# BLOCK-V

# INDIA’S CONCERNS IN THE GLOBALISING WORLD

# Introduction

**Block – V covers some prominenent concerns of India's foreign policy and smart power diplomacy. India's Strategy for Comprehensive Security, Environmental and Economic Concerns in Indian Ocean**

In our globalizing world, oceans unite nations and their economies. Oceans offer security. Visions about oceans have changed. For nearly two decades, Indian Ocean and the western Pacific Ocean have been lumped together and are seen as a single reality – the Indo-Pacific. It is trade and technology which have united the two separate oceans.

Indo-Pacific is seen as single essential for global trade and security. Over half of the world's commercial shipping passes through the waterways of the Indo-Pacific region. And, around 80 per cent of global oil goes through Indian Ocean. How to keep Indo-Pacific open and free for navigation, trade, food security and cultural exchanges? Indo-Pacific is a gigantic region: some 3 billion people live here. Humanity here is extremely rich and diverse in terms of culture and ethnicity. It is no ordinary geographic region. It is a super region with several sub-regions; each sub-region has its own promises and ways of doing things. Countries of Indo-Pacific spend a lot on defence. Their military rivalries are increasing in anticipation of the region becoming crucial for economic growth and well-being of national populations. Indo-Pacific needs a comprehensive security cover. No grand alliance can work here. Dialogue and consensus are the ways forward in this complex region which in a sense is still evolving.

Indo-Pacific brings together the 'Big Three' of the 21$^{st}$ Century – China, India and the US. What does India get by subscribing to the idea of Indo-Pacific? India gets a reach to western Pacific. Further, Indo-Pacific promises India domestic economic development and well-being of its people. 'Act East' conveys India's seriousness and determination to be part of economic and technological dynamism that characterizes Indo-Pacific. China's unilateral mega infrastructural project, the Maritime Silk Road (MSR) besides China's growing military presence in Indian Ocean – Sri Lanka, Mauritius, Djibouti – are sources of insecurity for India, US and others.

India's initiatives, like 'SAGAR' are intended to expand the country's geostrategic space. This is what the Prime Minister Modi had elaborated during his travels to Indian Ocean countries in March 2015 when he talked of 'SAGAR'. He had said that "the Indian Ocean littorals have the main responsibility for the… Security and Growth for All in the Region (SAGAR)." Modi's foreign policy seeks closer ties with the Indian Ocean states – Sri Lanka, Maldives, Seychelles, and Mauritius. Maldives and Sri Lanka became the first countries, Prime Minister Modi visited after the elections of 2019. This is the import of the four-nation 'Quad' also – Australia, Japan, India and the

US. India is an Indian Ocean country. It has a coastline which is 7500 kilometres long. India has 1,200 islands spread over in Bay of Bengal and the Arabian Sea and the country has an exclusive economic zone (EEZ) of 2.4 million square kilometres. Indian Ocean is important for India's food and energy security. The goal is to develop the 'blue economy' by harnessing the wealth of seas sustainably in cooperation with the Indian Ocean littorals and beyond. The Modi government has reached out to the Indian Ocean Region (IOR) more earnestly than previous Indian governments.

In the end, what do you make of Indian foreign policy under Modi? On the whole, diplomatic outlook has changed in some important ways. There is a new confidence and purpose in building relations with a host of countries and regions. And as discussed above, the scope of Indian foreign has expanded. National security and economic growth have gained sharper focus as goals of Indian foreign policy under Modi.

# UNIT 13 SECURITY CONCERNS

**Structure**



## 13.0 OBJECTIVES

In this Unit, you will be reading about India's security concerns. Security is broad and contested a concept; and nowadays almost anything and everything can be studied from security perspective. After reading this Unit, you would be able to:

- Understand the concept of security;
- Explain the changing nature of security in the age of globalization;
- Analyze India's security concerns in the context of globalization;
- Describe traditional challenges confronting India's security; and
- Non-traditional security threats facing India.

## 13.1 INTRODUCTION

India faces various security challenges in the contemporary globalised world. Newer areas of conflict and contestation are emerging making the security threats and challenges multidimensional and multifaceted in this age of globalization. Although after seven decades of its independence India does not face any existential threat to its security however, in an increasingly interconnected and interdependent world the security concerns have multiplied, become intense and are of global in nature.

It is important to understand the broad historical context in which the current security concerns confronting India needs to be evaluated. During the early years of India's independence, under the Prime Minister Jawaharlal Nehru's leadership, various efforts were made to build closer partnerships with the countries of Asia and Africa. The Conference of the Asian Relations organized in New Delhi in 1949 and the Bandung Conference in 1955 were some of the crucial initiatives undertaken on the idea of forging the Afro-Asian unity. At the same time India in an attempt to avoid binaries of Cold War adopted an independent policy of 'Non-alignment' to keep away from both the Western and the Socialist bloc. The country's foreign policy was focused on maintaining strategic autonomy keeping distance from bloc politics. India's Non-alignment and its own economic policy of import substitution and quest for self sufficiency resulted into a more idealistic foreign policy.

However, the end of Cold War changed the entire scenario. The unipolar world was now witnessing the forces of globalization, liberalization and resurgence of idea of regionalism. India launched its economic liberalization programme in 9991, in an attempt to be integrated into liberal international economic order. Flow of Western capital and technology, turnaround in India's relations with the US, India's entry into ASEAN Regional Forum were the major shifts from India's earlier position on Non-alignment. The launch of the 'Look East' policy was a watershed event in the history of India's integration with the world.

Therefore, India gradually moved from cautions isolationism to more active engagement with regional multilateral institutions in the post-Cold War period. In recent years, with the modern armed forces and rising economic growth, India has emerged as one of the major Asian giants with quest for great power status, resulting in significant shifts in India's strategic policies. At the same time, significant changes in the world's political and economic scenario since the early 1990s have resulted into a more integrated and interconnected world, which has also redefined the idea of security and security challenges.

## 13.2 DEFINING SECURITY

The concept of security is always changing and expanding in some meaningful ways. The concept has become broad and anything and everything can be covered under it. Paul Williams rightly says that the concept of security "saturates the contemporary societies all around the world"; and this makes it a fascinating and important topic of discussion. Security is an omnipresent concept for the policy makers, yet there is no unanimously accepted definition of the term. The United Nations, Department for Disarmament Affairs in report for 1986 defines security as "a condition in which states consider that there is no danger of military attack, political pressure or economic coercion, so that they are able to pursue freely their own development and progress".

The debate on the meaning of security is the reflection of new conditions of global politics engendered by escalating globalization. In the aftermath of the Cold War, many competing visions of new geopolitics are being articulated and the conventional representations and understandings of the concept of security are being subjected to an interdisciplinary scrutiny by peace researchers, international relations scholars and the occasional defence-strategic studies expert. There is a growing acknowledgment that security should be understood as a subjective, elastic and essentially contested concept and, therefore, studied in a manner that at least acknowledges socio-economic and environmental components alongside political and military ones.

In the traditional view of security, the main instrument is the military, and the only security referent is the state. However, in the post-Cold War era, the concept of security as the absence of existential threats to the state emerging from another state has come under serious criticism. A new discipline of 'security studies', has emerged which identifies it as an all-encompassing concept, unlike conventional approach. Earlier the threats were due to acts of violence by state actors, and the disputes used to involve recognised, sovereign, independent countries. However, the emergence of the non-state actors has changed the scenario; today more earnest issues at hand are non-military in nature such as climate change, natural disasters, infectious diseases, food shortages, irregular migration, drug trafficking, smuggling of persons and such other transnational crimes. The events of September 11, 2001, and November 26, 2008, and subsequent perceptions of terrorist threats have resulted in a reappraisal of the meaning of security. It is still about protecting the security and well-being of a nation's citizens but instead of overt threats from military sources, the threats are veiled and perhaps even 'unthinkable'. These new challenges are being labeled as 'non-traditional security' (NTS) challenges and are changing the way the idea of security is understood. That said; however, it should be recognized that traditional threats from inter-state conflicts though diminished relatively in significance but have not disappeared completely

After much debate on security issues or threat agendas, the UN Secretary-General's High-Level Panel on Threats, Challenge, and Changes (2004), identified six major areas of security challenges:

"economic and social threats, inter-state conflict, internal conflicts, nuclear, chemical, biological weapons, terrorism and transnational organized crimes". Therefore, aim of the state should be to ensure comprehensive and cooperative security at individual as well as national, regional and international level through bilateral and multilateral efforts against the common dangers but at the same time national security remains most significant concern for the states.

Similarly to evaluate India's security concerns as well it is important to analyze the issue from both the angle of traditional concerns and non-traditional concerns.

**Check Your Progress Exercise 1**

**Note:** i) Use the space given below for your answer.

ii) See the end of the unit for tips for your answer.

1) In the light of the changing dimension of security, discuss India's security concerns.

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## 13.3 INDIA'S TRADITIONAL SECURITY CONCERNS

Over the past seven decades since independence India's foreign policy has travelled from 'idealism' to 'pragmatism'. India being a heterogeneous nation, one of the main challenges for the country has been to manage that diversity and assimilation of diverse ethnic, religious cultural and regional identities with the national identity. These differences have also resulted into social polarization and fragmentation and identity politics. Therefore, the foremost domestic challenge for the state in India has been to maintain unity and values of inclusion in a diverse society. At the same time many of India's regional and global security concerns are linked with its domestic security problems.

In the realm of foreign policy the focus is often on external challenges to the country's security. India's geographical location makes India surrounded with unstable and dysfunctional states, creating a challenging regional security environment. The entire Indo-Pacific region, in which India is centrally located, is undergoing an unprecedented transformation in its security outlook with complex and at times competitive interests of regional and global powers. As world economic and political centre of gravity shifts towards the Indo-Pacific region, the region is becoming an area of power-politics among number of regional and extra regional players. Under such circumstances India faces significant security concerns given the policies and actions of some of the important players in the region.

**13.3.1 Bilateral Issues with Neighbouring Countries**

***China:*** One of the crucial issues in India's foreign policy has always been its relationship with its northern neighbor China. The rise of China and her quest for dominance in Asia and in the world has put forward a new set of questions and complications not just for India but also challenging the Western supremacy in the world. China initiated economic reforms much before India and has been experiencing rapid economic growth since then. The successive economic growth over the years has fuelled the country's defence budget, making it a formidable military power. China's economic and military rise and its power projection capabilities seems to be challenging the regional and global balance of power.

As the world witnesses the rise of two Asia giants, China and India, simultaneously it will create certain complication. Earlier, their domain of competition was continental but now the competition has shifted to maritime sphere. India and China's great power aspirations and their quest for security have compelled the two powers what Robert Kaplan says, "to redirect their gaze from land to seas". Both are emerging as significant naval powers in the Indo-Pacific region with sustained economic growth which is highly dependent on the continued, uninterrupted supply of energy products, raw materials and finished products for markets elsewhere transported mainly by the sea routes in Indian Ocean and the contiguous waters. Therefore, both the countries also have a stake in continued regional peace and stability.

China-India relations have some chapters of bitter history, the 1962 war and continued border issues, the Doklam standoff being the most recent one in 2017 when the 73 day standoff in the tri-boundary region in Himalayas where the Bhutan-China-India borders meet, created tension between the two countries. Both the countries have complex and at times competitive interests in their race for wealth, energy and influence. They are increasingly becoming involved in competition in Africa in search of resources, oil and gas in Central Asia and in their ambition of great power status.

Over the years there has been a lot of noise about China's earlier contested 'strings of pearls' strategy aimed at encirclement of India. Now China has made its intentions publicly clear with its Belt and Road initiative (BRI) which includes development of massive maritime and land based connectivity infrastructure in the region, reviving the ancient 'silk road' concept. New Delhi has expressed displeasure over the China's BRI, particularly given India's reservations over the China-Pakistan Economic Corridor. Given the concerns, India had refused to attend the Belt Road Forum in Beijing in 2017.

China's activities in neighboring waters in recent years have been worrying for India. The outward maritime orientations of China in the Indian Ocean region are generating apprehensions in Indian strategic circles about her real intentions. China has funded a series of support facilities in friendly countries along with the Ocean's northern seaboard in Pakistan, Sri Lanka, Bangladesh, Myanmar and smaller island including Maldives, Mauritius, Seychelles. Particularly the Gwadar port, on the southwest coast of Pakistan has attracted a lot of attention due to its strategic location, at about70 kilometers from the Iranian border and 400 kilometers east of the Strait of Hormuz, a major oil supply route. China has also set up its first official overseas base in the Djibouti. Though China has never acknowledged it and has explained that these infrastructures are for purely commercial purpose. But all of this is unnerving India, engendering a classic security dilemma between the two Asian giants because China's naval capabilities have direct bearing on the area which is strategically important to India. Whatever China's vision, together with its expansive military budget, its growing footprint across the globe has created concerns among the neighbours. Ironically, this distrust between the two countries is harboured alongside healthy economic and trade relations between the two.

***Pakistan:*** Another country with which India has history of bitter relations is Pakistan. Since the partition and the creation of two nations in 1947, India-Pakistan relationship has been rocky. The two countries have been involved in four wars and numerous border clashes and skirmishes. Some analysts go to the extent of saying that both the nations are always in a perpetual state of war.

**Kashmir** has been the bedrock issue between both the nations, particularly, with rising discontent and a **volatile situation in Kashmir time and again**. Cross border terrorism and ceasefire violations from the Pakistani side have always been major irritants. **Terrorism**, particularly targeting India which is bred on Pakistani soil is yet another major issue which has mired the bilateral relationship. India has accused Pakistan of adding fuel to the disturbances and glorifying terrorists by declaring them, martyrs.

India has always adopted the policy of peaceful engagement with Pakistan on all fronts. India has emphasized for dialogue and confidence building on all outstanding issues including economic, cultural and people-to-people contact. On the economic front, India has pushed for enhanced trade and commercial engagement and granted Pakistan Most Favoured Nation (MFN) status. However, Pakistan has directly or indirectly held such economic and cultural engagements hostage to the Kashmir issue. Doubts regarding the Pakistan's sincerity in seeking a solution were reinforced by its repeated sabotage of peace initiatives. This did not merely occur in the aftermath of Vajpayee's Lahore bus diplomacy in the form of Kargil, but also happened after Modi's late December 2015 visit to Pakistan in the form of the Pathankot attack in early January 2016. India has found it difficult to restart the dialogue because of acts supported by a nexus between state agencies and non-state actors. The Mumbai attacks (2008), the case of beheading of Indian soldiers (2013) and the Pathankot and Uri attacks (2017) prove this point.

Indian's concern in the region is also to counter the threat posed by joint Sino-Pak activities in the Indian Ocean region, given the historical animosity between India and Pakistan, and closer relationship between Pakistan and China. In an event of a conflict, the possibilities of Sino-Pakistan alliance could be detrimental to India. Deep sea port of Gwadar in Pakistan does provide China with a 'listening post' from where it can 'monitor US naval activity in the Persian Gulf, Indian activity in the Arabian Sea, and future US-Indian maritime cooperation activities in the Indian Ocean'. Though Pakistan's naval capabilities alone do not pose any challenge to India, the combination of the Chinese and Pakistani naval forces can indeed be formidable for India to counter.

In recent years, to deal with challenges from Pakistan, India has been taking retaliatory actions against those elements and locations along the Line of Control (LoC) that are complicit in perpetrating cross border terrorism. The surgical strikes 2016 were an example of this approach. India has also made an attempt to expose Pakistan's complicity in employing terrorism as a state policy at various multilateral platforms like ASEAN, BRICS and UN. The BRICS 2017 declaration specifically named Pakistan-based terror groups like Lashkar-e-Taiba (LeT) and Jaish-e-Mohammad (JeM) as terrorist groups of concern. Therefore, the relationship with Pakistan has always been one of the major concerns in India's security and strategic policy calculus.

Apart from the bilateral relationships the regional geopolitics and interplay among the different players like China, Japan, Pakistan, US, Russia and relationships with other neighbouring countries like Nepal, Bangladesh, Sri Lanka, and Southeast Asia are analysed keenly given considerations in India's strategic policy formation.

**Check Your Progress Exercise 2**

**Note:** i) Use the space given below for your answer.

ii) See the end of the unit for tips for your answer.

1) Discuss major traditional security challenges facing India in the present scenario.

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## 13.4 NON-TRADITIOINAL SECURITY CHALLENGES

The process of globalization and technological revolution on the one hand brought a revolution in the world economic and technical progress. However, very same processes that have brought with them so many benefits have also exposed our collective vulnerability. The benefits of globalization have been uneven and new challenges have been thrown up like growing inequity and inequality across and within nations, volatility in the financial market and environmental degradation, proliferation of weapons of mass destruction, and groups of radicals, extremists, fundamentalists, hackers, pirates and terrorists have sought to exploit new environment to gain asymmetrical advantage. Such transnational challenges from non-state actors have become even more significant in the contemporary times.

### 13.4.1 Terrorism and Extremism

A 2006 report of India's Defence Ministry had noted that "India is closely monitoring the rise of Islamic fundamentalism as well as increasing incidents of terrorism including state sponsored and political violence with its attendant repercussions on the security of India". India has been at the receiving end of terrorists attacks for a long now. Cross border terrorism has been a major security concern for India for a long time. India has faced deadly terrorist attacks in the past including the 1993 in Bombay, 2001 attack on Indian Parliament, 2008 Mumbai attacks to mention a few in a series of bloody terrorist incidents throughout major cities of the country. India has continuously criticized Pakistan's role as a haven for a variety of militant groups and sponsoring cross-border terrorism particularly in Jammu and Kashmir. However, India's criticism and international pressure has not deterred Pakistan's continued patronage of Lashkar-i-Tayyiba and other militant groups operating in Kashmir. Afghanistan-Pakistan region, along with Central Asia and northern Africa, continues to remain a hot bed for terrorism. Al-Qaeda, Indian Mujahidin (IM), Lashkar-i-Tayyiba, Harkat-ul-Jihad-al-Islam (HuJI) and Jaish-e-Mohammad (JeM), Haqqani network and the ISIS, are major terrorist organizations in the region. India also has been confronted with the challenge of possible links between domestic insurgents and extremist groups such as SIMI, their like-minded elements in neighbouring countries like Bangladesh and Pakistan.

It is important for the country to develop a robust counter-terrorism response mechanism. The major initiative after the Mumbai attacks has been the creation of a new National Investigation Agency (NIA), empowered to investigate cases of terrorism and organized crime and streamline the existing mechanism. Multi Agency Centre (MAC) was created at Delhi, for streamlining intelligence efforts to combat terrorism in 2002, re-operationalized with effect from 2009, in the aftermath of 2008 Mumbai attacks. MAC was converted eventually into National Counter Terrorism Centre (NCTC), to share information. India also sought to deepen counter-terrorism cooperation and information sharing in maritime intelligence, surveillance and reconnaissance with friendly countries. India has also continuously deplored for such activities at various regional and global multilateral platforms. In the field of terrorism and extremism a major challenge is to deal with the nexus of state and non-state actors.

Terrorism as a challenge is also linked to other non-traditional threats like piracy, drug, arms and human trafficking. As often groups committing these crimes operate in concert with each other. Drug trafficking results in money laundering, the funds from the sale of drugs are used to support gun-running and terrorist activities. Added to these is the transnational security concern of human smuggling with its manifold effects, from fuelling terrorism to illegal immigration, resulting in socio-political instability. Border protection is a major issue in the maritime domain as maritime borders can be more porous than land and air borders

### 13.4.2 Energy Security

The economic development of a state is closely linked to its trade and energy supply. India's fragile energy security is under severe strain from its rising dependence on imported oil, regulatory uncertainty and opaque natural gas pricing policies, small pool of skilled manpower and poorly developed upstream infrastructure and dependence on fossil fuels as the dominant source of energy in the near future. Coal, oil and natural gas are the most important sources of primary energy in India. Inadequate domestic supplies of these hydrocarbons are forcing the country to increase its import. In precise terms, energy security means that we should be able to meet the country's growing needs of non-renewable petroleum products. India's oil consumption is expected to rise to 245 million tonnes annually by 2020 and our import dependency will rise to nearly 85 per cent. **India aims to supply 25 per cent of electricity from nuclear power by 2050.** For that imported uranium is required. This would also reduce India's dependence on greenhouse gas emitting hydrocarbons, as much of India's electricity generation depends on environmentally unsustainable coal. Coal is in abundance; and India will continue to generate electricity from coal-based power plants – environmental objections notwithstanding – simply because it is the most cost effective way of producing electricity. At present, the contribution of nuclear power to India's energy sector still remains very low, hovers around three percent of the total. So, developing nuclear energy could be one solution to the energy needs of India.

Energy security is a growing concern in India given the increasing energy requirement of the developing economy. Since most trade including oil and natural gas of the South Asian states including India, is seaborne, sea lanes form the lifeline of these countries. As the international energy market is dependent on reliable transport mostly sea based, even the temporary blockage of a choke point can lead to a substantial increase in total energy costs.

India's geographical location puts it at the crossroads of some of major trading routs in the international commerce, passing through the Indo-Pacific region. The Strait of Hormuz leading out of the Persian Gulf and the Strait of Malacca linking the Indian and the Pacific Oceans are two of the world's most strategic choke points. A large volume of international long haul maritime cargo from the Persian Gulf, Africa and Europe transits through the Indian Ocean. The disruption of these sea lanes, even temporarily, can lead to substantial increases in energy costs. Imports to South Asia from West Asia utilize the Strait of Hormuz. Closure of the Strait – along with the rise in maritime traffic, the variety and intensity of threats including piracy, maritime terrorism and inter-state conflicts, which are all expected to show a proportional rise – may challenge energy security in the region.

High prices and a growing sense of supply scarcity have led to new tensions among the major oil importing countries in Asia and elsewhere due to concerns about access to global energy supplies. Within this context, some analysts suggest that 'resource wars', largely over energy, will be one of the defining characteristics of the twenty-first century. Supply chain dynamics are the key to energy. At the same time sustainable utilization of resources is also a need of hour.

With limited resources and limitless ambitions is the root cause of the problem. Security of energy has two aspects. We may well have to worry about the security of future oil resources in different parts of the globe, and we may also have to provide security to the long and vulnerable supply chains, stretching across the globe, to keep them safe from any interruption.

### 13.4.3 Cyber Security

India over the past year has seen a sharp increase in the incidence of data breach and cyber-attacks across sectors and company sizes. Cyberspace is the connected internet ecosystem. Cyber intrusions and attacks have increased dramatically over the last decade, exposing sensitive personal and business information, disrupting critical operations, and imposing high costs on the economy. Cyber security is protecting our cyber space from attack, damage, misuse and economic espionage. Cyber space has inherent vulnerabilities that cannot be removed. Nation states, non-state actors, and individuals are all capable of waging such attacks. It is again a transnational challenge facing the global community.

India ranks third in terms of the highest number of internet users in the world after US and China. India secures a spot amongst the top 10 spam-sending countries in the world alongside US. India ranked third in 2018 in the list of countries where the highest number of cyber threats were detected and second in terms of targeted attacks in 2017, according to security software firm Symantec. The recent threats like 'wannacry ransomware' in 2017 or the facebook data breach which reportedly also affected millions of Indian users. Banking systems, surveillance systems, industrial control systems and medical industry are the most probable affected sectors. As artificial intelligence (AI) and machine learning gathers pace, and starts to impact more and more industries, it's sure to play a bigger role in cyber security. Currently, the Information Act, 2000 is the primary law for dealing with cybercrime and digital commerce in the country. India is at number 23 of the UN Global Cyber Security Index (GCI) 2017. Cyber security is one of most recent new age security concern. In the present digital age, the Indian Government has been taking serious steps to prevent cybercrimes and build a safe and secure cyber network in the country.

**Check Your Progress Exercise 3**

**Note:** i) Use the space given below for your answer.

ii) See the end of the unit for tips for your answer.

1) Evaluate major non-traditional security challenges facing India in the 21st Century.

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## 13.5 LET US SUM UP

Therefore, above mentioned are some of the major challenges facing India in the 21st Century globalised world. The region surrounding India is becoming increasingly contested strategic space with the growing interests of regional and extra-regional players. At the same time threats from non-military sources and non-state actors are becoming sinister in recent times.

Rapidly changing regional balance of power is creating a tricky geopolitical environment, resulting in new set of competition and contestations in the region. India remains fully committed to maintaining peace and stability in the region and global context through effective diplomacy including confidence building measures, dialogue, bilateral, multilateral engagements and credible military deterrence. India needs to focus on long term strategy to deal with security concerns in a fluid global security environment. There is a need to recognise and deal with security challenges at national, regional and global level by adopting a multi-pronged strategy.

## 13.6 SOME USEFUL RESFEENCES


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## 13.7 ANSWERS TO CHECK YOUR PROGRESS EXERCISES

**Check Your Progress Exercise 1**

1) Your answer should be based on Section 13.2.

**Check Your Progress Exercise 2**

1) Your answer should be based on Section 13.3.

**Check Your Progress Exercise 3**

1) Your answer should be based on Section 13.4.

# UNIT 14: ENVIRONMENTAL CONCERNS

**Structure**



## 14.0 OBJECTIVES

In this Unit, you will be reading about the environmental concerns of India in a globalising and rapidly integrating world. After reading this Unit, you will be able to:

- establish the relationship between globalisation and environment;
- discuss the harmful effects, direct as well as indirect, of globalisation on the environment;
- identify the North-South knowledge divide and its dynamics;
- elaborate few major global environmental initiatives;
- discuss the contribution India has made in the direction of cleaner environment; and
- provide some steps which can help India tackle its environmental concerns.

## 14.1 INTRODUCTION

In a globalised world, the boundaries between states are less visible; and political, economic, cultural and social events are more interconnected with far-reaching impact. We all experience diverse effects of globalisation. It has led to easy and fast access to technology and innovation. Debates on environmentalism do not lack the extensive importance attached to globalisation. Green activists include globalisation as their main agenda. The damage caused to ecosystem from the oil that spilled from one of the leaking containers of British Petroleum in 2010 is just one of the examples of the threat globalization poses to the environment. Climate change, deforestation, pollution are now, few of the many, widely used expressions in international relations as we have achieved the era of the resource wars. The environment and natural resources are deeply related with security, which was and will always remain one of the most controversial concepts of international politics. Certain countries over-consume energy while others under-consume. Consumption levels around the globe have reached such high levels that Earth is struggling to keep up with the regeneration required for us to maintain our high consumption levels. Hence, the international agencies which have been created for protecting the environment would have to revisit their concerns and are required to show a strong will to implement the decisions in this direction.

## 14.2 GLOBALISATION AND ENVIRONMENT

We feel our lifestyles have been altered by the process of globalisation. We are globally consuming more products, burning more fossil fuels, discarding more clothes and piling more electronic waste. This all has impacted the ecological cycle as increased consumerism leads to high levels of production which requires more extraction and transportation of raw materials and that in turn leads to high carbon footprints. Extractivism and stress on transportation has led to the added strain on the non-renewable sources of energy. The waste generated from production gets dumped in the oceans which adversely affects the sea life. The incidents where sea animals are found dead on the shores are not rare now. Foreign foods are preferred more than the locally-grown food. The genetic makeup of the plants is also getting affected due to toxic waste disposal. Plastic is very useful for packaging and preserving the products which are exported. While many studies have found that plastic is non-biodegradable and one of the major toxic pollutants, we still continue to use it in various ways. There are innumerable examples and incidents which clearly suggest that the globalisation has made irreversible changes to our lives and has also led to some major concerns, environment in particular.

The literature on environmental effects of globalisation mainly talks about two types of effects i.e., direct and indirect effects. The direct effects include emissions and environmental damage which is related to extraction and the physical movement of goods from exporters to importers. This largely includes emissions from fossil fuel use. Simultaneously there are numerous indirect effects that are caused due to the growth in trade and foreign direct investment. These indirect effects are classified in three categories: composition, scale and technique effects. The scale effect indicates that the global production possibilities frontier shifts due to the more efficient allocation of resources within countries. This increases the size of the industrial pollution base which means there will be greater global emissions other things being equal. The composition effect measures changes in emissions which arise as a result of trade liberalisation as the country's industrial composition changes. For example, if liberalization expands the service sector of a country while the heavy industry contracts, then the country's total emissions will most probably fall as the sector which is expanding is less emission intensive. Finally, the technique effect refers to the glut of channels through which globalisation impacts the rate at which the pollution increases by the industry and the households. These channels include changes in the environmental regulations and their stringency. Such changes are in response to income growth or the political climate surrounding such regulations. The technique effect also includes the technology transfer which is facilitated by trade or we can say by globalisation.

## 14.3 GLOBAL ENVIRONMENTAL ISSUES AND INITIATIVES

The environment is undoubtedly the most global and multidimensional issue in the international system. Climate change is a cause of concern for the mankind as it has serious and various catastrophic economic, ecological and environmental implications. And so, it demands immediate action. It is a common knowledge that due to climate change we experience many disasters. The frequency and the severity of climate related disasters is on an increase. Hurricanes like Katrina in USA, Tsunamis in South Asia, Earthquakes in Afghanistan and India, and Typhoon Tokage in Japan are a few examples of the disasters from the recent past.

Environment was not as polluted as it is now and so the concerns were also negligible. It is only recently, one can say after the Second World War, that environmental movements have become very active. We can also look at it from the perspective that this rise in environmental movement is closely linked to the phenomenon of globalization as globalisation has transformed the structure of the international system. The international and trans-boundary dimensions of environmental issues have been realised by the governments and individuals due to the phenomenon of globalization.

Beginning with the UN Conference on the Environment held in Stockholm, Sweden in 1972, there has been an increasing movement towards the adoption of international instruments as tools for environmental protection. Global climate system is a 'common' resource and looking at the catastrophic implications of global warming induced climate change its utmost care becomes a collective global responsibility. This can be managed only through a multilateral treaty like the Montreal Protocol adopted in 1987 to protect the ozone layer. United Nations (UN) has to its credit two major achievements in this respect. They are: United Nations Framework Convention on Climate Change (UNFCCC) and The Kyoto Protocol.

### 14.3.1 UNFCCC

UN initiated negotiations, in 1991, to take care of climate system through adoption of a convention. The UNFCCC is an international environmental treaty which was adopted on 9 May 1992. It was opened for signature at the Earth Summit in Rio de Janeiro from 3 to 14 June 1992. After that it entered into force on 21 March 1994, after a sufficient number of countries had ratified it. The UNFCCC objective is to stabilize greenhouse gas (GHG) concentrations in the atmosphere at a level that would prevent dangerous anthropogenic interference with the climate system. The convention has adopted the notion of common but differentiated responsibility. This framework has set non-binding limits on greenhouse gas emissions for individual countries. No enforcement mechanisms are mentioned in the framework. But, the framework outlines how particular international treaties, which are called protocols or agreements, may be negotiated to decide and specify further action towards the main objective of the UNFCCC. The UNFCCC has 196 Parties (States) plus the European Union as of November 2019. Due to nearly universal membership, the convention enjoys broad legitimacy. The parties to the convention meet annually in Conferences of the Parties (COP) to assess the progress with respect to climate change and to adopt, if needed, new measures. COP is the supreme decision making body of the Convention. To date, 24 COPs have been held, the last one was in

Katowice, Poland in December 2018. UN's pursuance for a multilateral protocol on this issue promoted two broad groups of governments like the North-South divide. Now these groups are popularly known as Annex I countries which include developed countries and transition economies like Russia and Ukraine. The group of developing countries is known as Non-Annex I countries. UNFCCC asked the signatory countries to calculate the national level inventories of GHG emissions.

### 14.3.2 Kyoto Protocol

The details of protocol were decided in the third round at Kyoto, Japan in December 1997. The Kyoto Protocol was opened for signature in 1998 but it came into effect only on February 16, 2005. First commitment period expired in 2012. The USA and Australia refused to ratify this protocol. Thirty-eight developed countries which are Annex I countries, had ratified the protocol. They had legal binding to cut down the emissions of GHGs by 5.2 percent of their base level total emissions by 2012 which was the end of first commitment period. The non-Annex I countries, which are the developing countries also had ratified the protocol but have no emissions limit to adhere to. They were to cooperate in the reduction of GHGs emissions. The Kyoto Protocol to the UNFCCC had devised three 'Flexibility Mechanisms' to enhance cooperation and assist parties to meet their emissions reduction targets in a given time frame.

(a) ***Emissions Trading (ET)***: As per Article 17 of the protocol, Annex I nations are allowed to trade emissions reductions among themselves or selling credits towards their commitments.

(b) ***Joint Implementation (JI):*** As per Article 6 of the protocol, collaboration between Annex I nations is allowed on projects that would reduce carbon emissions. Such projects earn emissions-reduction credits for the nations involved.

(c) ***The Clean Development Mechanisms (CDM):*** Further, Article 12 provides incentives to those firms which intend to invest in those projects which target reduction in emissions in the developing countries. The credits resulting from such projects are called Certified Emissions Reductions (CERs). Such credits get shared between the host country and the firm which invested in that project. As against the 'Command and Control' interventions regime, the protocol prefers 'Market-based Instruments', to manage the emissions-based climate change issue.

First two mechanisms have focused on developed Annex I countries. Emissions Trading and Joint Implementation, both are expected to work economically and effectively in realising the targeted level of GHGs emissions in a given timeframe. CDM is concentrating on cooperation and partnership between developed and developing countries. This mechanism is expecting that not only governments in developed countries but also the multinational firms will be encouraged to help the third world countries through suitable projects - afforestation, transfer and adaptation of technology related projects – to support the efforts of the developing countries. The levels of national GHGs emissions which were identified by all the signatory nations of UNFCCC were used to create the 1990 benchmark levels for accession of Annex I countries to the Kyoto Protocol and for the commitment of those countries to GHG reductions. Updated inventories of GHGs emissions are submitted annually by Annex I countries.

The Protocol was amended in 2012 to encompass the period 2013–2020 in the **Doha Amendment**, which as of December 2015 had not entered into force as only 31 countries had ratified the amendment, instead of the requirement of ratification by 144 countries.

### 14.3.3Paris Agreement

Representatives of 196 state parties at the 21st Conference of the Parties of the UNFCCC met in Le Bourget, near Paris, and adopted by consensus the Paris Agreement on 12 December 2015. The Paris Agreement entered into force on 4 November 2016. As of March 2019, 195 UNFCCC members had signed the agreement, and 187 were become party to it.

The central aim of this agreement is to strengthen the global response to the threat of climate change by keeping a global temperature rise this century well below 2 degrees Celsius above pre-industrial levels and to pursue efforts to limit the temperature increase even further to 1.5 degrees Celsius. The agreement also aims to strengthen the ability of countries to deal with the impacts of climate change. As per UNFCCC, to reach these ambitious goals, appropriate financial flows, a new technology framework and an enhanced capacity building framework will be put in place in order to support action by developing countries and the most vulnerable countries.

Under the Paris Agreement, each country must determine, plan, and regularly report on the contribution that it undertakes to mitigate global warming. No mechanism forces a country to set a specific target by a specific date, but each target should go beyond previously set targets. In June

2017, US President Donald Trump announced his intention to withdraw the United States from the agreement. Under the agreement, the earliest effective date of withdrawal for the US is November 2020, shortly before the end of President Trump's 2016 term. In practice, changes in United States policy that are contrary to the Paris Agreement have already been put in place.

Trade, being an integral part of globalisation, has direct effect on environment.  Globalization has only been possible through multilateral negotiations which took place with the help of World Trade Organization (WTO). Although environmental protection is not part of the WTO's core mandate, but still it has encouraged some interest within its member countries for sustainable development and environment friendly trade policies. If one reads about WTO, it will be easily observed that there are several WTO trade-related measures that are compatible with environmental protection and sustainable use of natural resources. The WTO direct countries, under its green provisions, to protect human, animal or plant life and conserve their exhaustible natural resources. Apart from the WTO, regional trade agreements are another characteristic of globalization that promote environmentally sustainable policies. The countries which seek to join such regional agreements, are also made to embrace environmental cooperation agreements simultaneously. Many countries in European Union have developed national policies that stipulate that environmental impact assessments must be carried out prior to signing any trade agreement.

**Check Your Progress Exercise 1**

**Note:** i) Use the space given below for your answer.

ii) See the end of the unit for tips for your answer.

1) Explain the direct and indirect environmental effects of globalisation.

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2) Briefly discuss UNFCC and the Kyoto Protocol.

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## 14.4 THE INTERNATIONAL STAGE

For the first time in 2007, UN Security Council conducted a meeting to discuss the climate change issue. This issue is also a recurrent theme in the G20 Summits of the previous years. At the 2014 Davos World Economic Forum, major public panel sessions were dedicated to the discussion of vital issues from environmental perspective like future natural resources extraction in a sustainable world, global food security, resilience to natural disasters, climate change, etc. Another example which demonstrates that the environmental issues have played a prominent role on the international stage is the China-US Climate Agreement which was announced in November 2014.

To remain competitive in this globalised world, the international firms feel forced to adopt cost-saving production techniques which are generally harmful to the environment. On the other hand, we observe the anti-globalization sentiments heating up in the United States itself, which was once the strongest architect and proponent of globalization in the world. A good example of this is the case of Iran, which has been slapped with economic sanctions. This makes Iran less integrated in the world economy. But does this political and economy-oriented step of the US do any good to the environment? The answer is no. The result has been the domestic production that has caused immense havoc on the environment. As result of import bans of crude oil, for example, Iran has started refining its own crude oil that contains ten times the level of pollutants of the oil it used to import.

If we look at China, the evidence suggest that its economic growth has come with a relatively lesser increase in emissions as compared to what had happened earlier in Europe and North America. The reason is that China has been able to “leapfrog” to those technologies which are much cleaner than those which were used by Europe and North America at similar stages in their development. China’s emissions are high but it is making tremendous gains in reducing their emissions, particularly after becoming more integrated into the world economy. Global market access has provided major incentives to China due to which it has moved from the position of one of the world's top polluters into a global leader which is fighting against climate change and pollution. In 2017, China shut down many factories which were not complying with its policy of environmental standards.

Apart from China, The European Union has started an initiative which has the objective to reduce the negative environmental impacts generated by the use of natural resources, decoupling growth and environmental impact. Similarly, the UK has indicated a shift towards a *One Planet Economy*, with the start of the government's new UK Sustainable Development Framework. Sweden has also pledged to become the first *oil-free nation* by 2020 by switching to alternative fuels.

In contrast, the US is slowly drifting away from the climate change fight in part because of the anti-globalization inclinations of their current president, Donald Trump. He pulled the US out of the Paris Agreement on climate change in keeping with his anti-globalization campaign. Through its America First Energy Plan, the Trump administration has outlined its preference for polluting industries, the use of fossil fuels and the revival of the coal industry.

### 14.4.1 North-South Divide

The issues on which attention is focused are often far from the experience of environmental degradation of poor people in hamlets, villages, towns, and mega-cities in large parts of the world, where "the 'environment' consists of problems associated with health, shelter, and food availability" (Redclift and Sage, 1998: 501). India's prime minister Indira Gandhi had reminded the world at the 1972 UN Conference on Environment at Stockholm that tackling poverty is a bigger task than environment for countries like India. She was establishing a link between poverty and environment when she famously said: 'Poverty is the greatest polluter'.

The wealthy developed countries are collectively known as the North while the poorer developing countries as well as the least developed countries are together known as the South. The South prioritises the above-mentioned issues as the environmental concerns while the environmental issues addressed by governance at the global level tend to be those on the priority agenda of the North (Agarwal, Narain, and Sharma, 1999; Gutman, 1994). These issues are mostly of global character which often includes climate change, ozone depletion, and biodiversity.

The issues which the South prioritizes, are less visible on the global agenda. Such invisibility of environmental issues prioritized by the South can be related to the North-South power gradient. The present international system is such that the more powerful countries set the environmental agenda.

But it can also be argued that Northern dominance with respect to setting the agenda is often supported by the invocation of science. Most of the data and evidence which is assembled at the global level and further incorporated into global models, is not generated in the south and tropical latitudes but in the developed countries or we can say the North. Hence, the assessments may be less effective for environmental problems in the South. For example, due to the possibility to have strict safety conditions while using a pesticide, significant risks can be avoided in the developed countries while in the developing countries the farmers may pose significant risks to their health due to low education and awareness levels as well as lack of the availability of the protective gear.

What weakens the position of the developing countries in various multilateral negotiations as well as their participation is the lack of national scientific capacity. Even in the global institutions such as the IPCC, there is a huge disparity in North-South participation. In the 1996 IPCC Working Group I there were 158 authors from the U.S., 61 from the U.K., 3 from India, and 7 from China. The relative participation looked similar in Working Group II. Working Group III had 30 participants from the United States, 5 from the United Kingdom, 7 from India, and 2 from China (Kandlikar and Sagar, 1999). Hence it is imperative to increase the generation of scientific knowledge in the South and of the South. Four strategies could be pursued in this direction: (1) strengthening the data and science foundations of the South; (2) strengthening the scientific community in the South; (3) encouraging more research on the South among Northern scientists; and (4) expanding the groups capable of generating scientific knowledge.

## 14.5 INDIA AND ENVIRONMENT

India has the population of 1.35 billion people and stands at second most populous position worldwide. India is one of the twelve mega-biodiversity countries of the world. From 70 percent of geographical area surveyed so far by the Botanical Survey of India, Zoological Survey of India and Forest Survey of India, about 16,000 plant species and 81,000 animal species have been identified in India. (Ministry of Information and Broadcasting. 2004. 256). According to the World Wildlife Fund, overall industrial roundwood usage in India is currently the 8th highest in the world and could surpass 70 million square meters annually by 2020. A 2013 report from India's Central Pollution Control Board found that more than 2,700 million litres per day of domestic sewage is discharged by cities located along the Ganges River. The major environmental issues which India is facing are:

- Air pollution from the industries
- Vehicular emissions
- Greenhouse gas emissions
- Chemical and oil pollution
- Municipal solid waste management
- Water pollution from raw sewage
- Slash and burn practices

India is also one of the highly vulnerable countries to global warming because the Indian economy highly depends on climate sensitive sectors like agriculture, water, forest and hydro-power. Further addition to the magnitude of vulnerability is provided by India's densely populated low-lying coastline. The coastline remains under constant threat from climate related disasters including rise in level of sea water.

To combat such vulnerability, India has agreed to the Montreal Protocol in 1992. India has also endorsed UNFCCC in 1993 and consented to the Kyoto Protocol in 2002. India's strategy towards climate change as well as the contribution to global effort to reduce the risk of climate change are noteworthy. As per the study, Climate Change Mitigation in Developing Countries: Brazil, China, India, Mexico, South Africa and Turkey (2002), by Pew Centre, India's growth in energy-related carbon dioxide emissions was reduced over the last decade through economic restructuring, enforcement of existing clean air laws by the nations highest court, and renewable energy programmes. In 2000, energy policy initiatives reduced carbon emissions by 18 million tonnes - over 5 percent of India's gross carbon emissions. About 120 million tonnes of additional carbon mitigation could be achieved over the next decade at a cost between $ 0 to $ 15 per tonne. Major opportunities include improved efficiency in both energy supply and demand, fuel switching from coal to gas, power transmission improvements, and afforestation. The study also finds that China has dramatically reduced its emissions growth rate at a faster rate as compared to India.

According to the Kyoto Protocol of 1997 signed by 37 industrialized countries and the European Union, the goal for 2008-2012 was to reduce the GHGs emissions to 5.2% lower than the 1990 level.

India, as the third largest producer of GHGs is facing tremendous pressures from the international community to meet these targets. India's extensive environmental laws seem to have very little effect in reducing the harmful effects of pollution, MSW, and GHG emissions. One of the reasons could be the major concern of how to safeguard the environment without adversely affecting the country's economic growth and employment levels.

Enthusiasm of developing countries is noteworthy and they are keen to cooperate in the global efforts to stabilise the $CO_2$ concentration at a desirable level. Most of the developing countries are not resourceful and are less equipped in terms of institutional arrangements to try ET and avail the full benefits of CDM. However, India is in a relatively comfortable position as compared to many developing countries to try ET and CDM flexible mechanism of the protocol. Gupta (2003) observes that if India can "understand and address the problems in using broad market-based approach to environmental management" it may benefit from participating in ET and has a good prospect in CDM. At present, India has no obligation to be a player in ET, however in long run, India can become a major player. Parikh and Parikh (2002) have critically analysed the prospects for CDM. According to them, in general, CDM is attractive and rewarding for developing countries. But the authors have shown their worry with respect to the equity aspect of CDM operations. In absence of reliable carbon price and uncertainty about the future carbon price behaviour, because at present there are no forward or future markets for carbon, the sharing of gains from CDM project may not be equitable between investor firm or a country and the host country. So, in the case of CDM projects, India has to be a smart player. In general, the developing countries will be helped by the CDM on a large scale.

Since 1987, through Montreal Protocol, much is achieved by the international community but still, the stratospheric ozone layer is not safe. India has honoured the Protocol along with its London Amendment in 1992. Ministry has established an Ozone Cell to cooperate in this respect and has taken also appropriate measures. (Ministry of Information and Broadcasting. 2004:272). The role of international environmental management regimes becomes instrumental for developing countries like India. For example, the UN Conference on Human Environment at Stockholm in 1972 inspired Indian government to set up a National Committee on Environmental Planning and Co-ordination. As a result, the Parliament passed a few acts. Further, the government also framed rules on the basis of these acts e.g., (a) Air and Water Pollution, (b) Forest Conservation, and (c) Wildlife Protection. In late 70s and early 80s, it was all about environmental planning and co-operation. Even till 1986, there was no Ministry at the Centre to guard the environment and the forests. There was no National

Environment Policy in India till 2006. It was adopted for the first time in 2006 after about 60 years of India's independence. But also, many investors and venture capitalists are now seeing India as the 'next big thing' for clean technology investments. According to a 2014 report from the World Bank, ecosystem degradation in India currently costs the country $80 billion annually, or 5.7 percent of GDP. If the country wants to break the cycle of environmental loss and resource depletion, it must further embrace clean technology and sustainable policies, the World Bank said.

There is a lot of talk about the far right at the international political scenario at present. One can also think that globalisation is responsible for the rise of the far-right. Prudence requires that Indian policymakers plan economy's major strategies on the assumption that the rightward swing will continue. This might lead to the West becoming an economic and security fortress. On the economic front, this poses three challenges for India: (a) coping with rising protectionism and reduced foreign direct investment flows; (b) accelerating domestic demand growth; and (c) building up intellectual capital.

At the front of environmental diplomacy, the West has only paid lip service to principles like 'common but differentiated responsibility' and the 'polluter pays principle'. It is a common expectation that India and China must do more.

**Check Your Progress Exercise 2**

**Note:** i) Use the space given below for your answer.

ii) See the end of the unit for tips for your answer.

1) Explain the role of North-South knowledge divide in misrepresentation of global environmental issues.

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2) Enlist the environmental concerns of India and discuss briefly how has India contributed in the fight against environmental degradation?

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## 14.6 SOLUTION TO THE ENVIRONMENTAL PROBLEMS

Some of the environmental problems are spread across political boundaries. A local or regional environmental problem may have implications for the global environmental. On the other hand, some global environmental problems can only be solved through local initiative. We have discussed at length that the increasing pace of globalization has harmful effects on the environment and this has been a major global concern. For managing globalization and the global environment we need global and regional governance. Efficient and effective mechanisms are to be developed which can check the impact on the environment. Governments and individuals need to show strong will for the genuine implementation of the existing mechanisms, particularly in India. Some researchers also believe that the solution to the problem lies in the problem itself i.e., the globalisation can provide the support structure which will be economically feasible and environment friendly. Globalization involves the movement of manufactured goods as well as the transfer of intermediate goods, capital goods and technologies. Multinational corporations with clean state-of-the-art technologies can transfer their green know-how to the countries with low environmental standards.

Due to high consumption levels, humanity's ecological footprint has increased to the point where the Earth is unable to keep up in the struggle to regenerate. The key to resolving this challenge is to de-link consumption from growth, and growth from development. With the clean technologies and environmental initiatives launched by Europe, U.K and Sweden, we can say that the key actors have begun to recognize and some have started to implement the notion of constrained consumption. It is required to provide the poor with the opportunity to increase their use of resources while the affluent reduce their share in order to achieve sustainable global equity.

However, an important question is whether *deglobalization* would have the opposite impact on the environment. There are mounting anti-globalization sentiments appearing and which have engulfed the Global North. The rise of anti-globalization forces also means less specialization in sectors in which countries have comparative advantages. If every country has to produce to meet its domestic demand, in other words, it could result in duplication in production processes and therefore an increase in local emissions. Some countries have weaker environment standards as compared to others, this could worsen the global emissions scenario. Deglobalization isolates countries, making them less likely to be responsible for the environment. The gains associated with globalization, on the other hand, can be used as effective bargaining strategies or an incentive to demand environmental accountability from countries hoping to benefit from global trading systems. The policies by the current president of the U.S signals that deglobalizing countries may drift away from sustainable development practices towards industrial policies that are devastating to the environment.

So, it is not very clear at the moment whether anti-globalisation would do wonders for our environment. We are responsible for all the environmental threats we face today and only we can possibly solve them to a great extent, if not completely, if we show our will to do it.

**Check Your Progress Exercise 3**

**Note:** i) Use the space given below for your answer.

ii) See the end of the unit for tips for your answer.

1) Do anti-globalisation sentiments rising across the globe provide a key to resolve the problems the countries are facing in context of environment?

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## 14.7 LET US SUM UP

In this unit we learnt about the relationship between globalisation and the environment. Globalisation has direct as well as indirect effects on environment. The environmental concerns of every nation are linked with global environmental concerns and hence it was imperative to throw some light on them. Such concerns were born out of the recognition that ecological processes do not always respect national boundaries and that environmental problems often have global impacts. Global warming, climate changes, ozone cover depletion, biodiversity conservation are some examples of such global environmental issues. Global partnership and co-operation are crucial in tackling these issues. And so the global initiatives like UNFCCC and the Kyoto Protocol were discussed.

The developed and developing countries have different views on what constitutes the environmental issues as it was clear after the discussion of North-South knowledge divide. Some steps taken by the U.S, UK, China and Europe were also discussed along with their future orientation. India's active role in the global environmental initiatives like the Kyoto Protocol was explained wherein the role of flexible CDMs was given more importance.

It is an absolute necessity that we take steps and make efforts to maintain the harmony with the environment. Humans will survive on this planet only if we stop ignoring the consequences of our own actions. The moral and spiritual dimension of planetary aspirations may not seem like an appropriate subject for policy discussions, but it lies at the very heart of the type of global society that we want to live in and the type of global society that we are constructing. The proposed solutions have sentiments of anti-globalisation and globalisation both in the background through which the environmental issues can be tackled but the strong will is common in both the school of thoughts. The need of the hour is to create effective policies, their sound implementation and a genuine will to work in this direction.

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## 14.9 ANSWERS TO CHECK YOUR PROGRESS EXERCISES

**Check Your Progress Exercise 1**

1) Discuss the emissions from fossil fuel and the categories of indirect effects i.e., composition, scale and technique effects. Read carefully Section 14.2 to write your answer.
2) Your answer should include the discussion about UNFCCC and Kyoto Protocol. Read carefully Section 14.3 to write your answer.

**Check Your Progress Exercise 2**

1) Discuss the invisibility of the South and the development of data and evidence concentration in North. Read carefully subsection 14.4.1 to write your answer.

2) The list shall include various kinds of pollution present in India. The support and consent of India for UNFCCC and Kyoto Protocol shall be highlighted. Read carefully Section 14.5 to write your answer.

**Check Your Progress Exercise 3**

1) Give your point of view after assessing the pros and cons of anti-globalisation. Read carefully Section 14.6 to write your answer.

# UNIT 15: ECONOMIC COCNERNS

**Structure**



## 15.0 OBJECTIVES

In this Unit, you will be reading about India's main economic concerns. After going through this Unit, you would be able to

- understand the growth imperatives for India's economy;
- understand and differentiate between the way Indian economy operated in the pre and post-liberalisation era (pre and post 1991);
- its resultant impact on the foreign and trade relations, both in the region and globally; and
- explain the strengths and weaknesses of Indian economy and the global paradigms that are impacting India.

## 15.1 INTRODUCTION

India is a mixed economy—world's sixth largest at $2.6 trillion and set to continue its steady run as the world's fastest growing major economy. One objective of India's economic policy has been to protect its markets from international competition, minimise imports and encourage exports. Attracting investments in India in the form of Foreign Direct Investment (FDI) and facilitating foreign manufacturing industry to set up Indian operations is the other. 'Make in India' campaign launched by Prime Minister Narendra Modi in 2014 is based on the basic tenets of inviting investments to help economy grow on the one hand and generate employment on the other. An important view of this is the change in India's economic cooperation in the global markets.

Even though India produced over US$10 trillion in goods and services in 2018, it will take a while to beat the top three: China, with a production worth $24 trillion; European Union (EU) with $20 trillion; and, the US with $18 trillion. India is now targeting to become a $10 trillion economy from about $2 trillion today by 2030. The newly elected government for the second term under Prime Minister Modi has set the target to become $5 trillion by the year 2024. In a globalised world, India, during 2008-14, grew between 5-11 per cent and thereafter a little slower between 4-8 per cent. India has shifted towards a market economy, privatised many state-owned enterprises, opened doors to private sector and FDI and deregulated several industries. Needless to say, by becoming an integral part of the global economy, India had to face several concerns relating to trade—bilateral and multilateral, sanctions, dumping and negotiations—global and regional, from GATT to WTO. It is interesting to note that this phenomenal growth has lifted more than a hundred million Indians out of abject poverty. India's rapid economic growth has attracted international attention during last two decades—so much so that it has world's fastest growing economy today.

## 15.2 INDIA'S ECONOMIC LANDSCAPE

India's GDP is estimated to have increased 7.2 per cent in 2017-18 and 7 per cent in 2018-19. India has retained its position as the third largest Start-up base in the world with over 4,750 technology start-ups. India's labour force is expected to touch 160-170 million by 2020, based on rate of population growth, increased labour force participation and higher education enrolment, among other factors. India's foreign exchange reserves were $405.64 billion in the week up to March 2019, according to Reserve Bank of India (RBI).

During 2018-19 (up to February 2019), merchandise exports from India have increased 8.85 per cent year-on-year to $298.47 billion, while services exports have grown 8.54 per cent year-on-year to

$185.51 billion. India's FDI equity inflows reached $409.15 billion between April 2000 and December 2018, with maximum contribution from services, computer software and hardware, telecommunications, construction, trading and automobiles.

India is a country of contrasts, marrying huge potential with profound and chronic challenges. India’s economy was largely closed until the 1980s. In recent decades, a series of policy reforms have gradually opened it to international trade; exports and imports have both grown. Its recent high economic growth rates have improved the prospects that the world’s second most populous country will be able to raise incomes broadly for its 1.3 billion people and contribute to global economic stability and growth.

Yet, India remains the largest pool of poverty in the world—nearly 300 million—and more than 800 million surviving on less than $2 a day, as per the national poverty line. Almost two-thirds of Indians still live in rural areas and well over half of the population works in the agricultural sector, where growth has stagnated at less than 3 percent during the last decade. By contrast, India’s world-renowned high-technology service sector has grown strongly in recent years but still employs less than 1 per cent of the workforce.

Despite the recent expansion of India’s trade with the world, its share of global trade is disproportionately small given its size. India’s bound tariffs are still relatively high, although applied tariffs are much lower. Because of this gap, the government currently retains significant policy space with respect to trade, including the ability to raise and lower tariffs in response to prevailing conditions. Thus, the decisions it makes in trade negotiations to bind tariffs at lower levels or otherwise change the rules governing its engagement with its trading partners constrains its existing policy space and potentially has significant impact on the evolution of the economy.

The policy of economic liberalisation of India was put into operation with effect from 1991. A highly crucial aspect of economic liberalisation is the liberalisation in the field of foreign trade. India has been incrementally integrating into the global economy and liberalising its trade settings. For example, trade in goods and services as a percentage of GDP has risen from 15.7 per cent in 1990 to 39.8 per cent in 2016 – around the same level as Australia – and India's simple average most favoured nation applied tariff in 2016 was one-tenth of what it was in 1990–91.

## 15.4 Economy: Post-Independence

From independence until the 1980s there was the general policy of planned regulation and import substitution. After the 1980s, the government started to focus on some partial form of liberalisation. And then came the phase after 1991, which focused on liberalisation, privatisation and globalisation.

During the first phase from 1947-52, in view of the fact that India's balance of payments vis-à-vis dollar was adverse, a blueprint was prepared to enhance exports to bring in foreign exchange. This required India to devalue its currency in 1949 to promote exports. The import policy during this while was defence and limitations were imposed due to domestic deficiencies. India also could not liberalise imports due to restrictions imposed by UK on the utilisation of the sterling balances, which was a legacy of the period of war controls.

The second phase, which lasted till 1957, the government increasingly adopted liberalised trade policy. Import licenses were granted and attempts were made to promote exports by liberalising import controls. During the third phase from 1958 to 1975, trade policy was exhaustively reviewed including by the Mudaliar Committee (1962). Rupee was once again devalued in 1966 and trade policy attempted to develop exports and liberalise imports excessively.

During the last phase (1975-onwards) the government adopted a policy of import liberalisation with a view to support export promotion. During the Janata party government (1977-79) import liberalisation was also adopted to increase domestic supply of necessary goods to control hike in price level and intention of further economic expansion and export promotion via import liberalisation. The framing of the import-export policy (1985) was based on the recommendations of Abid Hussain Committee.

The first major attempt at liberalisation that was unleashed by Prime Minister Narsimha Rao in 1991, was actually made under Prime Minister Rajiv Gandhi's leadership subsequent to him coming to power in 1984. The initial liberalisation process of 1985 attempted at policy changes across all major sectors of the economy, i.e., industrial, trade, fiscal and monetary. As a consequence, during 1985-90, exports surged witnessing a record annual growth of over 17 per cent in dollar terms.

Realising the limitations of the regulative procedures, the government announced a number of measures in 1991. Liberalisation was initiated to reduce restrictions and open up the respective sectors of the economy; ease controls; and, end the license-inspector-Raj. The areas of focus included: industrial licensing, export-import policy, technology upgradation, fiscal policy and foreign investment. The reforms were comprehensive and widespread aimed for India to become a part of global mainstream economy.

Measures included, duty exemption scheme; setting of Export Processing Zones (EPZs); Special Economic Zones (SEZs); Export Promotion Capital Goods (EPCG) Scheme; Export Trading Houses and Star Trading Houses; Export Promotion Schemes; liberalisation of gold imports; India's Foreign Investment policy; Exchange Rate liberalisation; partial rupee convertibility; full convertibility on trade account; capital account convertibility; and, Export-Import Policy and revamping the Export-Import Bank.

**Check Your Progress Exercise 1**

1. Explain the nature of Indian economy post Independence?
2. Explain the phases of Indian economy pre-liberalisation.

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## 15.4 INDIA AND WTO

The Uruguay round of General Agreement on Tariffs and Trade (GATT) 1986-93, gave birth to the World Trade Organisation (WTO). GATT was formed in in Geneva, 1948 to facilitate free trade in order to encourage growth and development of member countries. On 1 January 1995, GATT was replaced by WTO under the Marrakech Agreement, which holds the promise for the entire world economy in respect of international trade. It became the legal institution of the multilateral trading system, which deals with regulation of trade issues between participating countries. India has been a founding member of both GATT and WTO. And post establishment of WTO, India's trade policies changed dramatically as per WTO guidelines and policy directions.

Some of the significant advantages to India under WTO have been: increase in foreign trade; increase in agriculture exports; inflow of foreign capital investment; and, investments in services. It also had its disadvantages, e.g., loss of domestic industries; effects on domestic prices; impact on employment; decline in regional groupings like SAARC, ASEAN,etc.

Throughout the existence of WTO, the debate has raged as to what has India achieved due to this. It has become a dispute settlement body and mostly been blocked by the US, paralysing the dispute settlement mechanism. The WTO has been dominated by the developed countries, with US playing a predominant role. The US is now becoming protectionist, moving away from its earlier stance of supporting trade and investment liberalisation, insisting on tariff reductions. In order to realise the goal of 'America First', President Donald Trump has renegotiated North American Free Trade Agreement with Canada and Mexico and so on. On the contrary, China has emerged as a supporter of globalisation and free trade as it remains the biggest exporter in the world.

In this context, it becomes imperative for India to expand its trade and economic ties with regional partners and focus on India becoming a manufacturing hub with the objective to become an exports market.

## 15.5 INDIA vs. ASEAN

The Association of South East Asian Nations (ASEAN) comprises Indonesia, Singapore, Philippines, Malaysia, Brunei, Thailand, Cambodia, Lao PDR, Myanmar and Vietnam. India's focus on a strengthened and multifaceted relationship with ASEAN since liberalisation and its continued search for economic space resulted in the 'Look East' policy. This has today matured into a dynamic and action oriented 'Act East' policy. Prime Minister Narendra Modi at the 12$^{th}$ ASEAN India Summit and the 9$^{th}$ East Asia Summit held in Nay Pyi Taw, Myanmar, in November 2014, formally enunciated the 'Act East' Policy.

As a reflection of the interest of ASEAN and India to intensify its engagement, the ASEAN-India Partnership for Peace, Progress and Shared Prosperity, which sets out the roadmap for long-term ASEAN-India engagement, was signed at the 3$^{rd}$ ASEAN-India Summit in 2004 in Vientiane. According to Ministry of External Affairs (MEA), Government of India, a Plan of Action (POA) for the period 2004-2010 was also developed to implement the Partnership. The 3$^{rd}$ POA (2016-20) was adopted by the ASEAN-India Foreign Ministers Meeting held in August 2015. Furthermore, ASEAN and India have identified priority areas for the period of 2016-2018 and are already implementing activities under it, which would contribute towards successful implementation of the 2016-2020 Plan of Action, says the MEA communiqué.

India-ASEAN trade and investment relations have been growing steadily, with ASEAN being India's fourth largest trading partner. India's trade with ASEAN stands at $81.33 billion, which is approximately 10.6 per cent of India's overall trade. India's export to ASEAN stand at 11.28 per cent of our total exports, says the ministry. In the backdrop of intensifying US-China trade war, it is assumed to have been the main push factor for the enhanced regional cooperation.

In the wake of recent developments the US, India, Australia and Japan have collectively come out in strong support of an ASEAN-led mechanism to preserve and promote rules-based order in the Indo Pacific region where China is flexing its muscles. The four countries have affirmed their strong support to ASEAN centrality and ASEAN-led regional architecture. The 10-nation Association is considered one of the most influential groupings in the region and India and several other countries are its dialogue partners.

## 15.6 India and G20

The G20, founded in 1999, with the aim to discuss policy pertaining to the promotion of international financial stability, is the latest in a series of post-World War II initiatives targeted at international coordination of economic and financial relations and policy. To start with it was Bretton Woods System consisting of International Monetary Fund (IMF) and International Bank for Reconstruction and Development (IBRD), later re-christened as the World Bank. This has since paved the way for WTO.

The G20 membership comprises a mix of the world's largest advanced and emerging economies, representing about two-thirds of the world's population, 85 per cent of global gross domestic product and over 75 per cent of global trade. The members of G20 are Argentina, Australia, Brazil, Canada, China, France, Germany, India, Indonesia, Italy, Japan, Republic of Korea, Mexico, Russia, Saudi Arabia, South Africa, Turkey, UK, US and the European Union.

India has emerged as an important member of G20—contributing and influencing the reshaping of the world economic and financial order. India is pursuing an ambitious multi-pronged agenda for the G20: ranging from deploying global surpluses for infrastructure development, inclusive development, energy efficiency to global action to mitigate terrorism, reforming global financial architecture, corruption and black money. India's core agenda centres around stable and sustainable global growth for employment generation, stable financial markets and global trading regimes. Accordingly, the country is pushing for poverty eradication and sustainable development, besides trade and investment.

Heads of various nations, including India, US, Australia, among others, met at the recent G20 summit in Osaka, Japan during in June 2019 to address major global economic concerns and pave the way for inclusive and sustainable growth, by dealing with social, economic and environmental challenges. Suresh Prabhu, India's Sherpa to the G20, while addressing the Summit in Osaka, said India has been working on tax evasion, economic offences and fugitive offenders running away (from the country). He further added that the global community must act in unison to deal with issues of people committing economic offences and running away. Prabhu also said that India strongly believed that climate change was a reality, the biggest threat to humanity and the country was focusing on clean and renewable energy to generate power.

The following efforts of India at G20 have been appreciated in a G20 status report:

1. India has done a good job to popularise the derivative instruments on exchanges;
2. The international body observed that India has done a good work in labour reforms in order to boost workers' security and increasing female participation in the workforce; and,
3. India has initiated Start-ups to facilitate external borrowings by promoting innovation and easing of doing business.

**Check Your Progress Exercise 2**

1. India has played a predominant role in WTO. Explain.
2. Explain how India gained a foothold in ASEAN countries.
3. How is India leveraging G20?

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## 15.7 INDIA'S TRADE RELATIONS IN SOUTH ASIA

In a report titled *'A Glass Half Full: The Promise of Regional Trade in South Asia',* released September 2018, the World Bank estimates India's potential trade in goods with South Asia at $62 billion against its actual trade of $19 billion. This is merely 3 per cent of the global trade and about $43 billion below its potential. In the context of South Asia, an incremental approach toward deeper trade cooperation can be very powerful and the region has witnessed examples of this in the form of India-Sri Lanka air services liberalisation and India-Bangladesh border 'haats', said Sanjay Kathuria, lead author of the report and lead economist, World Bank.

In 2015, with total imports into South Asia from rest of the world of $510 billion, exports to rest of the world of $329 billion and total trade with rest of the world of $839 billion, South Asia accounted for 3 per cent of world imports as stated above, 1.99 per cent of world exports and 2.5 per cent of world trade. Within South Asia, India is the most dominant economy. Out of total imports of $510 billion, imports into India (from outside the region) were $391 billion, thereby accounting for 77 per cent of the total imports into South Asia. Similarly, with total exports of $264 billion (to outside the region), India contributed 80 per cent of the total exports of $329 billion from South Asia as per a report of Department of Commerce, Government of India published in September 2017.

South Asia and America are the two regions with which India has a trade surplus. However, while India's trade surplus with America is only 16 per cent of India's exports to the region, India's trade surplus with South Asia, is an extraordinary 87 per cent of exports to the region. This not only signifies the current dominant status of India in South Asia, it also indicates that there is a considerable potential for enhancing intra-regional trade. The World Bank estimates that if barriers to trading with neighbours were removed, intra-regional trade in South Asia could increase from the current $28 billion to $100 billion. Emphasis is, therefore, being placed on the removal of impediments to such trade for realisation of the potential.

Based on trade data from Department of Commerce for 2016-17, the main characteristics of India's trade with countries in South Asia are summarised below:

- Bangladesh is the largest trading partner in South Asia, followed by Nepal, Sri Lanka, Pakistan, Bhutan, Afghanistan and Maldives.

- The highest quantum of exports within South Asia is also to Bangladesh followed by Nepal, Sri Lanka, Pakistan, Bhutan, Afghanistan and Maldives.
- 83 per cent of the total exports in South Asia were made to Bangladesh, Nepal and Sri Lanka.
- Bangladesh alone accounted for more than 35 per cent of the exports with Nepal contributing 28 per cent, Sri Lanka around 20 per cent, Pakistan around 10 per cent; the exports to Afghanistan, Bhutan and Maldives cumulatively accounted for only 7 per cent of the exports to South Asia.
- The maximum imports are from Bangladesh followed by Sri Lanka, Pakistan, Nepal, Bhutan, Afghanistan and Maldives.
- India enjoys a substantial trade surplus with all the countries in South Asia. In line with the trend of exports and imports, the top three countries in terms of trade surplus are Bangladesh, Nepal and Sri Lanka.
- The trade surplus as a proportion of exports is least for Bhutan and Afghanistan, indicating a more balanced trade with them, compared to the other countries in South Asia.
- The trade surplus as a proportion of exports is highest for Maldives followed by Nepal and Sri Lanka, showing India's dominance in bilateral trade with them.

**Check Your Progress Exercise 3**

1. India is an important trading partner with countries in South Asia. Explain.

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## 15.8 TRADE AND FOREIGN POLICY

Two of the most critical challenges are the accelerating trade war between the US and China on the one hand and the foreign policy choices of India, on the other, where Indian and American interests are clashing.

The trade wars waged through tariff hikes and counter-hikes by the Trump Administration, on the one hand and some big economies, on the other, notably China, have intensified during 2018-19. The US has imposed $250 billion in tariffs on Chinese goods and Beijing has retaliated with $110 billion on American exports. Canada and Mexico have added $20 billion more in response to Trump's steel and aluminium tariffs.

President Trump maintained that the tariffs are a short-term price to open foreign markets for US companies. However, the trouble is that the price for opening up markets for the US is rising fast and it may not just be short-term. Negotiations with China are also standstill.

The rules-based multilateral order has long been buttressed by the assumption that economic liberalisation and development would inexorably lead China to embrace Western-style economic norms of global trade and investment. If China has refused to yield fully to those norms gracefully ever since it entered the World Trade Organisation in 2001, would it not be unrealistic to expect that it will accept to American demands disgracefully under the threats of tariffs and trade wars. Where the ongoing problems in global trade will end is not clear now? Whichever way the trade feuds end, tensions among countries could well be prolonged by differing approaches to trade, investment, technology and the role of the state in the economy.

This poses trade and foreign policy challenges for India as well. On 1 October 2018, President Trump termed India a "tariff king" and reiterated his allegations that New Delhi has charged high tariff rates on various American products. He claimed that after he warned against imposing similar tariffs on import of Indian products, the Indian negotiators called him that they want to cut a trade deal with the US. "We have a country, take India. Good relationship. They want to make a deal now because they don't want me to do what I'm going to do, what I have to. So, they (Indians) call us. They didn't want to make a deal with anybody else," the US President had said.

The impression Trump has sought to create was that India folded under his threat of US action. Trump has often accused India of imposing 100 per cent tariffs on US products. A month earlier, he had said India wanted a trade deal with the US despite his administration's tough stance on the issue.

The language being used by the US President every time he comments on trade relations with India is far from friendly. But then, India can hardly claim a high moral ground here. On a closer inspection, it can be found that India is among the most heavily protected economies in the world. Among members of the BRICS—Brazil, Russia, India, China, South Africa—India has the highest effective tariff rates on food items, automobiles and industrial inputs.

In June 2018, India had increased duties, which came into effect in August, on a range of agricultural, iron and steel products imported from the US in a tit-for-tat move after the Trump administration imposed higher tariffs on some Indian goods. In September, India again raised import tariffs on 18 items and introduced a new tax on jet fuel as it seeks to narrow its current account deficit, which has weighed on the rupee. All these gave fresh ammunition to the US administration.

Given India's own protectionist policies, the prospects of a full-blown Indo-US trade war could not be ruled out. Until now, India's economy was affected by a tepid export market due to apprehensions about the turns the global trade war might take. But if India is directly embroiled in it, it could be catastrophic to the domestic industry, especially pharmaceuticals, apparel and textiles, iron and steel, mineral fuels and fisheries. Slowdown in export demand and foreign investment outflows are likely to exert further pressure on the Current Account Deficit (CAD).

Capital outflows and the FDI slowdown during this time contributed to the woes of the Indian economy in a big way, as noted by the World Investment Report 2018 released by United Nations Conference on Trade and Investment (UNCTAD) in June 2018. The amount of easy money that was available due to quantitative easing by the US Fed is drying up, as the US central bank is in monetary policy tightening mode. The report said FDI outflows more than doubled in 2017 to $11.3 billion while FDI inflows fell 9 per cent to $40 billion during the year. The rupee will weaken more on account of capital flows than the impact of trade problems.

India is the second largest importer (after China) of crude oil from Iran, on whose oil trade American sanctions were re-imposed from 4 November 2018 following the Trump administration's unilateral withdrawal from the nuclear deal concluded in 2015. India's bilateral relations with Iran is not just oil-centric; they transcend oil to a long-term strategic engagement. India has invested in the development of Iran's Chahabar port as a transit hub for Afghanistan, Central Asia and International North-South Transport Corridor. India is developing two gas fields, Farzad-B and South Pars, in Iran. Both countries cooperate on efforts to end the Afghanistan conflict.

There is a lesson for India in trade and technology policies devised for securing national economic and security interests. By not taking a negotiations path, India may have unwittingly opened a new front in the protectionism debate, for example, on data which many say is the new oil.

India has been exploring the viability of rupee and barter-based trade agreements with crude oil producing nations such as Russia and Iran. Russia was one of many countries looking to reduce their dependence on the dollar amid increasingly harsh US tariff and sanctions policy. Iran was also making efforts to make dollar irrelevant for its trade through a package of measures, including increased trade using the euro and other currencies.

An important factor that sparked Sino-American trade friction was that on the technology front, China continues to pursue its 'Made in China 2025' strategy, the goal of which is to position it in the driving seat in areas that its leaders have deemed essential for both economic growth and national security. China, it appears, has erred in the coercive application of this strategy—it often amounted to a shakedown as the country forced foreign companies to hand over their technology in return for access to China's lucrative markets.

China has captured the Indian markets in a big way during last two decades, utilising the rules of the WTO. Trade with China has increased from less than $1 billion in 1997-98 to $89.71 billion in 2017-18. Not only India; China is causing havocs to many countries including US, European and many other countries. In fact, China has a trade surplus with around 130 countries. Because of this, industries in India, America, Europe and several other countries have been badly hit and this has led to huge unemployment in all these countries.

## 15.9 INDIA AT 2030

In 2030, with a population of 1.5 billion and GDP of $10 trillion, India's per capita income will be $6,600 (from $2,000 today compared to China $9,000 and Thailand $6,000). Even if we continue to grow at 7 per cent annually, the per capita income will be lower than China today even 20 years from now.

By 2030, 50 per cent of India's population will reside in urban areas. Economies of India's top 5 cities will be comparable to those of middle-income countries today. For example, according to a McKinsey report, *India's Ascent – Five Opportunities for Growth and Transformation,* Mumbai's economy in 2030, estimated at $245 billion, will be bigger than that of Malaysia today. Propelled by Foreign trade policy (2015-20), India's exports are expected to reach $750 billion by 2019 and thereafter, India's share in world trade is expected to double from the present level of 3 per cent by 2020 (World Bank estimates and Federation of Indian Export Organisation-FIEO estimates).

Total FDI inflow has increased from $45.15 billion in FY14 to $61.96 billion in FY18, according to Department of Industrial Policy and Promotion, Government of India. India is also offering a plethora of business opportunities and favourable policies, which are playing a key role in attracting substantial investments across sectors. For instance, Amazon has committed investment of $5 billion in the coming 5 years; IKEA, the world's largest furniture retailer plans to invest $1.5 billion; IFC, the investment arm of the World Bank, plans to invest $6 billion by 2022 in several sustainable and renewable energy programmes. Additionally, Boeing and Lockheed Martin are setting up manufacturing bases in India, demonstrating that India is becoming a preferred investment destination for foreign players.

On the manufacturing side, India is moving in the direction of Industry 4.0, with a high degree of connectivity and richness of data. The Indian electronics goods industry is one of the fastest growing industries and expected to be worth $400 billion by 2020, according to Ministry of Electronics & Information Technology (MeitY), Government of India. India is now the second largest mobile producer in the world having 120 mobile manufacturing units compared to 2 units in 2014.

The New Industrial Policy will replace the 27-year old existing policy and resolve bottlenecks caused due to infrastructure, labour laws and the business environment. The policy aims at attracting $100 billion in FDI annually and is aligned with Make in India target of increasing share of manufacturing to 25 per cent of GDP by 2022 from 16 per cent currently and create 100 million new jobs.

**Check Your Progress Exercise 4**

1. Explain the tariff related problems with US.
2. Does India have the potential to become $10 trillion economy?

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## 15.10 LET US SUM UP

In an integrated world, economic policies of a country usually affect other countries as well. The policy of economic liberalisation of India was put into operation with effect from 1991. A highly crucial aspect of economic liberalisation was the liberalisation in the field of foreign trade, decontrol, de-licensing, removal of tariff barriers, facilitating foreign investments, spurring manufacturing with focus on exports and employment generation. Ease-of-doing business, Start-up India, change in labour laws, encouraging electronics manufacturing, industrial policy reform, demonetisation, Goods and Services Tax (GST) are but few steps in putting India on a higher growth trajectory to achieve 2030 goals. Needless to say, the Narendra Modi Government 2.0 has already set the target of making India $5 trillion economy by 2024.

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## 15.12 ANSWERS TO CHECK YOUR PROGRESS EXERCISES

**Check Your Progress Exercise 1**

1) Your answer should be based on Section 15.3
2) Your answer should be based on Section 15.3

**Check Your Progress Exercise 2**

1) Your answer should be based on Section 15.4
2) Your answer should be based on Section 15.5
3) Your answer should be based on Section 15.6

**Check Your Progress Exercise 3**

1) Your answer should be based on Section 15.7

**Check Your Progress Exercise 4**

1) Your answer should be based on Section 15.9
2) Your answer should be based on Section 15.9