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RESEARCH PAPERS

INDIA AND THE GLOBAL ECONOMY (A COMPARATIVE STUDY OF SELECT COUNTRIES)

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Abstract

The world economy is in the midst of a profound transformation. Globalisation, liberalisation and privatization constitute the three core elements of the economic reforms in the newly emerging global economic systems. In this paper an attempt is made to envisage the real conditions of the global economy in terms of GDP, Trade, Foreign Direct Investment, Poverty, unemployment, Monitory policy and Social indicates in selected countries like: United States, South Korea, China and India. The study finds China and India has been emerging in terms of GDP, Trade by reducing poverty and unemployment in recent past by expanding inter-firm and inter-industry trade. But India is indexed as low potential and under – performer for attracting FDI.

Introduction

The world economy is in the midst of a profound transformation. Globalisation, liberalisation and privatization constitute the three core elements of the economic reforms in the newly emerging global economic systems. Historic events, like the end of the cold war, the transformation in Central and Eastern Europe, the disintegration of the Soviet Union and the emergence of a common market in Western Europe are most significant on the international front. These changes have had a profound impact on both international relations and the world economy. The world has accepted the concept of the so-called global *economy* and this drastic transformation directly relates to the technological development[1]. Also, there is a strong correlation between economics and technology that influence the progress of any nation. As a result, all of the countries around the globe, including developing and underdeveloped, have accepted this concept of macroeconomic restructuring. It is apparent that India is also passing through this historic movement on the economic front. To examine the latest development in India and to the selected countries interms of Trade, Foreign Direct Investment, and Poverty, Unemployment and social sector, the following objectives are framed.

Review of Literature

Dollar and Kraay (2002)[2], demonstrate that empirical evidence suggests a positive link between the level of openness and economic growth. However, factors such as domestic conditions, investment, market size and sector specialization are also important to economic growth.

Rodrik (1999)[3] argues that the openness required by globalization is no guarantee of better growth performance or poverty reduction. Today, policy questions should drive the way we operationalize a theoretically informed approach to global trade issues, as well as to FDI, as political, economic and infrastructure policies have a big influence on the behavior of MNCs. When society and politics are stable and there is good governance, the investment climate improves and FDI flows increase.

In Asia, Liu and Luo (2004)[4] note a growing interdependence between ASEAN and China, and particularly between ASEAN-5 and China2. The majority of ASEAN and China's exports are largely focused on the major markets of the US, Europe and Japan. But, there is an overlap in the composition of their major export products, particularly in textiles and clothing and other labor- intensive industries. The authors point out that as China's manufacturers climb the technology ladder, the overlap is spilling over into electrical and electronic products, where a number of ASEAN countries had initially established a lead. In the EU, with the last enlargement of May 2004 to 25 countries, the nature of competition is also changing. China has also become the EU's second trading partner (after the US), in 2005. Today, off-shore production and outsourcing both in the manufacturing and service sectors add a new dimension to competitiveness dynamics worldwide. The highly-connected international system is continuously forging high levels of transnational activity. Both at the global and regional levels, MNCs and even smaller firms adjust to competitive pressures by adapting their entry mode in host countries.

With respect to developing countries' integration into the world trading system, according to World Bank simulations (World Bank, 2005: 128-131) they could gain an (unweighted) average of 1.7 percent in real income from a global agreement. But if all developing countries sign *bilateral* agreements with the "Quad" (Canada, European Union, Japan and the United States), creating a complex hub-and-spoke system, developing countries suffer losses averaging 0.4 percent (1.0 percent for the low income countries alone). Strengthening the multilateral process therefore remains a priority, despite many obstacles.

Iradian (2005)[5] looking at inequality, poverty and growth – through a panel dataset of 82 countries for the period 1965-2003 – illustrates that poverty has declined significantly on a global level over the past two decades. However, he stresses that most of this improvement was due to the sharp reduction in poverty in China and India, where the largest share of the world's poor people live (the poverty rate in East Asia and the Pacific dropped from about 58 percent of the population in 1981 to 15 percent in 2001, mainly because of the dramatic reduction in China). In contrast, poverty rates in sub-Saharan Africa have increased, moving from 42 percent of the population in 1981 to 47 percent in 2001. The author attributes this increase to the stagnant annual per capita growth in sub-Saharan Africa over the past two decades, whereas the decline in poverty in recent years in several Asian economies was due to both improved income distribution and sustained rapid growth. Other countries left behind by the integration process are located in Latin America and the Caribbean, the Middle East, and the former Soviet Union. They will miss the MDG poverty target, but from a much lower incidence of poverty than sub-Saharan Africa.

Studying poverty trends since the early 1980s, Chen and Ravallion (2004)[6] predict that if the present trends continue, the 1990 aggregate rate of $1 a day poverty will be halved by 2015, meeting the MDGs, but only East and south Asia will reach this goal (which is consistent with Iradian's study). Also, the authors used a poverty line of about $1 a day, but also considered a line set at twice this value, as well as a relative poverty line that rises with average consumption when it exceeds about $3 a day. They conclude that progress against extreme poverty has been uneven over time. The most dramatic reduction in poverty was in the early 1980s (with coincided with the sharp drop in extreme poverty in China in the aftermath of the reforms). There was more progress in the 1990s, once growth had been restored in China and India (the most populous countries).

Beth Anue Wilson and Geoffrey N Keim (2006) [7] placed India in International economic position and found India is offered more skilled programmes but which must address problem of poverty, infrastructure and governance to achieve potential.

UNCTAD, World Investment Report (2006)[8] says the impact of globalisation on countries and companies is nowhere manifest more than in the outward FDI by the developing and transition economics in recent years. Even, in this phenomenon, countries as diverse as China, Brazil, India, the Russian Federation, South Africa and Turkey have become home to large Transnational Corporations (TNCs) and are investing significant amount of FDI in overseas.

Brigitte le'vy (2005)[9] mentioned that in 21st Century the transnational economic space that globalisation has created needs organizational responses from multilateral institutions and governments. MNC must focuss on elaborating and implementing global rules by forging a consensus with regard to the interest of industrialized, emerging and developing countries.

Objectives of The Paper

1. To grasp the real conditions of the global economy in terms of GDP, in select countries.

2. To study the growth in terms of Trade, FDI, Poverty, Unemployment and social sector in Selected countries.

Methodology

This paper places India in the global context and examines its place. It is a macro analysis, and based on secondary data. The necessary data has been collected from World Investment Report 2006, IMF 2006 Reports, Million Development Programme Report 2006, World Bank Annual Report 2006, Tenth Five Year Planning Commission Paper, and Reserve Bank of India periodical reports. The period of the study is 2000 to 2005. The inherent limitation of this paper is lack of uniform data. Though, title suggests India and the Global Economy, but main focus has been given on selected World economic development countries like: United States of America, South Korea, China and India's.

Economic Conditions of The World

There is widespread concern about the condition of the world economy. Specifically there is in 2006 remarkable coincidence of improved GDP growth of the major economies. The United States economy is growing at 4.8 per cent (1st quarter of 2006 over 4th quarter of 2005). The Japanese economy is expanding again after more than a decade of stagnation. The German economy is beginning to grow a little faster. The Chinese and Indian economies are both expanding rapidly[10]. All of this creates demands among these leading economies as well as in other countries, world trade *is expanding. Demands for oil and metals are high, driving up commodity prices, particularly crude oil.*

In response to these reforms, trade as a percentage of GDP has almost doubled since 1991 and GDP per capita growth has picked up. In this regard, an attempt is made to identify where places India in the Global contest in selected countries. It is, therefore, selected countries and selected economic indicators has been presented in Table 1.

Table1

SELECTED COUNTRIES SELECTED ECONOMIC INDICATORS-2005

	India	China	South Korea	United States
1. Population (in million)	1,100	1,300	49	296.5
2. Percentage of world population	17	21	0.7	5.0
3. GDP ($ billion)	785	2,200	680	12,500
4. GDP annual growth rate	8.5	9.9	5.6	3.5
5. GNI per capital (US $)	720	1,740	15,251	43,740
6. Merchandise trade (% of GDP)	28.2	63.8	—	21.2
7.Imports of Goods services (% of GDP)	21.0	31.4	—	15.1
8. Export of Goods services (% of GDP)	19.0	38.4	—	11.2
9. FDI inflow (US $ billion)	5.3	54.9	—	106.8

Source: Complied from World Investment Reports.

As can be seen from Table 1 that, 9.9 per cent of annual GDP growth rate was registered in China, followed by 8.5 per cent in India and 5.6 per cent in South Korea only 3.5 per cent was noticed in United States of America in 2005. The merchandise Trade in percentage to GDP was highest in China (63.8 per cent), followed by India (28.2 per cent) and only 21.2 per cent was noted in US. Exports of Goods services in percentage to GDP were highest in China (31.4 per cent), followed by India (19.0 per cent) and only 11.2 per cent in US. However, mere US$ 5.3 billion foreign capital inflow is registered in India whereas USD 54.9 billion in China and US$ 106.8 billion in US. Based on the above fact that in South Asia, China and India has been emerging as fastest economy growing countries then that of United States. In case of US economy, no one needs to worry about the GDP annual growth rate because GNI per capita Income is US$ 43,740, which has not been earned ever in any country in the world. Significantly, South Korea has robust their economy. Hence, GDP per capita of South Korea, China and India has been presented in Figure 1.

Figure-1

GDP PER CAPITA

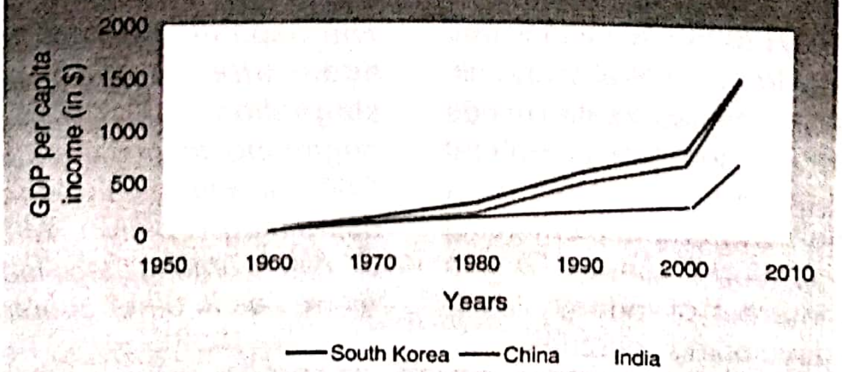


Figure 1 shows, India's pace of reform has been gradual, however, compared with that of South Korea and China, in 1960, India, South Korea, and China all had trade shares of roughly ten percent of GDP. South Korea began a period of dramatic export-led growth in the 1960s—as did China two decades later—that corresponded to rapid increases in GDP per capita By 2003, India had just reached the level of openness in 2000, which had been gained by South Korea in the mid-1960s and China in the mid-1980s. This comparison highlights both the lagging pace of India's development and the tremendous potential that could be unleashed should India follow in the footsteps of these other Asian countries.

TRADE

Trends and Characteristics of Trade

Trade is said to be the engine of economic growth, and the expansion of trade and economic growth have a close interrelationship. The expansion of trade after the war exceeded economic growth rates greatly. The postwar economic growth was brought about through the expansion of trade. When we look at the index with 1995 as 100, world GDP showed an increase of 7.2 times from 1950 to 2003 while merchandise exports showed the remarkable increase of 145 times. The breakdown of exports showed an increase of 23 times for agricultural products, 87.5 times for mining products, and 146 times for manufactured goods, and manufactured exports were the driving force of total exports[11]. Thus, world merchandise trade by region wise and in selected country wise from 1848 to 2005 presented in Table 2.

Table 2

WORLD MERCHANDISE TRADE BY REGION WISE AND SELECTED COUNTRIES

Years	1948	1953	1963	1973	1983	1993	2005
World($billion)	58.0	84.0	157.0	579.0	1838.0	3671.0	7294.0
RegionWorld	100	100	100	100	100	100	100
North America	27.3	24.2	19.3	16.9	15.4	16.6	13.7
Latin America & The Caribbean	12.3	10.5	7.0	4.7	5.8	4.4	5.2
Western Europe	31.5	34.9	41.4	45.4	38.9	44.0	43.1
C/E Europe/ Balstic States	6.0	8.1	11.0	9.1	9.5	2.9	5.5
Africa	7.3	6.5	5.7	4.8	4.5	2.5	5.5
Middle East	2.0	2.7	3.2	4.1	6.8	3.4	4.1
Asia	**13.6**	**13.1**	**12.4**	**14.9**	**19.1**	**26.1**	**26.1**
...Japan	0.4	1.5	3.5	6.4	8.0	9.9	6.5
..China	0.9	1.2	1.3	1.0	1.2	2.5	6.0
..India	2.2	1.3	1.0	0.5	0.5	0.6	0.8
..Australia...	3.7	3.2	2.4	2.1	1.4	1.5	1.2
..Six East Asian Traders	3.0	2.7	2.4	3.4	5.3	9.2	9.7
GATT/WTO members	**60.4**	**68.7**	**72.8**	**81.8**	**76.5**	**89.5**	**94.3**

Source: Compiled from UNCTAD, World Investment Report 2006, 2006. P. 51.

Table 2 shows the expansion and regional trends of the world exports after the war. Merchandise exports of the world continued to increase consistently from $58 billion in 1948, and reached $7,294 billion in 2005. They increased by 125.8 times during the period. Exports by GATT/ WTO members (148 as of October, 2005) increased from 60.4% in 1949 to 94.3% in 2005. These organizations played a crucial role in the expansion of trade. It should also be mentioned that export-oriented industrialization adopted by latecomers contributed greatly to the expansion of manufactured exports.

The share of North America declined gradually from 27.3% in 1948 and to 13.7% in 2005. The share of Latin America also continued to decrease from 12.3% in 1948 to 5.2% in 2005. Western Europe increased its share from 31.5% in 1948, and reached its peak with 45.5%, signaling the postwar recovery but after that its share declined to 43.1% in 2005. Central and Eastern Europe repeated this decrease and increase, showing 5.5% in 2005 while Africa decreased consistently from 7.3% in 1948 to 2.4% in 2005. The share of the Middle East fluctuated in recent years, showing 4.1% in 2005. Interesting is the case of Asia. It's share declined from 13.6% in 1948 to 12.4% in 1963, but continued to increase after that, recording 26.1% in 2005, almost double that of 1948. The breakdown clearly shows differences of economic development by country. Japan's share was only 0.4% in 1948, but increased to 6.5% in 2005. China's share was 0.9% in 1948, reached 2.5% in 1993 and increased to 6.0% over the past decade. India was proud of a high share with 2.2% in 1948, but gradually decreased her share to 0.5% in 1983 and then started to increase, showing 0.8% in 2005. The share of Australia and New Zealand decreased from 3.7% in 1948 to 1.2% in 2003. The share of six East Asian Traders comprising Hong Kong, Malaysia, Korea, Singapore, Taiwan and Thailand decreased from 3.0% in 1948 to 2.4% in 1963, but started to increase after 1973 and increased to 9.7% in 2005. The breakdown clearly shows differences of economic development by South Asian countries.

FOREIGN DIRECT INVESTMENT

In recent years international investment has increased in importance together with trade. International investment is classified into Foreign Direct Investment and Foreign Indirect Investment. More important is the role of long-term Foreign Direct Investment (FDI). FDI has had tremendous economic impact on host countries in terms of technology transfer, foreign currency earnings, employment creation and tax revenues. Export-oriented industrialization strategies by late comers have been implemented together with the introduction of FDI. It is noted here that FDI reached its peak in 2000, but decreased after the terrorist attack of September 11, 2001, and finally showed an increase again in 2005.

As can be seen in Table 3&4, both FDI inflows and outflows increased annually. FDI inflows were $916.3 billion and FDI inward stock was $8,902 billion in 2005,[12] while FDI outflows were $778.7 billion and FDI outward stock was $9,732 billion. The great contributors to FDI are multinational corporations (or trans-national corporations). The regional distribution of FDI is shown in Table 3 & 4. The FDI inflows were $180.8 billion in developed countries and $118.6 billion (Asia occupying 62%) in developing countries on an annual average between 1992 and 1997, but recent years saw a greater inflow towards developed countries, showing $542.3 billion in developed countries and $373.9 billion in developing countries in 2005. FDI outflows show that more originated from developed countries with $646.2 billion, compared with the $132.5 billion from developing countries.

Asia is the largest recipient of FDI among the developing regions. Developing countries received $172 billion in 2003, out of which Asia accounted for 62% with $107.1 billion. Asia's FDI recorded its peak with $146.1 billion in 2000 corresponding to the world trend, but declined after 2001 and then recovered in 2003. (Refer to Table 4.) The rapid increase of FDI into Asia is because of China. The largest recipient in 2002 was China with $52.7 billion, followed by Hong Kong with $9.7 billion, Singapore with $5.7 billion, India with $3.4 billion, Korea with $2.9 billion, Malaysia with $3.2 billion, Thailand with $1.1 billion, and Brunei with $ 1.0 billion. The largest recipient in 2003 was also China with $53.5 billion, followed by Hong Kong with $13.6 billion, India with $ 4.3 billion, Korea with $3.8 billion, Malaysia with $ 2.5 billion, Brunei with $2.0 billion, and Thailand with $1.8 billion. The flows of FDI to China dwarf the flows of FDI into other countries. A look at FDI stock in Asia shows that manufacturing with 51.0 % exceeded services with 43.0% in 1995, but the situation was reversed in 2002, with services at 50.0% and manufacturing at 44.0%. In 2002, those which occupied a large share in manufacturing were China with 63.3% and Korea with 57.4% while those which exceeded the average in services were Hong Kong with 93.0%, Macao with 87.4%, Pakistan with 71.7%, Singapore with 63.8%, Sri Lanka with 59.8% and Thailand with 56.8%.[13]

Table 3
REGIONAL DISTRIBUTION OF FDI INFLOWS 1992-2005

($ billion)

	1992-97[a]	1998	1999	2000	2001	2002	2003	2004	2005
Developed Countries	**180.8**	**472.5**	**828.4**	**1108**	**571.5**	**489.9**	**366.6**	**396.2**	**542.3**
...Western Europe	100.8	263	500	697.4	368.8	380.2	310.2	217.69	433.6
...Japan	1.2	3.2	12.7	8.3	6.2	9.2	6.3	7.81	2.77
...U.S	60.3	174.4	283.4	314.0	159.5	62.9	29.8	122.37	99.44
Developing Countries	**118.6**	**194.1**	**231.9**	**252.5**	**219.7**	**157.6**	**172.0**	**416.8**	**373.9**
... Asia	74.1	102.2	112.6	146.1	111.9	94.4	107.1	156.6	199.5
...SouthAsia	2.5	3.5	3.1	3.1	4.0	4.5	6.1	7.3	9.7
WORLD	**310.9**	**690.9**	**1086**	**1388**	**818**	**678.8**	**559.6**	**710.7**	**916.3**

Source. UNCTAD, World Investment Report 2006.

Table 4
REGIONAL DISTRIBUTION OF FDI OUTFLOWS 1992-2005
($ billion)

	1992-97[a]	1998	1999	2000	2001	2002	2003	2004	2005
Developed Countries	**275.7**	**631.5**	**1014.3**	**1083.9**	**658.1**	**547.6**	**569.6**	**686.3**	**646.2**
....Western Europe	161.7	436.5	763.9	859.4	447	364.5	350.3	367.9	618.8
....Japan	20.2	24.2	22.7	31.6	38.3	32.3	28.8	30.9	45.7
......U.S	77.6	131	209.4	142.6	124.9	115.3	151.9	222.4	-12.7
Developing Countries	**51.4**	**53.4**	**75.5**	**98.9**	**59.9**	**44.0**	**35.6**	**126.7**	**132.5**
Asia	39.6	31.6	41.7	83.8	50.3	37.9	23.6	83.4	83.5
...South Asia	0.1	0.1	0.1	0.5	1.4	1.2	0.9	2.09	1.5
WORLD	**328.2**	**687.2**	**1092.3**	**1186.8**	**721.5**	**596.5**	**612.2**	**813.06**	**778.7**

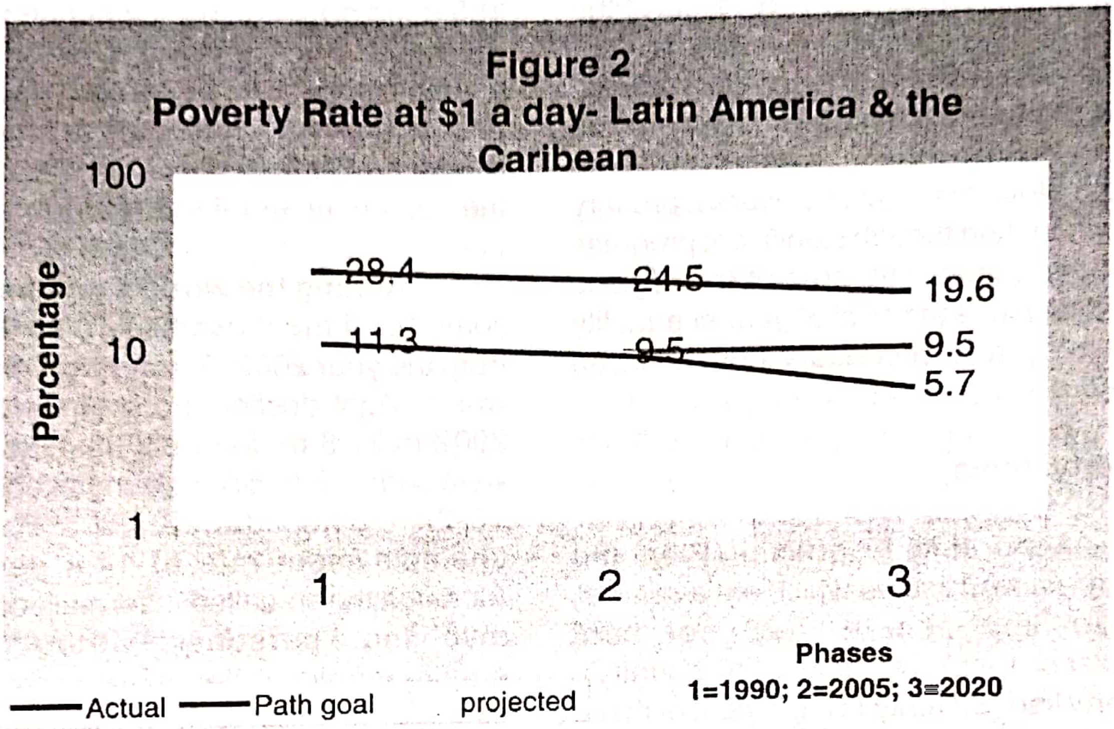
Source. UNCTAD, World Investment Report 2006.

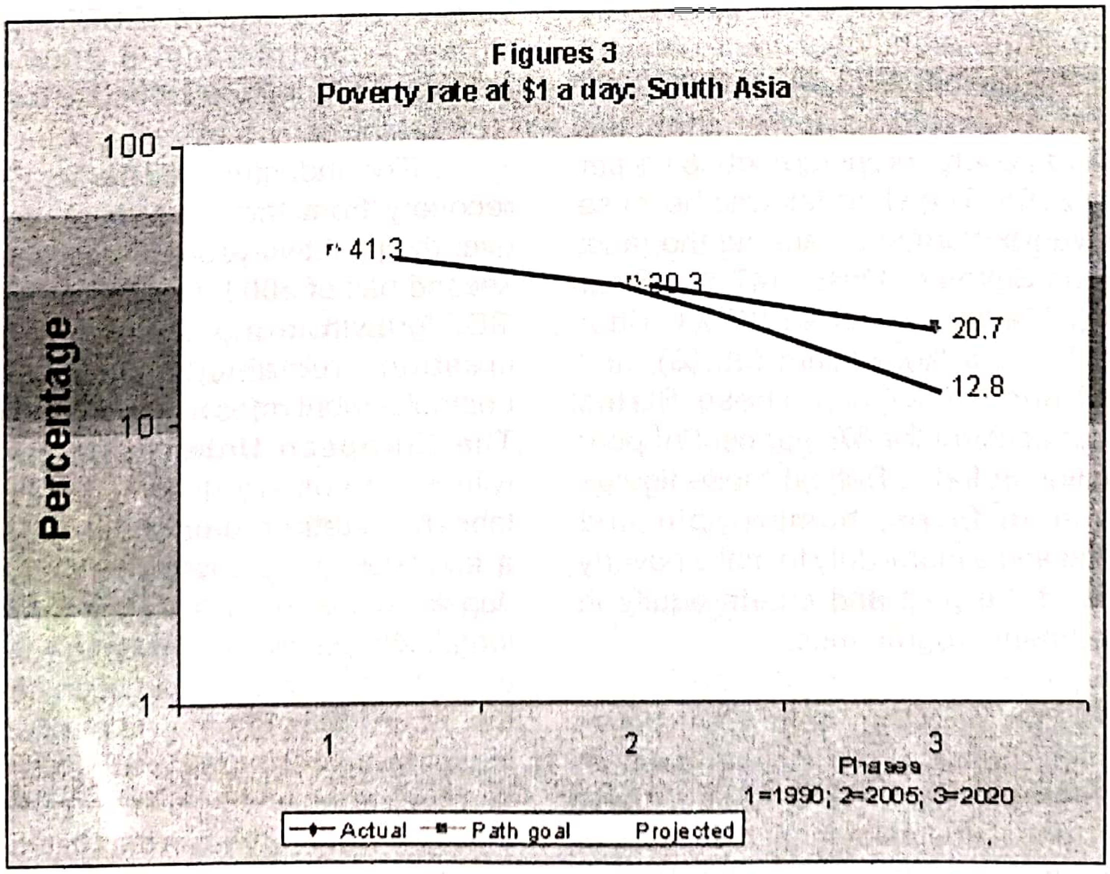
FDI: India

According to Reserve Bank of India 2006 reports,[14] there has been massive increase in FDI inflows into the country since 1991-92 (both as a consequence of increase in FDI and portfolio investment). From $ 4892 million in 1995-96, foreign investment inflow rose to $20,244 million in 2005-06, in a span of ten years basically due to rapid increase in portfolio investment. Foreign investment inflows reached a peak of $ 6,1333 million in 1996-97 because of impressive increases in both FDI and portfolio investment but declined thereafter due to outflow of funds amounting to $390 million by FIIs. However , higher level of FDI witnessed since 2000-01 are partly due to revised definition of FDI. In terms of revised definition, FDI rose to $ 4,029 million in 2000-01 and further to $ 5,035 million in 2005-06. The year 2003-04 registered record foreign investment inflow of $ 16,050 million basically, because of hike in investment by FIIs (from just $ 300 million investment by FIIs in 2002-03, this investment rose to as high as $ 10,918 million in 2003-04). Further, foreign investment inflows amounted to $ 20,244 million in 2005-06. Investment by FII again contributed a significant proportion of these investment inflows ($ 12,492 million, i.e 61.7 per cent of the total inflows). It indicates foreign investors' confidence in the Indian Economy.

POVERTY

As per World Bank report (2006) [15] extreme poverty in developing countries fell from 28 per cent in 1990 to 19 per cent in 2005. Over the same period the number of people in developing countries grew 20 per cent, to more than 5 billion, leaving 1 billion people in extreme poverty. Accordingly, at the global level, 10 per cent of the population in developing countries will live on $ 1 a day or less in 2015. In East Asia and the Pacific, by 2020 the percentage of people living on $1 will drop to one per cent. However, a still significant 13 per cent share will be below the $2 a day poverty line indicator. At the other extreme is South-Asia, in figure 2, which is projected to have a $1 a day poverty rate of 12.8 per cent in 2015.While this represents a drop from the 25 percent level of 2000. Whereas, in case of Latin America & the Caribbean actual poverty rates are higher then that of projected.





Source: World Bank Reports

This situation is prevailed in all the regions. In particular, on current trends, most regions will fall short of the health and related goals, including reduced child and maternal mortality, the reversal of the HIV/AIDS pandemic and increased access to sanitation. Prospects are brighter in education, but the pace of progress remains too slow in South Asia and Middle East to attain the goal of universal primary education. And though significant progress has been made, but most of the regions will not achieve the goal of gender equality in primary and secondary education on time.

Poverty: India

According to official (Planning Commission)[16] figures which are available, 260 million people (26 per cent population), still live below the country's poverty line. Seventy five per cent of these were dwelling in rural areas. Although the proportion these people below poverty line has declined significant improvement during the period 1993-94 to 1999-2000 but the decline was lower than the projected poverty proportion of 18.61 per cent in 2005. The short fall was because of uneven performance among the most populous States of Orissa (47 %), Bihar (43 %), Madhya Pradesh (37%), Uttar Pradesh (36.5 %), Assam (36 %), and West Bengal (27 %). These States together account for 67 per cent of poor population in India. Behind these figures are human faces, human pain and suffering and a moral duty to make poverty a thing of the past and create equity in development programmes.

UNEMPLOYMENT

According to ILO-2006 report overall global unemployment rose in 2003 to 185.9 million, remaining at record levels for men and women and escalating more sharply among young people despite a pickup in economic growth after a two-year slump[17]. The number of people out of work and looking for work in 2003 reached 185.9 million, or about 6.2 per cent of the total labour force, the highest unemployment figure ever recorded by the ILO. However, this was a marginal increase over the number for 2002, which the ILO put at 185.4 million.

Among the world's unemployed, some 108.1 million were men, up 600,000 from the year 2002. Among women, there was a slight decline, from 77.9 million in 2002 to 77.8 million in 2003. Hardest hit were some 88.2 million young people aged 15-24 who faced a crushing unemployment rate of 14.4 per cent. Although the so-called "informal economy" involving persons without fixed employment continued to increase in countries with low GDP growth rates, the number of "working poor" - or persons living on the equivalent of US$ 1 per day or less - held steady in 2003, at an estimated 550 million.

The industrialized regions saw a recovery from the economic slowdown over the past two years, especially in the second half of 2003. Despite a pick up in GDP growth in the United States, job creation remained sluggish and unemployment rates at around 6 per cent. **The European Union (EU)**, however, witnessed positive developments in the labour markets in some countries, despite a low GDP growth rate of 1.5 per cent. Japan seems to have picked up from its long-lasting crisis, but may take some time to reach the low unemployment levels of the early 1990s of below 3 per cent. The industrialized economies are expected to see declines in unemployment rates in the event that GDP growth in the United States leads to job creation, and employment as a share of working-age population continues to rise within Europe,the report said. **Latin America and the Caribbean** were most affected by the global economic slowdown in 2001 in terms of output growth as well as employment losses, but saw some recovery in growth in 2003 (1.6 per cent, after a decrease of -0.1 per cent in 2002). To date, the recovery in employment has been very slow. The regional unemployment rate dropped by one percentage point, which may be attributed to the recovery in Argentina and the decrease in labour force growth. Despite solid GDP growth rates of over 7 per cent, East Asia saw an increase in unemployment. In South-East Asia, unemployment declined significantly in 2003, at the same time as labour force participation rates increased.

In South Asia, the unemployment rate remained stable despite 5.1 per cent of GDP growth. Consequently, South Asia saw no decline in working poverty, in addition to growing informal employment. East Asia will see a slight increase in unemployment, resulting from the high number of entrants into the labour markets (over 6 million people a year until 2015). South-East Asia has the potential not only to reduce unemployment further but also to reduce working poverty - if those economies with the highest poverty incidence manage to reach GDP and employment growth paths similar to those achieved in the past few years by wealthier economies in the region.

The Middle East and North Africa also experienced increasing unemployment, with an unemployment rate of 12.2 per cent - the highest incidence of unemployment in the world. This resulted from a major restructuring of employment in the public sector and high labour force growth rates. An additional cause of increasing unemployment in sending countries is the effort of a number of Gulf economies to replace foreign workers with nationals. Prospects for the Middle East and Northern Africa are still clouded, as projected in the 2003 ILO report. The dependency on oil prices, the high labour force growth rates which some economies are unable to absorb, the deficits in the quality of public institutions and the high incidence of poverty in some economies are all threats for real improvements in the labour markets.

Sub-Saharan Africa has neither reduced its unemployment rate nor its high incidence of working poverty. In addition, the impact of HIV/AIDS on labour markets and the continuing "brain drain" deprived the region of much-needed human capital, making it unlikely to reach the MDG. In sub-Saharan Africa a high incidence of working poverty - compounded by the HIV/AIDS pandemic - is the biggest obstacle to growth and development.

After years of increases in unemployment resulting from economic changes, the transition economies seem finally to have reversed this trend, with unemployment decreasing in 2003. The labour market situation in the transition economies is expected to improve somewhat as a consequence of the foreign investment they have attracted. Strong domestic demand, trade growth and overcoming the problems associated with the transition process are encouraging signs. Once again, HIV/AIDS poses a growing threat for further development in some economies in the region.

Unemployment in India

Unemployment increased in India during the period of economic reforms because growth in this period has been mostly job less. Details presented in Table5.

Table 5
UNEMPLOYMENT RATES (PER 1000) FOR 1993-94 AND 2004

NSSO rounds	Rural Males			Rural Females			Urban Males			Urban Females		
	US	CWS	CDS	US	CWS	CDS	US	CWS	CDS	US	CWS	CDS
1993-94 (50th round)	20	30	56	14	30	56	45	52	67	83	84	105
2004(60th round)	24	47	90	22	45	93	46	57	81	89	90	117

US: Usual Status; CWS: Currently Weekly Status; CDS: Current Daily Status. Source: NSSO's 60th round survey on Employment and Unemployment conducted in January-June 2004.

As can you see Table.5 that, at the all-India level these estimates of Current Daily Status unemployment indicate a worsening of the unemployment situation during the period of economic reform in all the four population segments viz. rural males, rural females, urban males, urban females. The increase in the current daily status unemployment rate between 1993-94 and 2004 is the steepest for rural females (64 %) followed by rural males (60 %). For urban males the increase in current daily status unemployment over the period is 21 per cent while for urban females the increase over the period is 11.4 per cent. Economic Survey 2005-06 says the unemployment rates varied sharply across States within India. States where wages are higher than in neighboring ones because of strong bargains or social security provision, such as high minimum wage, had high incidence of unemployment, in general.

Social Sector

As regards social sector indicators, notwithstanding some progress in regard to education and health, India is still far behind its East Asian neighbours. Our social indicators are lower even in comparison with the levels achieved by these countries twenty five years ago, when they first began to grow rapidly. The social indicators also show disturbing gender gaps, large rural-urban differences and wide variation across states. Although the literacy rate has improved encouragingly from 52.2 per cent in 1991 to 64.8 per cent in 2001 and the overall number of illiterates in the country declined from 329 million in 1991 to 306 million in 2001, there are at least seven major States with more than 15 million illiterates each, accounting for nearly two-third of total illiterates in the country. Concomitantly, given India's comparative advantage in services, it is important that the quality of secondary and higher education in the country is improved so that adequate skills are developed to realize the benefits of the knowledge economy. As regards health, the combined government (Centre plus States) expenditure on health as a percentage of GDP has stagnated at around one per cent of GDP over the last decade and a half. Total public expenditure on health in India remains even lower than many other developing countries such as Brazil (3.4 per cent), Thailand (2.1 per cent), Sri Lanka (1.8 per cent), China (1.9 per cent) and Malaysia (1.5 per cent). Low public expenditure in India is to some extent compensated by private expenditure which at 4.0 per cent of GDP is comparatively higher than all of these countries except Brazil (4.9 per cent)[18]. However, low public expenditure is a cause for concern for the vast majority of the population and primary health care remains of poor quality, unavailable and inaccessible. The infant mortality rate in India is almost double that of China (63 in India versus 37 in China) while the maternal mortality rate at 407 is manifold as compared to China's 56. Hospital beds (per 1000 population) at 0.7 for India are less than one-half of other developing economies such as China (2.4), Thailand (2.0) and Malaysia (2.0). A significant improvement in social indicators is necessary if we want to create the pre-condition for a general improvement in welfare of our population and for genuine equality of opportunity.

SUGGESTION

1. Enhanced investment activity, particularly in the infrastructure area, would necessitate higher domestic savings, especially in the public sector coupled with efficient financial intermediation. In addition, foreign savings need to be attracted and absorbed with a strong preference to Foreign Direct Investment in all sectors though in some sectors like banking, a calibrated approach may be warranted. At the same time, our enterprises should be enabled to attain a strong global presence in all sectors. In brief, our global integration has to be a two way process, encompassing movement of people with some caveats, trade in a free and equitable manner and financial integration on a specially sequenced basis.

2. Adopt "pro-poor" policies. Poverty, hand in hand with growing unemployment and underemployment, inhibits employment growth. Because of a lack of education, health and often empowerment, poor people cannot use their own potential to lift themselves and their families out of poverty. Pro-poor policies should be designed to provide this possibility by means of a decent job. This implies creating employment opportunities to help women and men secure productive and remunerative work in conditions of freedom, security and human dignity.

3. Increase international assistance aimed at improving access to developed-country markets and reducing external debts and debt servicing, thus freeing resources for reform programmes targeted on improved governance, job creation and poverty reduction - the absence of which will prevent most of the developing world from participating in growing world demand.

CONCLUSION

The world economy is in the midst of a profound transformation. The changes have had a profound impact on both international relations and the world economy. This study found that the China and India economy is expanding rapidly in terms of GDP, trade, reducing the poverty and unemployment Strong domestic demand, trade growth and overcoming the problems associated with the transition process are encouraging signs, but India is failed to attract FDI . The selected countries economic indicate highlighted that India lagging behind in development. Suggested that India should follow footsteps of other Asian countries.

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