HUMAN DEVELOPMENT

EXPERIENCES OF NORTH EAST INDIA

Kiran Sankar Chakraborty
Gurudas Das

Human development is a powerful concept than conventional measure of gross national product (GNP) in understanding human well being. With the rejection of "trickle down hypothesis", rising disillusion with assumed positive association between growth and well-being, new insights gained in the relationship between growth and equity that nullifies the claim of negative relationship at least at early stage of growth, the exploration of the capability approach towards development and the emergence of the new growth theories that focus on the role of the human factor in economic growth-all have brought a sharp focus on the human development as a necessary condition for sustainable growth.

Contributions in this volume deal with different aspects of human development. Contributors have attempted to analyze the various linkages between globalization and human development, environment and human development, social capital and human development and education and human development. Authors have made an attempt to assess the status of human development in the states of North East India. This volume deserves the attention of the academia, policy makers, development agencies and activists alike.

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GLOBALIZATION AND HUMAN DEVELOPMENT: IS THERE ANY TRADE OFF ?

– Gurudas Das

Does globalization lead to human development? Are the processes of globalization and human development complementary to each other? Or, does any trade off exist between them? In fact, if globalization is viewed as a means and human development as an end, then, the apparent contradiction between them becomes readily evident. While globalization is capital centered, human development is people centered. While the former calls for strengthening the forces of market, the achievement of the latter calls for effective state intervention. While the advocates of globalization prescribe for the reduction of public expenditure in social sectors like education, health care, old age pension, etc., the proponents of human development argue in favour of extension of such services under public sector.

This apparent contradiction gives way to seeming complementarity when globalization is viewed as means to achieve economic growth without which human development is hard to come by. Moreover, while human development aims at expanding the human capabilities and widening the choices; globalization, by expanding the economic opportunities, enables the nations to realize the goals of human development. However, as it has already been observed, this link between economic growth and human development by no means automatic

(HDR:1990). Hence, nations need to strike a balance between the agenda of globalization and human development.

Needless to say that this complementarity view is uncritical of the positive link between globalization and economic development. It is not that all the countries have been benefited while embracing globalization. While globalization worked in Asia, it failed in Africa, Latin America and Central Europe. Even where it has worked, it is not that all the sections of the society and all the sectors in an economy have been benefited in equal proportions. The modern sectors and the work force engaged in them have been the gainer while the traditional sectors and people engaged in them have been the looser. This paper intends to focus on the interlinkages between the twin processes of globalization and human development. In that, it focuses on the positive aspects of globalization and then argues as to how it can be tamed for the enhancement of human development particularly in the developing countries.

Human Development and Economic Growth: The Two-Way Linkages

Human development is often defined as a process of enlarging people's choices (HDR: 1990). People's choices will be enlarged only when they acquire critical capabilities like knowledge and health. It is not mere acquisition of human capabilities that will enhance human development unless those acquired capabilities are used for higher attainment of income and other statuses that make their life more meaningful and worthy. Thus, for enhancing the human capabilities massive investment in education and health is called for. The question is: where from this investment will come. Certainly, both the private and public sector have a role to play in this regards. The problem is: if these services are catered only by the private sector, the price may be out of the reach of the poor who constitute the majority in most of the developing countries. And hence, dependence on the market for providing these services will tantamount to denying them to the vast majority. This, instead of enhancing, will slowdown the progress of human development. Thus, two options are available: either raise the real income per capita to such a level so that people can afford them at market price or provide them at subsidized rates or free of cost across the board through public spending so that people can have easy and costless access to these services. As economic growth takes off and people's purchasing power increases, the domain of the public expenditure on social sectors may gradually be substituted by private initiatives. Without sustained economic growth, it becomes difficult for the state to make sustained investment in social sectors. Thus, without economic growth state can only make limited investments in social sectors and private sector will hardly find it profitable to invest in the areas of education and health. However, this portrays one side of the story. The other side involves the use of the acquired human capabilities. This requires the expansion of economic opportunities so that people can choose their livelihood and make the best use of their capabilities. This is certainly not possible unless the economy grows and provides a space to all those who want to grow. Economic growth, therefore, is a *sine qua non* for the sustained human development.

Human development is also a prerequisite for sustained and faster economic growth. Expansion of human capabilities leads to skill formation and raises the productivity of the workforce. Increase in productivity enables the workers to produce more without additional costs. Production becomes competitive and hence widens market accessibility. Entrepreneurship grows and innovations take place. Skilled workforce attracts foreign direct investments in the economy. Moreover, with the rising level of education, the whole production process benefits from "positive externalities" and causes a rise in the efficiency of all factors of production. The rise in the level of education of the workforce offsets, to a significant extent, the decreasing marginal returns to capital (HDR: 1996). In fact, the modern economic growth largely related with the pace of innovation. The higher the quality of human development, the faster is the pace of innovation in an economy as it is endowed with highly educated manpower required for carrying out research and development activities and skilled workforce to put the results into practice. A World Bank study of 192 countries has established that only 16 per cent of growth is explained by physical capital, 20 per cent by natural capital and rest 64 per cent by human and social capital (HDR:1996).

It is worth to mention here the four-fold classification of the global experiences relating to economic growth and human development made by the UNDP (HDR:1996).

First, countries having higher human development but slower economic growth in one decade either increased economic growth in the next or experienced poor economic growth and slow human development. This shows that if human development is not matched with economic growth, it is difficult to sustain in the long run.

Second, countries having fast economic growth but slow human development have experienced economic growth petering out in the long run.

Third, countries having both fast economic growth and human development experienced mutually reinforcing virtuous circle. In this case, both economic growth and human development are sustainable.

Fourth, countries having both slow economic growth and human development experienced mutually stifling growth and human development.

Thus, human development acts as the driving force of all economic growth. The forces of economic growth and human development reinforce each other and take both the economy and the people forward. An understanding of this dynamic relationship between these two has led to the idea of the "people centered development strategy" for the developing countries in recent times as opposed to "capital centered development strategies" of the 1950s.

Does Globalization lead to economic growth?

The process of globalization, viewed in terms of integration of the national economies with the global economy by way of adopting uniform legal framework, has both costs and benefits. It has created both opportunities and vulnerabilities. Besides the developed countries, some developing countries, mostly in Asia, like China, Malaysia, South Korea, Singapore, India, Indonesia, Mauritius, Chile, Poland, the Dominic Republic, Costa Rica, Botswana, and Turkey have gained in terms of economic growth, many in Africa, Latin America and Eastern Europe have failed to reap any benefit of globalization.

Liberalization and deregulation of national markets, reduction in tariff and expansion of trade, fast growth of information technology and its impact on the reduction of costs and raising the productivity, the tertiary revolution, free mobility of global capital and the transformation from manufacturing to knowledge-based economy—all have released tremendous opportunities before the nations. With the growth of global competition, MNCs/TNCs are increasingly relocating manufacturing activities from high wage locations to low wage locations. As a result, manufacturing process, instead of vertical integration, is experiencing some sort of deverticalization.

The heightened competition brought about by Globalization has made a deep impact in corporate strategies of firms particularly of the MNCs/TNCs . All most in every sphere of industrial production ranging from automobile to electronics—corporate houses are embracing deverticalization either through the establishment of subsidiaries or through subcontracting or outsourcing. Firms are increasingly moving out of "Chandlerian Prototype" to "Wintelist" Prototype. Original Equipment Manufacturers (OEM) are no longer aiming at vertical integration of manufacturing process, rather to cope up with stiff competition, they prefer to fragmentation of production in order to relocate manufacturing in low wage locations. Migration of industrial activities from high wage locations to low wage locations has been one of the distinct trends that has become prominent since early 1990's.

As per the globalization-driven corporate strategy, the OEM's concentrate on "core competence" consisting mainly of R&D, product designing, assembling, sales, marketing and after sales services, while the job of manufacturing is either outsourced to suppliers or sub-contracted to other firms operating particularly in low-wage locations.

This trend of fragmentation, deverticalization and relocation of manufacturing production process has led manufacturing actives to shift form high wage economics of USA and Western Europe to countries in Eastern Europe, China and newly industrialized nations in South East Asia. The relocation of labour-intensive industries from high wage to low wage locations is quite vivid. For example, employment figures of the German apparel industries declined from 185,510 in 1989 to 48,362 in September 2003, manufacturing migrated, via outsourcing, to low-cost regions. However, although the apparel industries in Germany are constantly shrinking both with regard to employment and number of companies, this loss is compensated by gains made in other areas.

Unlike apparel industry, the German automobile industry is the winner of globalization. Although it has also underwent production fragmentation and relocation (particularly in Eastern European countries like Czech Republic, Hungary, Slovakia and Poland), the loss of jobs at home is not very substantial. The Volkswagen, the leading German car maker, has pushed its employment figurer abroad from 95000 in 1990 to 159000 in 2000 leading to slight decline of jobs at home. Thus, the automobile industry in Germany shows a picture where the negative impact of globalization regarding several sub sector and particular employee groups is compensated by positive effects in other sub sectors and employee groups, whereas this could not be achieved in the German apparel industry.

Like the apparel and automobile industries, electronics firms of Western Europe like Siemens, Alcatel, Philip's have also shifted a large chunk of their manufacturing bases to Eastern European countries.

While the West European firms control the more demanding and sophisticated tasks like process development, industrialization of the product, prototyping, production planning and ramp-up of production, they subcontract standardized manufacturing activities to low wage locations in Eastern Europe. Thus, Eastern European countries are becoming the production house that caters the customer demands of the west. Geographical and cultural proximity appear to be the prime causes for the migration of Western firms to East instead of other low-wage locations elsewhere.

Besides Eastern European countries, China has already emerged as the workshop of the world. Low-wage, high-class infrastructure, high growth rate and huge internal market -- are some of the reasons that make China attractive for relocation and foreign direct investment. Huge internal demand has given a great boost to Chinese automobile industries. Almost all the global players have rushed to China with major investment projects. China Industrial Development Report on the Auto Industry in China 2003 observed that by next 10 to 15 years, China would become the largest auto market in the world. What is more important is the export of Chinese made auto parts. The American manufacturers are particularly keen to benefit from the low cost condition in China. General motors and Ford are pursuing their suppliers to open factories in China. In 2003, new automotive factories have been built in 23 provinces and cities in China. A report of Boston Consulting Group has estimated a cost advantage of 10 to 20 percent for large established car venture in China and up to 40 percent for smaller operators.

Like the auto industries, China has emerged as the world largest base for electronic parts. While the electronic production in emerging market were nearly double – from US $65 billion in 2001 to US $125 billion by 2005, China will have the lion share of this growth, 77 percent. International Finance Corporation and Boot Allen Hamilton have predicted an increase of Chinese share in global electronic production from 8 percent to 14 percent. China has already become the leading producer of DVD-Rom drives, DVD players, Desktop personal computer, colour television and mobile phones.

Besides, Eastern Europe and China, the process of fragmentation and relocation of industrial process has also led to the migration of global manufacturing companies to countries in South East Asia. Now the question is: why do firms relocate in certain low-wage location bypassing other such locations? Apart from the main centers of relocation already mentioned, there are many more low-wage locations in Asia, Africa and Latin America, why these locations are not chosen? One of the plausible explanations is: mere low-wage alone does not determine the site for relocation. Size of the internal market, existing infrastructural facilities, availability of skill labour force and most importantly, capacity of the local supplier to deliver goods in time – all are taken into consideration in arriving at a decision on the site of relocation.

Apart from manufacturing, service outsourcing has become another major trend of globalization. For becoming a hub of service providing activities, no huge investment in infrastructure is required. Human resource plays the key role. India has become the most favoured destination for IT enable services largely due to the availability of technical manpower.

Thus, globalization has fueled the demand for high skilled jobs while the demand for unskilled jobs is on the wane. The sunrise sectors include the information technology enable services, biotechnology, electronic and telecommunication industry, analytical instruments, pharmaceuticals, automobile, banking and insurance, etc. while most of the traditional manufacturing activities are experiencing sun set syndrome. This technology and market led globalization is driving the global economy towards these sunrise sectors that are experiencing fast growth. Firms and the workforce associated with these sectors are gaining in terms of growth in income.

Integrating with the global economy *per se* is no guarantee for economic growth. Countries like Madagascar, Niger, the Russian Federation, Tajikistan, Cameroon, Venezuela and sub-Saharan Africa are not less integrated but they have shown little growth (HRD:1999). With falling international prices, primary producing countries are finding it hard even to maintain their previous growth rates.

Countries that could gain from globalization differ in terms of quality of growth. Many countries suffer from jobless growth where enough employment opportunities have not been created. For a pro-people growth, the rate of job creation should be higher than the rate of growth of labour force. The use of capital-intensive technology has led to the increase in productivity but created very little employment in the economy. In all most all the countries, the wage gap between the skilled and unskilled labour has been widened.

Globalization has resulted into both horizontal inequality across regions and vertical inequality within the nations. Flexible labour laws and environmental standards adopted by many countries in order to attract foreign direct investment have led to the casualisation of jobs, increase work time, job insecurity, and environmental degradation.

Globalization and Human Development

Globalization of IMF-WB-WTO variety coached in neo-liberal thoughts aims at increasing efficiency and trade led growth. Liberalization, privatization and market fundamentalism constitute the building blocks of structural adjustment programmes. Fund-Bank-Organization conditionalities call for capital market liberalization, reduction in the state activism in terms of public expenditure in social sectors, subsidy for production and consumption, expenditure relating to social security measures, investment for the removal of horizontal and vertical inequalities and providing job security through the formulation of labour laws, privatization of public assets and reduction in tariffs. All these are aimed to squeeze the state initiatives and to make the state subservient to market forces. Thus, this variety of globalization is all about the triumph of markets over governments (Steger: 2004).

However, the experiences of the countries who could gain from globalization prove to be otherwise. The experiences of China, India, Malaysia, Republic of Korea, Indonesia, Poland, Botswana—all show that globalization worked in them not because of unfettered operation of the market forces but because of the active patronage of the governments in managing the globalization (Stiglitz:2002). Adoption of labour intensive technology in China and South East Asian countries has helped in establishing a link between economic growth and employment opportunities making globalization work for the people at large, huge public sector investment in creating infrastructure in them has made them attractive for foreign direct investment. In all these countries governments made substantial investment in education and health care in order to improve human resource quality so that people could acquire the capabilities needed to make use of the opportunities arising out of the operation of the forces of globalization. South East Asian countries have put an egalitarian income distribution mechanism in place that automatically takes care of vertical income inequality impact of growth. India has not made its capital market fully convertible and hence could survive from the contagion effect of South East Asian currency crisis.

While the shift towards knowledge base economy necessitates a huge investment on the part of the state to educate and train the labour force in that direction so that people could acquire the necessary skills demanded by the market, the prescription of the Fund-Bank-Organization to undermine the role of the state just works in opposite direction. This is more true in case of the countries where income distribution is skewed, human development is low, growth is stagnated and wide differences exist between the required and achieved human capabilities. Not only has the international regulatory framework restrained governments for undertaking social sector expenditure, reduction of tariff across the board, waiver of corporate tax, tax incentives offered to business and industries, establishment of tax free export processing zones— all have also squeezed the government exchequer and crippled them. Countries that have followed Fund-Bank-Organization prescription for economic growth could hardly succeed in generating growth while countries that have followed policies independent of them could reap the benefits of globalization to certain extent.

The process of globalization as such does not stand on the way of human development. State led globalization *a la* China, Malaysia, India, Poland, Botswana has rather helped to achieve higher growth, reduction of poverty, creation of jobs, as against Fund-Bank-Organization guided market led globalization. Competitive markets may help in increasing efficiency but also creates inequality, concentration of wealth, act as disincentives for non-market care giving services which are otherwise essential for the well being of mankind.

The "one-size-fits-all" approach of the international institutes provides little room to the nations having diverse socio-political and economic conditions to sequence and adjust their respective economies with the process of globalization. Withdrawal of the governments from social sector services before the markets in them could develop has either slowed down or reversed human development in many countries. Instead of gradual replacement of public services by private initiatives, the insistence of the international agencies to substitute government by market overnight has led to the collapse of many a social service in the developing countries. As a result, the quality of life of the poor people in countries like the Russian Federation, Eastern European, Sub-Saharan Africa and Latin America has deteriorated.

Thus, there exists a trade off between the Fund-Bank-Organization guided market led globalization and human development. Until the global governance focuses on the priorities of human development, globalization is hard to sustain. Market efficiency and global competition are only means to achieve economic growth. But economic growth cannot be an end in itself. It is again a means to achieve the goal of human well being. A simultaneous progress in economic growth and human development can only release the necessary reinforcing forces that will make both globalization and human well being sustainable in the long run. For this to happen, market is not any substitute for the community and government. Either the globalizers have to reorient and restructure the focus of globalization or they have to invent an alternative path that suits their respective specificities in order to make globalization work for their people in the long run.

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