for example from core to be semi periphery then become periphery and opposite. The status mobility depends on the world system dynamics. This theory could explain the status movement of the new industrial states (South Korea, Taiwan, Hongkong, and Singapore) from periphery states become the semi peripheral states. The raising of income of the core states makes the ready states (in this case is ready technologically, political stability, discipline of work, etc) in order to take over the industrial products that more simply. The sophisticated technological industries give big advantage like computer. This opportunity is possible the developing states like them to move upper class.

All of them involve in harmony relation and have purpose to be firm core states

economically. Besides, there is no one state could dominate the world market. It is be able to give the explanation about the successful of economic development in periphery and semi periphery states. The World System theory analyzes that there is no state that escape from economic capitalist globally. Capitalism means that changing the way of production from used production to become sale production that develops individualism, commercialism, liberalism, and free trade. The semi peripheral states that explained by Immanuel Wallerstein is a complement both of core and peripheral states because there are states that does not involve in two categories.

The changing of state's status to be semi peripheral states depends on the successful of peripheral state do the strategy of development. It means that the states try to seek and utilize the opportunity, strategy of promotion, and strategy to be independent. The effort of semi peripheral state to become the core states depend on the expansion of the semi peripheral states and the modern technology. All of states could compete each other in international market through the price and quality competition. Wallerstein formulates strategies to move the state status to be upper class¹⁴, as follows:

1. Mobilization of class to be upper class happens through take the opportunity when the industrial products will be expensive price. As a consequence, the peripheral states could not import the industrial products. In this condition, so the states will take the decision to do the industrialization of import substitution by them selves. Although this effort just merely this states to shift from one kind of dependency products. But, in economic criteria, there is possibility they could climb the class from the periphery states become semi periphery states.
2. Mobilization of class to be upper class is possible happened through the entrance

¹⁴ Wallerstein, 1973: 7-12

of state in international structure. It means that, in this case, the giant industries of core states need to do expansion widely. Therefore, there are multinational corporations that need the partner in developing states. So, the peripheral states could utilize their opportunity to mobilize their status.

3. Mobilization of class to be upper class is possible when a state effort to be independent, and there is also the opportunity. The peripheral countries do industrialization and market their products by themselves around the world (especially purposed for the core countries). Then, their income will improve significantly.

The world system theory originally used only two categories that are core and periphery, but need for “in between” category. The semi-periphery, in the form of a state or a production zone within the middle tiers of world production was traditionally regarded as a mediator between the advanced and the ‘underdeveloped’ parts of the world. Semi periphery countries are industrialized mostly capitalist countries which are in the process transforming from the periphery countries into core countries. Contemporary nations of the semi periphery are industrialized. Semi periphery is major in manufacturing and also exports industrial goods. However, semi periphery countries lack the power and the economic dominance of core countries and still have a lot of unmanaged poverty. They tend to be bigger in land mass, for example China that has more landmass generally means a bigger market. They are needed to stabilize the system. The semi periphery acts as a political buffer between the periphery (low income) and the core (high income).

World System Theory has successfully explained the India’s attempts to become

new economic power. How India struggle in many international economic structure in economic realm and how India has important role actively in global economic structure. We know that India was extremely in poverty condition and underdeveloped. But, its effort and the indicators show that India is able to become one of the fastest growth states in the world. Even, India has capability to change its status to be better. Manmohan Singh has successfully maximized the India's potential sectors to become new economic power through its effort. Its effort shows when India has against the policy of developed countries that will give the disadvantages or negative effects toward the developing countries. Through it, India attempts to play its role and utilize the opportunity in order to improve its economic growth rate. India uses its strategy in global market as arena together among all of the states in the world. India has same opportunity to play their capability in order to increase their income. It could be conducted by doing conversion of raw materials in order to be more value. So, India could be able to move or change its status or position to be more welfare states.

Industrialization concept is a historical phase and experience that the overall change in circumstances accompanying a society's movement population and resources from farm production to manufacturing production and associated services (Thomas:1985). The development of modern forms the industries, factories, machines and production processes in large scale.¹⁵ Those societies which are industrialized have characteristics quite different from those of the less developed countries. For instance, with the advance of industrialization only a tiny proportion of the population works in agriculture a major contrast with pre-industrial countries.¹⁶ Worldwide cooperation will be

¹⁵ Free English Language Dictionary. Retrieved on October 25, from:
<http://www.audioenglish.net/dictionary/industrialization.htm>

¹⁶ Encyclopedia de Netherlandstalige. Retrieved on October 25, 2009, from:

necessary if all nations are to gain from the potential benefits of industry.¹⁷ Most countries regard industrialization as a positive development capable of generating rapid wealth, revitalizing run down areas, and conferring influence in world affairs.

India has successfully emerged the industries massively. This could be seen in the raising of some indicators of India. It has converted from raw materials to become more valuable things through sciences, information and technology. The industrialization has been one of the main sets of processes influencing the social world. It explains that how the way of India could create the branches and outsourcing of industry. As a consequence, India could attract the global market internationally to invest their capital. So, the India income could improve drastically through investment and products of market.

E. Hypothesis

India's efforts to become new economic power under Manmohan Singh are maximizing its potential sector by encouraging knowledge based society program in India's IT software industry, manufacturing (auto) industry, pharmaceutical industry and emerging Indian corporations. Gaining opportunity in international economic structure by eradicating economic protection of the developed states (against the developed states domination), joining in group of BRIC, managing global economy at G20, encouraging world platform knowledge in ASEAN and having close cooperation between states. By showing strategy and capability of India domestically and internationally, hopefully in the future India will have the important role in international arena.

<http://polity.co.uk/giddens5/student>

¹⁷ NatureGallery. Global Trends Population Growth. Retrieved on October 25, 2009, from: <http://www.encyclo.co.uk/define/industrialization>

F. Method of Research

Library Research will be applied in the way of data collection, explaining the problems as well as analyzing the hypothesis. All the information that supports this research uses the secondary data that are books, newspapers, journals, internet, and other literature sources.

G. Range of Research

Focusing more on the topic research, the writer limits the time, which the research is conducted. The writer is going to explain the phenomena of India economic progress under Manmohan Singh government from 2004 until 2008 because it is the period that there is an economic indicator developed significantly. The writer also collects the data as long as it is relevant to be used in this research.

H. System of Writing

The outline of this research will be described as follows:

CHAPTER I will explain the background, research question, purpose of research, theoretical framework, hypothesis, method of research, range of research and system of writing.

CHAPTER II will discuss and give information about the architecture of India development that is the economic growth of India at a glance and the investment and industrialization of India.

CHAPTER III will discuss the effort of India to become semi peripheral state under Manmohan Singh through the internal factor that is industrializations as way of

India to become new economic power in recent years. Industrialization is an economic policy of Manmohan Singh regime (Position of India's industrialization in recent years). Besides, it explains the emerging of India corporations (TATA Group, Bangalore (IT) or 'center of excellence/Silicon Valley). It also shows evident and efforts of India for improving the economic welfare.

CHAPTER IV will discuss the effort of India to become new economic power under Manmohan Singh through the external factor that is articulation of India in international economic structure that explains the important role of India in playing its strategy to gain the opportunity.

CHAPTER V contains the conclusion from all chapters and also answers the research question.