TRADE EQUILIBRIUM: A MULTI-GENERATIONAL SOLUTION TO INDIA'S POVERTY

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ABSTRACT

This paper presents a brief description of the current state of poverty in India. It is followed by a concise discussion of the various suggestions and efforts that have been made to deal with this problem. It is followed by a survey of literature. Finally, this author's theory of trade equilibrium is presented to show how it can help India eradicate its poverty for generations to come.

OBJECTIVES OF RESEARCH

This paper has the following objectives: To present a brief review of facts related to poverty in India; to present a survey of literature to present what different scholars have said about this problem and how it could be addressed; to present a brief review of the various suggestions and efforts that have been made, or are being made, to address this problem; to discuss this author's theory of trade equilibrium and how it can help India solve this problem both for its current generation and also for the generations to come; and to make suggestions for additional research.

It is an article for public policy using an academic framework. This author has been writing about this topic for the past several years. The writing sequence of the article follows its statement of objectives for better understanding.

POVERTY IN INDIA, SOME FACTS

Some estimates about the nature and extent of poverty in India are presented below:

According to the World Bank, a household is in 'extreme poverty' when its personal disposable income is less than $1 per day; and it is in 'relative poverty' when its personal disposable income is less than $2 per day (World Bank 2000, cited by Prusty 2009). Using World Bank's definition, Prusty (2009) observes that India did not have extreme poverty since 1999; however, it did suffer from relative poverty during the period 1952-2006.

According to a report by the Planning Commission of India (August 25, 2007), 27.5% of the population was living below the poverty line in 2004-2005. Monthly per capita consumption expenditure is below Rs. (rupees) 356.35 for rural areas and Rs. 538.60 for urban areas. One out of every 4 Indians earns less than $0.40 per day. Seventy-five percent of the poor are in rural areas. Most of them are daily wagers and landless labourers (many terms such as 'labourers' have been spelled in this article as they were written in the original writings which is based on the English language used in England).

A study made by the McKinsey Global Institute found that 54% of the people living in India were living on a house hold income of less than 90,000 rupees a year; which amounts to an income of about a dollar per person per day (Wikipedia, August 5, 2013).

National Commission for Enterprises in the Unorganised Sector (NCEUS) published a report in 2007. This report states that 77% of Indians (about 836 million people) lived on less than 20 rupees per day (about \$0.50 nominal; about \$2.0 in PPP). Most of them have no job or social security. They live in abject poverty. (Reuters, August 15, 2007; Planning Commission of India, August 25, 2007).

SURVEY OF LITERATURE

In order to do a survey of literature on India's poverty, this author started with a title search of articles through Ebscohost, a widely used internet research service. The terms such as "India, how to reduce poverty," "poverty in India," and the like were used for this purpose. This search produced a list of more than 1,300 articles (full text, scholarly peer reviewed academic journals, for the period, 2001-2012). For practical purposes, this large list of articles was reduced to 97 articles in its first filtering. A second filtering narrowed it down to 38 articles. Most of these articles, not all, have been cited below.

According to Kalirajan (2004), the problem of poverty in developing countries needs urgent attention. Urban poverty in India, as in some other countries, is a spillover of rural poverty; and that about 65% of the labour force is still working in the agricultural sector. Kalirajan (2004) recommends that promoting investment and making an efficient use of technology in agriculture are central to reducing poverty.

Prusty (2009)'s study explores the long-term impact of the degree of openness [(total exports + total imports)/ GDP at current market prices] and overall literacy rate on poverty [per capita personal disposable income as a measure of 'absolute' and 'relative poverty'] in India from 1952 to 2006. The empirical results of his research suggest that degree of openness and overall literacy rate have positive long-term impact on per capita personal disposable income. In other words, both degree of openness and overall literacy rate are jointly responsible for the reduction of poverty (i.e. increase in per capita personal disposable income) in India during the period.

According to Cecchini and Scott (2003), Information and Communications Technology (ICT) can reduce poverty by improving poor people's access to education, health, government and financial services. ICT can also help small farmers and artisans by connecting them to markets. Low-cost access to information infrastructure is a necessary prerequisite for the successful use of ICT by the poor, but it is not sufficient. The implementation of ICT projects needs to be performed by organizations and individuals who have the appropriate incentives to work with marginalized groups.

The research by Besley and Burgess (2004) investigates whether the industrial relations climate in Indian states has affected the pattern of manufacturing growth in the period 1958-1992. They show that states which amended the Industrial Disputes Act in a pro-worker direction experienced lowered output, employment, investment, and productivity in registered or formal manufacturing. In contrast, output in unregistered or informal manufacturing increased. Regulating in a pro-worker direction was also associated with increases in urban poverty. This suggests that attempts to redress the balance of power between capital and labor can end up hurting the poor.

Borooah (2005) analyses inequality and poverty in India within the context of caste-based discrimination. Based on a study of 28,922 households, this research shows that at least one-third of the average income/probability differences between Hindu and Scheduled Caste/Scheduled Tribe households was due to the "unequal treatment" of the latter.

A paper by Tiwari's (2007) shows that poor endowments and resource base are important causes of persistent poverty. The definition of 'entitlements' in the paper is not restricted to material possessions the economic entitlements of the individual or the household but is extended to incorporate the individual's skills, education and productive ability the non-economic entitlements. According to Tiwari (2007), over a million people can be classified as chronically poor in terms of duration, severity and deprivation. This is despite the government's commitment to the eradication of poverty since the early 1950s, with a total expenditure of nearly $7 billion in the past 50 years. Tiwari (2007) recommends that policies aimed at reducing poverty therefore must address problems associated with improving the entitlements of individuals and households.

A study by Kalirajan and Singh (2010) shows that poverty reduction did occur during the 1990s following the implementation of India's economic liberalisation program, which included mainly industrial and FDI (foreign direct investment) policy reform. However, their analysis also shows that, thus far, FDI has not contributed significantly to poverty reduction. Their analysis clearly shows that states with dominant industrial sectors have been able to reduce poverty faster than states dominated by agriculture. The authors suggest that targeting of FDI in India has been misplaced. Had it been in the more labour-intensive manufacturing, it would have more effectively contributed to the reduction of poverty.

Kundu’s (2011) paper shows that the Government of India supported microfinance program (Swarnajayanti Grameen Swarojgari Yojana; or SGSY) is partially effective in reducing poverty of the rural households.

A research by Reddy and Minoiu (2007) concludes that, because of uncertainties in relation to the extent and trend of poverty in China, India, and the rest of the developing world, global poverty may or may not have increased. The extent of the estimated increase or decrease in world poverty is critically dependent on the assumptions made. They recommend improving the quality of global poverty statistics.

A paper by Gupta and Raghava (2011) tries to deal with India's problems associated with its continued trade deficit. The authors recommend, among others, the reduction of consumption of petroleum products, to help reduce this deficit.

Ramakrishna’s (2011) paper finds that 2004-2009 trade liberalization policies of India played a positive role in influencing economic growth of India. They show that it had a positive impact on India's current account balances.

Imai’s (2011) paper analyses the effects of access to Rural Public Works (RPW) or Food for Work programme (FFW) on consumption, poverty, vulnerability and under-nutrition in India. Using the large household data sets constructed by the National Sample Survey for 1993 and 2004, the author finds significant and negative effects of participation in RPW and the Food for Work Programme on poverty, under-nutrition (e.g. protein) and vulnerability in 1993 and 2004.

According to Neerja (2010), the economic growth in India has not been beneficial for large segments of the population thus creating a socially volatile opportunity gap between the rich and the poor. The author recommends investment in locally appropriate technology research; building market forces; scaling impact in rural or remote areas; and expanding success of the microfinance ethos of investing in people through education, training and healthcare. According to the author, partnerships between government, corporations, and academics that foster entrepreneurship can achieve economic as well as social prosperity.

A paper by Singh (2011) proposes that India should declare a financial emergency to allow land acquisition for freeway construction and infrastructure development to help the Indian economy to move forward; and help reduce its endemic poverty.

Kochar’s (2008) paper argues that the effect of administrative decentralisation of poverty programmes and local public goods on the magnitude of benefits to the poor depends not just on their political strength but also on the incentives the non-poor have to improve the welfare of the poor. The design of policy pays insufficient attention to such incentive issues.

According to Pal and Palacios (2011), since 1995, cash transfers to the poor elderly, or social pensions, have been one of the most important anti-poverty programmes in India. On the assumption that elderly poverty rates are higher than the general population, the minimum eligibility condition is set for 60 + in most states. Their research, however, suggests that households with targeted elderly members 60 + do not necessarily have higher poverty rates than non-elderly households. Further analysis suggests that there is an expenditure-mortality link so that the poor tend to die younger and are therefore under-represented among those aged 60 + in most states.

Bhargava, Gupta, and Khan (2005) suggest that India's mineral wealth, which is largely untapped, could boost the economy of its eastern states. They state that India's annual coal, iron ore, and bauxite productions could expand significantly by 2015, which can offer significant opportunities for both local and multinational companies. They argue that regulations, bureaucracy, and poor infrastructure risk are keeping India's metals and minerals sector from achieving its potential.

Sharma (2003) discusses a trend in aborting female fetuses in India where people have preference for sons; and that the law banning sex determination is not enforced.

D'Souza (2010) argues that job security regulation has not had the negative effects on employment growth its critics make a case out for.

EFFORTS TO ADDRESS INDIA'S POVERTY

Several efforts have been made to reduce poverty in India. They include, among many others, employment guarantee and microfinance programs (Kundu 2011); State-led credit and savings and lending programs (Burgess, Pande, and Wong 2005); establishment of phone and Internet service in rural areas of India (Underwood 2008); increase in schooling programs and decrease in child labor (Edmonds, Topalova, and Pavcnik 2009); Gyandoot -a government-owned computer network to make government more accessible to villagers in the poor and drought-prone Dhar district of Madhya Pradesh (Cecchini and Scott 2003); Intranet kiosks -or telekiosks, which allow farmers to track crop prices in the wholesale markets-enabling them to negotiate better terms (Cecchini and Scott 2003); and smart cards with an embedded microchip containing information on clients' credit histories to reduce transaction costs (Cecchini and Scott 2003).

Unfortunately, however, millions of people in India continue to suffer under poverty. The reasons for this sad situation include, among others, large population, lack of proper education and training, caste system, large dependence on agriculture, corruption, lack of infrastructure, and colonial and feudal history.

TRADE EQUILIBRIUM: A MULTIGENERATIONAL SOLUTION TO INDIA'S POVERTY

The purpose of this part of the article is to present another approach to reduce/eliminate India's poverty. This author, who has been writing about it for several years, has titled is as "Theory of Trade Equilibrium."

However, let us first review the state of India's foreign trade. It is because exports from India represent creating jobs in India; and imports into India represent loss of jobs in India. And, jobs or lack of jobs are directly related to poverty.

India's Foreign Trade

Table 1 shows that India continues to have a negative trade balance--about $28 billion in 2004-2005; $118.6 billion in 2009-2010, and $133.3 billion in 2011-2012 (April-

December). Clearly, over the years, India has accumulated billions of dollars due to its continuing trade deficits. That means a loss of millions of Indian jobs.

The major destinations of India's exports for 2011-12 (April-October) were as follows: United Arab Emirates (11.8%), USA (11.5%), Singapore (6.1%), and China (5.4%). However, the major Sources of India's imports were as follows: China (12%), United Arab Emirates (7.5%), Switzerland (7.2%), Saudi Arabia (6.1%), and U.S.A. (4.8%).

Unfortunately, an extensive survey of literature did not produce any studies that deal with establishing some statistical relationships between the amount of net imports and the number of jobs lost in India. Therefore, the arguments presented below are, though logical, are, however, devoid of statistics. (For your information, the United States loses about 3 jobs per million dollars of net imports).

Definition

According to this author, the term "trade-equilibrium," an otherwise widely used term with different interpretations, may be defined as follows: "Trade Equilibrium is a situation when trading among various countries is such that the trading partners remain generally deficit-free from one another over a cycle of every 2-3 years."

This theory of trade equilibrium has two major goals: (a) to stop exporting of additional Indian jobs and (b) to regain the Indian jobs already exported by recommending that the rupee/trade surplus countries eliminate their surplus over a ten year period by buying Indian products (goods and services). Further, according to this theory, it is the responsibility of India's trading partners with rupee surpluses to make sure to meet the requirements of the trade equilibrium as defined here.

Within these 2-3 years cycles, a foreign country can of course use its surplus rupees to buy products from countries other than India. In that case these other countries would have the surplus rupees and, therefore, must use them to buy products from India to enable India to maintain its trade equilibrium.

TRADE EQUILIBRIUM'S POTENTIAL BENEFITS

This author believes that his theory of trade equilibrium if and when it becomes a practical reality in India can help India bolster its economy, protect its jobs from further offshoring, create millions of new jobs, and reduce/eliminate its poverty. Let us review some of these benefits.

Trade Equilibrium Would Protect and Create Jobs

1. There would be no new annual Indian trade deficit considering the world as a whole. There would be no additional net export of Indian jobs.
2. The Indian balance of trade would have a net trade surplus during the ten years to follow because the trade surplus countries would have to use 10% of their surplus rupees to buy Indian products to eliminate this surplus over a ten year period.

Where Would the Rupees Coming Home Go

Under trade equilibrium, it would be the responsibility of the foreign countries to decide how to spend their surplus Indian rupees in India every year. Subject to the Indian laws, they can buy whatever Indian goods and services they want to.

Rupees coming back home would recreate jobs that were lost when the rupees went abroad due to trade deficit. If foreigners spend rupees visiting India as tourists, jobs would be created in industries such as transportation, hospitality, entertainment, banking, and insurance. These in turn, would create jobs in industries such as agriculture, agricultural machinery, transportation equipment, and furniture.

If the foreigners use their surplus rupees to buy equipment from India to improve their infrastructure, the jobs so created in industries manufacturing these equipment would, in turn, create jobs in industries such as retailing, transportation, and agriculture.

Manufacturing and service industries are interdependent; they feed each other.with its increasing exports, India would see its rupee appreciating in value; and it won't have to pay as much for its imports the way it does today with rupee carrying a lower value.

Trade Equilibrium Would Benefit Foreign Countries

Using their surplus dollars to buy Indian products would help these countries to improve their own infrastructure and employment. They would also not have to sit on the rupees declining in value.

CONCLUDING THOUGHTS

Trade Equilibrium Would Offer a Multi-Generational Solution

Trade Equilibrium would protect and create millions of Indian jobs. With more jobs and higher incomes, Indians would spend more on Indian and foreign products. The consequential multiplication of free and fair trade and investments between and within countries will provide a multi-generational seamless solution to the problems of unemployment and poverty in India and the world over. The ensuing global economic growth would promote creativity, innovations, peace and prosperity. It would be a win-win, positive-sum economic stimulus, not a zero-sum game.

Trade Equilibrium Benefits Must be Thoroughly Evaluated

India must thoroughly evaluate the premises, the mathematics, the simplicity, and the benefits of the theory of Trade Equilibrium and compare it with similar other approaches, tried or imagined, and then consider legislating it.

SUGGESTIONS FOR ADDITIONAL RESEARCH

India needs to research and discuss the topics such as follows:

1. What would be the effects of eliminating new Indian trade deficit on its jobs, poverty, and economy?
2. What would be the effects of increasing annual Indian exports on its jobs, poverty and economy?
3. What would be the effects of reduced unemployment on the Indian tax expenditures, such as unemployment benefits?
4. What would be the effects of billions of rupees coming back home on the various parts of the Indian economy?
5. What would be the effects on the economy (jobs, infrastructure, return on investment, etc.) of the rupee surplus countries that would use those rupees to buy Indian products?

6. What would be the effects on the Indian national pride, security, and economic independence?

END POINT

The discussion of the "Theory of Trade Equilibrium" that follows here, for India, is an adaptation of this author's writings on this topic for the last several years for U.S., including his article titled, "Trade Equilibrium: A Multi-Generational Economic Policy," that was published in the Journal of International Business Research, Volume 13, Number 1, 2014, pp 91-104.

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