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Tesi di Laurea

**The centrality of periphery**  
Analysis of the Indian miracle

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## Sintesi introduttiva

La presente tesi, dopo una breve panoramica della storia dell'India contemporanea, vuole analizzare i punti di forza e le anomalie dell'ascesa dell'India nell'era globalizzata, dallo sviluppo dei settori economici, alla sostenibilità di tale sviluppo, fino a un confronto con un altro gigante tra le economie emergenti, la Cina, con l'obiettivo di evidenziare i pro e i contro di uno sviluppo molto rapido e di far emergere un possibile e prevedibile futuro per il subcontinente.

Sessant'anni o poco più sono passati dal raggiungimento dell'indipendenza e già l'India si sta trasformando in superpotenza nel mondo globale, grazie a un rapido processo di modernizzazione. Subito si è reso necessario creare un equilibrio fra le diverse comunità religiose e castali, affrancando contemporaneamente il paese dalla sua drammatica arretratezza economica, e questo ha portato inevitabilmente alla scelta democratica. Così, nel 1950, la Costituzione ha segnato la nascita della democrazia indiana, con l'introduzione del suffragio universale, anche se, dall'altro lato, le disuguaglianze economiche e sociali denotano l'esclusione dalla sfera pubblica di quanti vivono al di sotto della soglia di povertà.

Dunque, se negli ultimi tempi la crescita del Prodotto Interno Lordo intorno all'8% annuo ha portato all'espansione della classe media e ha suscitato aspettative di migliori condizioni di vita anche tra i più poveri, all'interno della società indiana la polarizzazione fra ricchi e poveri non è ancora scomparsa, e deriva dalla somma di almeno tre fattori: scarsa creazione di occupazione, disuguaglianze geografiche e disuguaglianze sociali. Infatti, la velocità stessa con cui questa trasformazione avviene è ancora inferiore alle aspettative e alle esigenze di una popolazione in crescita costante, producendo forti contrasti e inevitabili scompensi: in India, circa un quarto della popolazione versa in condizioni di estrema povertà e malnutrizione, senza contare l'alto livello di analfabetismo diffuso in tutta la nazione, ragione per cui l'India è e resta una "grande potenza povera".

I punti di forza della struttura economica indiana sono costituiti essenzialmente dalla sintesi di diverse componenti: si va, pertanto, da una ricca dotazione di riserve minerarie, fino a un ampio settore agricolo, a un'attività manifatturiera diffusa su tutto il territorio e a un costo ancora contenuto della manodopera. Le attività economiche si presentano sotto le forme più differenti e sono ancora diversamente sviluppate a seconda dei settori: le tecniche agricole di ultima generazione sviluppano modelli di colture innovativi, pur inseriti nel background della tradizionale agricoltura di villaggio, che da sola è stata il modulo base dell'economia indiana. In buona misura proprio a scapito di questo settore, le politiche economiche dei decenni del dopoguerra hanno portato a uno sviluppo esponenziale dei comparti industriali, che concretamente hanno fatto

dell'India oggi una potenza produttiva di prima grandezza. Il subcontinente indiano rimane in primis la patria dei servizi e del terziario, attraverso la collaborazione di investimenti stranieri nella realizzazione di grandi progetti, per cui l'India sta acquisendo i mezzi e un'avanzata tecnologia. Si confermano di assoluto rilievo alcuni settori come quello dell'Information and Communication Technology, mentre in altri si registra un livello decisamente inferiore a quello europeo, come l'ambito delle manifatture, e il segmento della piccola e media impresa è ben radicato nel tessuto produttivo nazionale, rivestendo così un'importanza sempre maggiore.

Nonostante l'India si trovi in questa grande fase di crescita, dall'altro lato essa è frenata da una serie di limiti: il mercato del lavoro indiano, per esempio, è caratterizzato dalla compresenza di un ampio settore informale e di un settore formale, da una miscela istituzionale che oscilla tra modernità e tradizione, con risultati sorprendenti da un punto di vista economico, ma assai scarsi per il livello dei salari e protezione sociale.

Anche il ruolo dell'India nella divisione internazionale del lavoro è piuttosto limitato: la quota del paese nelle esportazioni mondiali è oggi pari a meno dell'1%, il che dimostra come l'industria indiana sia ancora piccola e poco competitiva: per questo la struttura dell'economia indiana è anomala rispetto a quella di molti paesi in via di sviluppo, nei quali il peso dell'industria prevale su quello dei servizi, senza contare che questa evoluzione del settore terziario non ha avuto corrispondenza nell'occupazione. Inoltre, le riforme della politica del commercio estero non hanno avuto importanti ripercussioni sulla trasformazione del modello di specializzazione indiano, che rimane basato su prodotti semplici e scarsamente differenziati. Dunque, uno dei limiti più importanti sembra essere la scarsa coerenza con la dotazione relativa di risorse del paese: è improbabile, infatti, che la specializzazione in un settore ad alta intensità di conoscenza e a uso intensivo di lavoro qualificato permetta di assorbire l'abbondanza di forza-lavoro non qualificata di cui l'India dispone.

Oltre ai problemi relativi alla struttura dell'economia indiana, anche i problemi sociali e ambientali del subcontinente sono commisurati alle dimensioni del paese, come mostrano le importanti sfide nel campo della sostenibilità ambientale, in particolare il rinnovamento nucleare e le difficoltà ad associare l'India al protocollo di Kyoto sul cambiamento climatico. Il subcontinente presenta un alto livello di inquinamento atmosferico, soprattutto nelle aree metropolitane, e un grave problema relativo allo smaltimento dei rifiuti, anche se oggi esistono alcuni tentativi per trovare soluzioni adeguate e per promuovere la sostenibilità economica e ambientale, mentre la questione dell'equità sociale rimane una spina nel fianco, che impedisce la libertà di scelta e di opzione degli individui. La mancanza di infrastrutture appropriate, come scuole, ospedali, rete idrica e stradale, insieme all'ineguale distribuzione dei benefici della dirompente crescita

economica, rappresenta l'elemento che condiziona maggiormente gli equilibri socio-economici del paese. In India convivono realtà tra loro agli antipodi, distanti culturalmente, socialmente ed economicamente: un dualismo tra campagne e città, tra villaggi privi di strade isolati dal resto del paese e moderne città connesse in pochi secondi a ogni angolo del pianeta.

Il problema demografico sembra essere quello più imminente: da un lato la popolazione indiana continuerà a crescere e, dall'altro lato, una percentuale sempre più alta di questa popolazione continuerà ad urbanizzarsi. Il fatto che l'India possa estendere il suo potere anche in ambito internazionale dipenderà dalle sue capacità di valorizzare i punti di forza di cui dispone, minimizzando contemporaneamente le proprie debolezze, e occorre chiedersi se, in un'ottica futura, il sistema democratico indiano potrà rivelarsi un punto debole nella gestione di una popolazione così numerosa e variegata, soprattutto se paragonato, ad esempio, al decisionismo autoritario cinese. Infatti, la democrazia è, senza dubbio, una grande acquisizione storica che, da un lato, attenua le disparità e permette uno sviluppo più equilibrato, ma, dall'altro lato, la frammentazione politica che ne deriva può rappresentare una debolezza per la competitività di un paese come l'India.

L'attrattività della Cina non è spiegabile da un singolo parametro: certamente gioca un ruolo importante il basso costo della manodopera locale, che si accompagna a una legislazione in materia di lavoro particolarmente favorevole agli imprenditori; inoltre, si tratta spesso di manodopera di elevato profilo e non bisogna nemmeno trascurare la buona disponibilità di materie prime e risorse naturali, che si accompagna a una discreta dotazione di infrastrutture di trasporto. La rapida crescita dell'economia cinese ha fortemente innalzato la domanda locale di una pluralità di beni di consumo durevole: per questa ragione, la Cina è sempre più oggetto di investimenti da parte di imprese che tentano di penetrare nel mercato locale, e accanto a queste nuove filiali provenienti dall'estero sorge spesso un indotto di imprese locali di fornitura e subfornitura. Non si devono dimenticare le spiegazioni di natura politica, che si riassumono col termine di "autocrazia sostenibile", dove il capitalismo viene usato per rafforzare l'autoritarismo, consentendo al Partito di mantenere la sua legittimità politica e, dall'altro lato, gli imprenditori vengono facilitati nell'ambito di appalti, autorizzazioni e concessioni di prestiti. Il successo del boom cinese è dovuto soprattutto a una funzionale rete di distribuzione che ha permesso l'accesso delle merci cinesi sui mercati di tutto il mondo, divenendo oggetto di decentramento produttivo e attraendo così un fiume di capitali dall'estero.

Le ragioni delle minori performance indiane, invece, sono da imputare a differenti scelte strategiche e orientamenti economici: innanzitutto, mentre l'attività manifatturiera cinese è fortemente orientata alle esportazioni, l'India ha tradizionalmente perseguito una politica industriale rivolta al mercato nazionale, e la maggior parte degli investimenti esteri sono indirizzati ai servizi nel settore ICT,

senza contare che la normativa in materia di lavoro rende più attrattiva la Cina, che segnala tra l'altro disponibilità di infrastrutture, livelli di scolarizzazione e reddito pro capite superiori a quelli indiani.

E' chiaro, pertanto, che il successo di una nazione deriva dal possesso di istituzioni economiche "inclusive", che incoraggiano la partecipazione popolare nelle attività economiche, affinché ogni individuo possa usare al meglio le proprie abilità e possa fare le scelte che desidera. Quindi, le istituzioni inclusive favoriscono le attività economiche, la crescita della produttività e la prosperità economica, assicurando la parità dei diritti, servizi pubblici e libertà di contrattare e scambiare, con uno stato capace di imporre l'ordine, prevenire frodi e far rispettare i contratti. Chiaramente, istituzioni economiche di questo tipo poggiano su istituzioni politiche inclusive, che non necessariamente devono essere pluralistiche, ma che sono garantite da uno stato potente e da una sufficiente centralizzazione.

L'India, purtroppo, è ancora caratterizzata da istituzioni politiche ed economiche "estrattive", le quali, nonostante vi sia, in effetti, un buon livello di democrazia, favoriscono la concentrazione del potere nelle mani di pochi privilegiati, una cattiva amministrazione della giustizia e la divisione della società in classi, impedendo una crescita economica e uno sviluppo economico sostenibili nel tempo. Finora, la crescita in India è stata resa possibile perché queste istituzioni estrattive hanno consentito lo sviluppo di alcune istituzioni economiche inclusive, seppur incomplete.

Pertanto, affinché il successo dell'India possa assumere una prospettiva di lunga durata, essa dovrà continuare un complicato processo di modernizzazione delle sue istituzioni in senso "inclusivo", così da creare incentivi che permettano alle persone di risparmiare, investire e innovarsi, e per sfruttare al meglio il grande potenziale di cui il paese dispone.

# Index

Introduction .....	2
1. History of India: from independence to the present day .....	9
1.1 The Indian political situation during the Second World War .....	9
1.2 Mahatma Gandhi and the period after the Second World War .....	11
1.3 Independence, democracy and reforms .....	12
1.4 Indira and Rajiv Gandhi .....	18
1.5 The BJP period and the present India .....	21
2. Development indicators in India: the economic potential and social weaknesses .....	24
2.1 A rapid development .....	24
2.2 The development of the economic sectors .....	25
2.3 The Human Development Report and the development indicators .....	32
2.4 Social and structural problems .....	36
2.5 The Indian potential .....	44
3. Economic development and sustainability: land and environment .....	50
3.1 Environmental sustainability and the energy question .....	50
3.2 The problem of waste and air pollution .....	56
3.3 Eco-tourism and sustainable infrastructures .....	59
3.4 Employment, health and education .....	62
3.5 The legal and economic framework for sustainability .....	66
4. India in comparison: the neighbour China .....	74
4.1 The socialist “market” economy and internal changes .....	74
4.2 Industrial development, pollution and social stability .....	78
4.3 How far in India compared to China? .....	80
4.4 Inclusive and extractive institutions .....	84
Conclusion .....	91
Bibliography .....	94

## Introduction

Growth, sustainability, globalization and the shifting of the economic centre of gravity are among the most debated topics today. Before the Industrial Revolution, “the economies of the planet did not grow, on the contrary, by today’s standards, the nations were poor and there were no big differences between State and State, between continent and continent”<sup>1</sup>. By contrast, the gap in wealth and living standards between the rich, a very small number, and the poor, the great mass of people, was huge.

In the two hundred years since the Industrial Revolution, growth exploded in the area formed by the so-called developed countries: this “Revolution” was born in Britain, and then it spread to the rest of Europe and North America. Since Columbus reached America, “the interplay among geography, globalization, technological change, and economic policy determined the wealth and poverty of nations”<sup>2</sup>. Before the Industrial Revolution, most of the world’s manufacturing was done in Asia, but industries from Casablanca to Canton were destroyed by western competition in the nineteenth century, and Asia was transformed into underdeveloped countries, specializing in agriculture. The spread of economic development was slow, since modern technology was invented to fit the needs of the rich countries and it was unsuitable to the economic and geographical conditions of the poor countries. This gap in model of development produced huge differences in income among the countries: those that did not grow were called “backward” or “underdeveloped”<sup>3</sup>.

After the Second World War and the collapse of the colonial empires, the development of infrastructures for the transport of goods and people, the advent of electronics and information technology, the opening of the international trade changed the development model: “divergence” has become “convergence”<sup>4</sup>. The so-called “underdeveloped” countries have entered into an era of accelerated development, at a rate of 7% per year, or even more, with a doubling of GDP every ten years. The change, in reality, was not sudden, but it was real, unstoppable and lasting over time.

The two future giants of the global economy, China and India are growing at rates of 8 to 10%: China has become the second largest economy in the world, or the third, if considering the Euro zone as a single block; in 10 -15 years China’s GDP will be equal to that of the European Union and

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<sup>1</sup> Enrico Tommaso Cucchiani, introduction to *La convergenza inevitabile*, by Michael Spence (Bari: Laterza, 2012), XV.

<sup>2</sup> “Global economic history: a very short introduction”, Oxford University Press, accessed January 24, 2013. <http://ukcatalogue.oup.com/product/9780199596652.do>.

<sup>3</sup> Enrico Tommaso Cucchiani, introduction to *La convergenza inevitabile*, by Michael Spence (Bari: Laterza, 2012), XVI.

<sup>4</sup> *Ibidem*.

the United States, and when the per capita income will reach the Western levels, the sizes will quadruple. India is a little further back: the gap is about fifteen years.

The 60% of the world population lives in Asia. After the Second World War, “this continent was perhaps the poorest part of the world and in possession of scarce natural resources”<sup>5</sup>. After several false starts, it was able to benefit greatly from its human resources, investing in their education and turning them into a source of development and sustainable growth. In the next 25-30 years, the rise of Asia in the world economy will triple the total GDP, a growth that implies and will imply very complex challenges.

With an area of three million square kilometres and a population of over one billion people, “India is a power that in a short time will presumably be able to extend its power in the international arena”<sup>6</sup>. This statement, however, will depend on its ability to exploit the strengths at its disposal, while limiting its weaknesses.

Nowadays, in fact, the Indian economy provokes contradictory reactions: on one hand, a sea of poverty, on the other hand, a pole of development of the great centres of the tertiary. These two realities coexist in the same set of continental dimensions and in full transformation. India’s GDP is the fourth or fifth in the world, when you consider the European Union as a whole. Its population exceeded the threshold of one billion inhabitants in 2000 and it is expected to exceed that of China by 2025 to 2030, then stabilizing at almost two billion by the end of the century.

The real factor that affects the India economic revival is not so much the absolute number of the population, but it is what economists and demographers call the “demographic window of opportunity”<sup>7</sup> for India. This is a concept that highlights the unleashing of powerful economic and social forces capable of producing what is traditionally called the economic take-off of a country, and that has played a role in most of today’s developed countries. Simply, it deals with great moments in the demographic history of the nations, when the growth of the active population exceeds that of the total population. So this is a rapid progression of the relative weight of the productive youth than the population: this evolution sets in motion a series of virtuous events, both on the supply side and on the demand side, well known to the economists. Firstly, the rates of saving and of investment grow to reach almost 40% of GDP, as seen in China today and tomorrow, probably, in India; moreover, a human capital on average younger also educated at the latest technologies, is more vigorous, more energetic, able to risk more and with a vision of the future in

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<sup>5</sup> Enrico Tommaso Cucchiani, introduction to *La convergenza inevitabile*, by Michael Spence (Bari: Laterza, 2012), XVII.

<sup>6</sup> Gianfranco Lizza, *Scenari Geopolitici* (Novara: De Agostini, 2009), 130.

<sup>7</sup> Jean-Joseph Boillot, “L’India, quale gigante economico nei prossimi anni?”, in *La centralità della periferia: l’India e i suoi vicini*, ed. ISPI Quaderni di Relazioni Internazionali (Milano: Egea, 2007), 10.

the longer term; finally, the consumption of the country is encouraged, because the young settle, start a family and want the most modern products.

However, a demographic window of opportunity indicates only a potential and many countries, throughout history, have not been able to seize this historic opportunity to take off and to reach the group of the developed countries. And what is an opportunity, as a large number of young workers, can become a limit if they remain unemployed, under-employed or forced to emigrate, as it happens in many developing countries.

The country has been long closed to the large flows of the world trade, but “the payments crisis in 1991 accelerated the turning point in its development strategy started in the 80s”<sup>8</sup>. The take-off of India, compared with China, relies less on the large export-dedicated manufacturing infrastructures and it comes at a key moment of the globalization of services, a sector in which the country has specific comparative advantages, such as the abundant qualified labour, and of competitiveness poles appreciated by all the major companies in the world. Thanks to the large reserve of labour that it can offer, to the reliability and to the high technical qualification of the staff, to the low level of wages and to its political stability, the country has managed to achieve a constant rate of growth of GDP over ten percentage points and a strong economic dynamism in its various industrial districts. The most promising resource of the country, in fact, is “a large and young human reserve, able thanks to a growing education and with the advantage of a general and almost natural knowledge of the English language”<sup>9</sup>.

Today, India is the second largest software producer in the world (after the United States), and the hi-tech assumed a crucial role in the India’s economic development, attracting into regions such as Andhra Pradesh, West Bengal, Punjab and Maharashtra investments by the large multinationals. The State of Gujarat, for example, in a single year has attracted thirteen billion Euros in the industrial district that lies between Ahmedabad and Gandhinagar.

If Microsoft, Motorola and Google have chosen to settle in the technology centres of Bangalore and Hyderabad, the country boasts expanding sectors, such as the petrochemical, textile and steel industries, not to mention that India has imposed itself as the first world producer of generic drugs, combining economic interests and social needs.

From the political point of view, there was, since 1989, and during the 90s, a gradual transformation of the Indian political system: the dominant-party system was replaced by a dual system of coalitions. This has fostered the democratic evolution of the Indian political life, “even if

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<sup>8</sup> Jean-Joseph Boillot, *L'economia dell'India* (Bologna: Il Mulino, 2007), 7.

<sup>9</sup> Gianfranco Lizza, *Scenari Geopolitici* (Novara: De Agostini, 2009), 131.

the internal level of democracy of most of the parties is still scarce”<sup>10</sup>. An important role in the democratic life of India is played by the regional parties which, although incapable of self-governing, are essential to any coalition and they perform a function of control and containment of the largest party they are allies.

At regional level, since 2004, under the leadership of Manmohan Singh, the so-called “third wave of regional policy in India”<sup>11</sup> began. One of the requirements that define the new regionalism in India is “the need to make the region a diplomatic priority”<sup>12</sup>: it is a widespread belief that only through an effective and efficient regional policy, aimed at encouraging the development and the peaceful coexistence in the subcontinent, India will redefine its global role and aspire to become an international power. The sustained economic growth in the recent years also gave more tools to India at regional level and, according to New Delhi, the regional integration also serves to counter the growing influence of China.

Domestically, the slow but undeniable awakening of India is marked by a double challenge: a democratic political system (650 million voters in 2004) and a widespread poverty (27% of the population), which force the economy of the development to wonder about the link between democracy and economic take-off, and about the risk of this dualism, which in the past marked so many developing countries.

In this regard, the research of the Nobel Laureate for economics Amartya Sen represents a very Indian theoretical synthesis of the original combination of four traditions that India could maintain in the future: a moderate conservative and independent Gandhism, very lively, especially among the Indian non-governmental organizations; a social democrat Nehruism still present in the congress Party; a socialism closer to the communist tradition, particularly in the West Bengal and in Kerala; and finally, the deep “lakshmism”<sup>13</sup> (from Lakshmi, the Indian goddess of prosperity) of the communities of businessmen, which in India gives rise to a very liberal capitalism and booming after the reforms of the 80s.

Perhaps now “it is possible to answer to the question that both Marx and Max Weber wondered about India”<sup>14</sup>, and on which it depended, in their view, the country’s ability to play an active role in the world, and that is if Hinduism, with its ideal of individual surrender and the segregation linked to the castes, constitutes an obstacle to the economic initiative. This is a question that now

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<sup>10</sup> Boris Biancheri, “Editoriale”, in *La centralità della periferia: l’India e i suoi vicini*, edited by ISPI Quaderni di Relazioni Internazionali (Milano: Egea, 2007), 1.

<sup>11</sup> Boris Biancheri, “Editoriale”, in *La centralità della periferia: l’India e i suoi vicini*, edited by ISPI Quaderni di Relazioni Internazionali (Milano: Egea, 2007), 1.

<sup>12</sup> Boris Biancheri, “Editoriale”, in *La centralità della periferia: l’India e i suoi vicini*, edited by ISPI Quaderni di Relazioni Internazionali (Milano: Egea, 2007), 2.

<sup>13</sup> Jean-Joseph Boillot, *L’economia dell’India* (Bologna: Il Mulino, 2007), 8.

<sup>14</sup> Gianfranco Lizza, *Scenari Geopolitici* (Novara: De Agostini, 2009), 136.

can be reformulated by focusing attention on the relationship between globalization and the ideological-religious sphere, where the first is a constant and the second is a variable that changes and adapts based on the circumstances. India, for example, changed more in the decade when the Hindu parties broke the monopoly of power of a secular party like the Congress Party. Perhaps this is enough to refute the easy generalizations about the braking role of Hinduism, although doubts remain legitimate, especially when considering the fundamentalist, violent, backward and markedly nationalist meaning.

Globally, the challenges are huge in India: on a qualitative level, it is possible to identify important limitations, that do not seem to be easily reduced. At the institutional level, the Indian government seems to be hardly reformable and corruption indices placed the country at the bottom of the world rankings. With regard to the financial system, “a recent study by the IMF shows that there are still many difficulties to finance the local enterprises, especially the medium-sized ones, and that it is still centred on a debt particularly high (almost 100% of GDP ) for a country at this level of development”<sup>15</sup>. In terms of income distribution, it is often said about the middle classes in India that they are a key driver of the domestic consumption, an essential variable in a few opened country, unlike China. However, the same recent evaluations of the GDP at purchasing power parity show that the population under the poverty line of two dollars a day exceeded 800 million people in 2005. Added to this is the fact that the Indian labour force is divided into three groups: 60% are rural workers who work in agriculture and rural industries; 9% are organized workers in the formal sector; the remaining third works in the urban unorganized or informal sector. The great development of the informal sector is characterized by two distinct processes: a bottom-up process, that is that “the creation of informal activities is due to population growth and it exceeds the capacity of formal job creation”<sup>16</sup>; a process from on high that is that the informality is generated by formal firms through subsupply to reduce costs and to remain competitive on the internal market and outside, but also by the policies of liberalization which, “by reducing the state apparatus and privatizing public enterprises, free labour force and, by deregulating the labour market, they contribute to worsen the labour relations and, consequently, to encourage outsourcing”<sup>17</sup>.

Another set of limits must be considered very seriously, because it determines what is called the “sustainability” of Indian growth. It deals with all the infrastructures and environmental constraints related to the urban development that may generate negative externalities so strong to stifle the growth. Water availability per capita continues to decline both in the countryside and in the city

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<sup>15</sup> Jean-Joseph Boillot, “L’India, quale gigante economico nei prossimi anni?”, in *La centralità della periferia: l’India e i suoi vicini*, ed. ISPI Quaderni di Relazioni Internazionali (Milano: Egea, 2007), 12.

<sup>16</sup> Sandro Sideri, “L’India e gli altri”, ISPI: 135, accessed January 21, 2013.  
<http://www.ispionline.it/it/documents/volume%20SIDERI%20INDIA.pdf>.

<sup>17</sup> *Ibidem*.

centre, not sparing even the now rich districts or the new areas, like Gurgaon, the new centre of the tertiary in Delhi, or Bangalore, whose attractive force is called into question by recent surveys, despite having been considered for two decades the “silicon valley” of India<sup>18</sup>. Moreover, the impact of the climate change on the Indian growth could exceed, according to the French Institute Cired, the 10% of GDP, unless action is taken quickly. However, on this regard, the Indian diplomats during the negotiations on the climate did not seem to have the same concern as their great scientist. Rajendra Kumar Pachury, new Nobel Laureate for peace, was the head of the expert group on the climate changes (Ippc), and he considered catastrophic the put on market of the Nano by the Tata Group, “the cheapest car in the world, but also large consumer of fuel, without considering its mass effect in India and in the poor and populous countries of the planet.”<sup>19</sup>.

In 2005, a team of experts gathered around the World Economic Forum identified three possible scenarios by 2015-2025, whose only one can be considered truly virtuous.

The first scenario, “Bollyworld”<sup>20</sup>, from the play on words with the famous Indian film industry Bollywood, combines an extreme globalization, mainly focused on the computer services, with a growth that excludes rural areas and unskilled labour: the rapid initial growth would decrease since 2015, creating more and more social problems.

A second scenario, the “Ataka Bhart”<sup>21</sup> (India that errs), combines a mediocre international scope and too slow reforms, especially in the field of water and energy infrastructures, so that the dividends of globalization and the non inclusive growth would generate an unstable conjuncture and the return to a growth rate of 4% by 2025.

Finally, the scenario “Pahale India”<sup>22</sup> (India firstly) attempts to reconcile the rapid international integration and an inclusive growth thanks to an active economic policy, which reinvests the dividends of globalization in voluntary programs about health, information, fight against poverty, physical infrastructure and policy of good neighbourhood with neighbouring countries. The growth would be quite high, even in a mediocre international environment (compensated by the domestic demand) and it would increase after 2015 to converge at an annual rate similar to that of China by 10% to 2025. This virtuous scenario may seem ambitious, but it will be credible at the cost of a strong voluntarism and a strong political consensus.

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<sup>18</sup> Sandro Sideri, “L’India e gli altri”, ISPI: 135, accessed January 21, 2013.  
<http://www.ispionline.it/it/documents/volume%20SIDERI%20INDIA.pdf>.

<sup>19</sup> Jean-Joseph Boillot, “L’India, quale gigante economico nei prossimi anni?”, in *La centralità della periferia: l’India e i suoi vicini*, ed. ISPI Quaderni di Relazioni Internazionali (Milano: Egea, 2007), 13.

<sup>20</sup> Ibidem.

<sup>21</sup> Ibidem.

<sup>22</sup> Ibidem.

“Rich nations are rich largely because they managed to develop inclusive institutions at some point during the past three hundred years”<sup>23</sup>. These institutions have persisted through a process of virtuous cycles: even if inclusive only in a limited sense to begin with, and sometimes fragile, they generated dynamics that would create a process of positive feedback, gradually increasing their inclusiveness. Inclusive political institutions tend to create inclusive economic institutions, which in turn make the continuation of inclusive political institutions more likely. Under inclusive economic institutions, wealth is not concentrated in the hands of a small group that could then use its economic might to increase its political power disproportionately. Furthermore, under inclusive economic institutions there are more limited gains from holding political power, thus weaker incentives for every group and every ambitious, upstart individual to try to take control of the state. As virtuous circles make inclusive institutions persist, vicious circles create powerful forces toward the persistence of extractive institutions. “History is not destiny, and vicious circles are not unbreakable”<sup>24</sup>, but they are resilient. They create a powerful process of negative feedback, with extractive political institutions forging extractive economic institutions, which in turn create the basis for the persistence of extractive political institutions, because the elites control them and benefit from them.

India’s growth, which has more inclusive and democratic institutions, is going to last much longer than the Chinese one, although now it falls behind with respect to China in the modernization process, but inclusiveness is not yet fully complete: the rights properties are not equally guaranteed and individual initiative is so encouraged, but the starting levels are certainly not the same for everyone. After all, history teaches that the wealth of a country grows if people have an incentive to innovate and invest, and this may create a virtuous circle of reforms, including more sectors of the population . So, “the rapid leap forward of the GDP may be only a blaze destined to extinguish, because a long-term growth must be fuelled by a continuous innovation, that is by a constant replacement of the old with the new”<sup>25</sup>.

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<sup>23</sup> Daron Acemoglu and James A. Robinson, *Why nations fail* (New York: Crown Business, 2012), 364.

<sup>24</sup> Daron Acemoglu and James A. Robinson, *Why nations fail* (New York: Crown Business, 2012), 365.

<sup>25</sup> Enrico Pedemonte, “Quando le istituzioni diventano burocrazie gli stati crollano”, *Linkiesta* (2013), accessed January 7, 2013. <http://www.linkiesta.it/perche-falliscono-le-nazioni>.

# 1. History of India: from independence to the present day

## 1.1 The Indian political situation during the Second World War

On the 1<sup>st</sup> of September 1939, the viceroy of India, Lord Linlithgow, on the basis of the obligations and powers conferred by the “Government of India Act” in 1935, notified the automatic entry of India into the Second World War on the England side.

With the beginning of the Second World War, the idea that India would have achieved independence, immediately after the end of hostilities, spread among the British labour and the Indian nationalist circles, while this thought was refused by the majority of the English conservatives, included Lord Linlithgow. On the other side, the Congress leadership would have continue to present his party as the only authentic representative of the Indian people, rejecting any legitimacy to the Muslim League and to its leader, Jinnah<sup>26</sup>.

In fact the political choices of the Congress made progressively vain the possibility that the birth of a binational state could peacefully accompany the end of the British raj<sup>27</sup>: so the inevitable alternative became the emergence of two states, hostile to each other.

Thus, during the Second World War, India was shocked by the clash among the British political leaders, the Indian National Congress and the Muslim League. Winston Churchill<sup>28</sup> played a key role in this conflict: on one hand, he wanted to postpone any constitutional change at the end of the war; on the other hand, he did not want to preclude the possibility for England to maintain the political control on the Indian central government.

On the contrary, the Congress aim was the immediate achievement of the complete independence for India and the maintenance of its unity. The problem was that the Congress leadership was divided into three different currents: on one side, there was Nehru, who perfectly realized that the success of the anti-fascist struggle in England was really important for the future of the civilized world; on the other side, there was Gandhi and the so-called old guard, who, even if they were sympathetic to the English cause, they were contrary in principle to any involvement of India in a violent conflict; finally, there was a group of political realists, who saw in the war an opportunity to become independent, also through the use of violence. The only point on which these three factions

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<sup>26</sup> Mohammad Ali Jinnah was a legislator, politician and a man of the Pakistani state. Initially he was an Indian nationalist and then an Islamic nationalist in the British India. He was the founder of Pakistan and the anniversaries of his birth and death are national holidays in Pakistan.

<sup>27</sup> Anglo-Indian empire.

<sup>28</sup> The British prime minister from 1940 to 1945.

agreed was the fact that the Muslim League was a community organization devoid of any legitimacy.

Moreover, there was the Muslim League, which represented only a little part of the Indian population at the Congress. Jinnah's power towards the two Muslim leaders of Bengal and Punjab was limited, so he realized a solid tactical alliance with the raj, with the aim of building one or two independent states for the Indian Muslims, as a nation, not only as a minority.

The entry of India into the Second World War on the England side happened without consulting the representatives of the Indian major political parties and, on the 17<sup>th</sup> of October 1939, the viceroy Lord Linlithgow promised that, after the war, the government would have dealt with the various political groups for a revision of the Constitution: this statement disappointed the public opinion and the Congress ordered its party members to withdraw from the provincial governments by the end of November; this decision "left the field free to the Muslim League"<sup>29</sup> and Jinnah took the opportunity to declare the 22<sup>nd</sup> of December 1939 as the "Liberation Day" from the tyranny of the Congress. On the 10<sup>th</sup> of May 1940, the British conservative government ended and it was substituted with a coalition government headed by Churchill: this gave to the Congress leaders the illusion that the political situation could recover from paralysis, but in the course of two summers it was clear that even the new government wanted to make significant concessions<sup>30</sup>.

On the 17<sup>th</sup> of October 1940, Mahatma Gandhi started his individual Satyagraha<sup>31</sup> (nonviolent struggle), a movement of civil disobedience: according to his directives, single members of the Congress, chosen by himself, would have broken the law which limited the freedom of speech, denouncing the war and offering themselves to the incarceration. At the end of 1941, this movement extinguished naturally.

The Pearl Harbour attack, on the 7<sup>th</sup> of December 1941, and the entry into the war of the United States pushed Churchill's government to open new negotiations in India, to induce the Indian parties and the Congress to participate in the war effort and to meet the worries of the US President Roosevelt, who was convinced that India could contribute to the American victory as an active partner. In Roosevelt opinion, this could be achieved through the immediate concession to India of the status of dominion<sup>32</sup>.

The situation after Pearl Harbour was such that Churchill, pushed by the other Labourites, decided to send sir Stafford Cripps to India, vested with broad powers: he was a Labour politician, supporter

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<sup>29</sup> Michelguglielmo Torri, *Storia dell'India* (Bari: Laterza, 2010), 580.

<sup>30</sup> Michelguglielmo Torri, *Storia dell'India* (Bari: Laterza, 2010), 581.

<sup>31</sup> "Maharashtra Navnirman Sena", Acharya Vinoba Bhave, accessed September 11, 2012, <http://www.manase.org/en/maharashtra.php?mid=68&smid=23&pmid=5&id=828>.

<sup>32</sup> Also known as "Union of India": it was an intermediate entity between the British dominance on India and the present independent state.

of the Indian Congress and a personal friend of some of its members, including Nehru. Cripps' mission of creating a constituent Assembly with the chance to secede from the Commonwealth and go for the total independence, together with the renewal of the Indian government, failed miserably: the Congress was not inclined to accept such proposals and both the British and the Congress did not trust in each other. Dialogue with Cripps stopped and the national leadership, guided by Gandhi, asked for the immediate self-government in return for the war support: in fact, Gandhi said that Cripps' offer of dominion status after the war was a "post-dated cheque drawn on a crashing bank"<sup>33</sup>.

## 1.2 Mahatma Gandhi and the period after the Second World War

Gandhi's position became more and more hostile towards England, so that he pointed out that there were "striking characteristics of fascism in British rule"<sup>34</sup>: so, he used all his influence to push the Congress to call for the immediate abandonment of India by the British and, on the 14<sup>th</sup> of July 1942, the Congress staff passed the so-called motion "Quit India", which asked for the immediate end of the British rule in India, but which also granted the allied powers to use India as a military base against the Japanese forces. On the 8<sup>th</sup> of August 1942, the "All-India Congress Committee", in addition to approving such a motion, announced the beginning of a larger non-violent mass struggle to claim the right of India to independence and freedom, under the leadership of Mahatma Gandhi. Thousands of separatists were killed or injured by police, other hundreds of thousands were arrested. In the night between the 8<sup>th</sup> and the 9<sup>th</sup> of August 1942, Gandhi and all the Congress leaders were arrested in Bombay, followed by a spontaneous revolution, made by strikes, demonstrations and clashes with the police. The repression was immediate, organized by the British and the Australian troops, up to the use of the aviation to fire on the crowd; thus, by the end of September, the revolt was crushed, giving way to the guerrillas, who began sabotages and retaliations.

On the 5<sup>th</sup> of June 1943, Lord Wavell became the new viceroy, chosen by Churchill himself. Wavell was well aware that the raj was slowly unmaking and, according to his analysis, he tried to flesh out the political initiative taken by Cripps, in order to push the Congress and the Muslim League to collaborate with the Indian government<sup>35</sup>, but Wavell's proposals were not accepted by Churchill.

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<sup>33</sup> "Sri Aurobindo and the Cripps Mission to India", Claude Arpi: 62, accessed January 3, 2013: [http://www.claudearpi.net/maintenance/uploaded\\_pics/On\\_Cripps\\_Mission.pdf](http://www.claudearpi.net/maintenance/uploaded_pics/On_Cripps_Mission.pdf).

<sup>34</sup> Michelguglielmo Torri, *Storia dell'India* (Bari: Laterza, 2010), 585.

<sup>35</sup> Michelguglielmo Torri, *Storia dell'India* (Bari: Laterza, 2010), 592.

On the 6<sup>th</sup> of May 1944, Gandhi was released and he tried to negotiate with Wavell: the British war cabinet closed any possibility of dialogue and invited Gandhi to find an agreement among Hindus, Muslims and the major minorities in formulating a new constitution. So Gandhi began a series of talks with Jinnah in September 1944, but they failed on the question of whether to consider the Muslims as a nation. However, there was an important result, because the meeting between Gandhi and Jinnah strengthened the position of the latter as the real Quaid-i-Azam<sup>36</sup> of the Muslims in India<sup>37</sup>.

The Second World War ended in Europe in 1945 and the British government fell; in its place a transitional government was established, led by Churchill again. So Wavell asked the new government to undertake a political action in India, so that a conference of the major parties took place in India, with the aim of creating a transitional government, which was almost entirely “indianized”<sup>38</sup>. Therefore, Wavell released the Congress members and summoned a conference in Simla, from the 25<sup>th</sup> of June to the 14<sup>th</sup> of July 1945, where the most important Indian political forces met and where he was able to present his plan to form the government, but the conference had no success because of the unconstitutional requests of Jinnah.

On the 26<sup>th</sup> of July 1945, the Labour Party won the elections in England: Clement Attlee became prime minister and Lord Pethick-Lawrence, who was Gandhi’s personal friend, became secretary of state for India. On the 14<sup>th</sup> of August 1945, Japan surrendered and the Second World War ended. On the 19<sup>th</sup> of February 1946, Attlee and Lord Pethick-Lawrence sent a mission to India to consult the main Indian leaders, in order to realize a “project of devolution of power in India”<sup>39</sup>. After a series of negotiations, it was clear that it was not possible to reconcile Indian leaders.

### **1.3 Independence, democracy and reforms**

In July 1946, Jawaharlal Nehru became the Congress president. Wavell tried to organize a government using the ministers resulting from the major parties in India, under the guidance of Nehru, and it took office on the 2<sup>nd</sup> of September 1946. But the viceroy insisted on including also the League into the government and, on the 13<sup>th</sup> of October, Jinnah made his positive intention clear: Nehru accepted the League participation, and the League became an active part of the government on the 26<sup>th</sup> of October, with the task of managing the Ministry of Finance.

A new phase of tensions between the League and the Congress reached its peak in 1947-1948, and

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<sup>36</sup> Quaid-i-Azam means “Great Leader” in Urdu.

<sup>37</sup> Michelguglielmo Torri, *Storia dell'India* (Bari: Laterza, 2010), 593.

<sup>38</sup> Michelguglielmo Torri, *Storia dell'India* (Bari: Laterza, 2010), 594.

<sup>39</sup> Michelguglielmo Torri, *Storia dell'India* (Bari: Laterza, 2010), 597.

the government ceased to operate. A last attempt was made by Attlee, who convened Nehru, Jinnah and other important Indian leaders in London, in December 1946, but also this meeting failed. So, Attlee decided to remove Wavell and to replace him with Lord Mountbatten, who obtained very broad powers as viceroy, in exchange for his acceptance, and among these victories, there was the commitment of the British government to disclose the expiration date of the raj in India, which was established in June 1948.

Meanwhile, India fell into chaos and the state paralyzed. The demonstration in Calcutta led to the so-called “Great Calcutta Killings”<sup>40</sup>, in August 1946, where “Muslim gangs attacked the Hindu population and Sikh taxi drivers reacted with equal violence”<sup>41</sup>: it was the beginning of the civil war between Sikh and Hindus, on one side, and Muslims, on the other side, to conquer the capital of Bengal: the Muslims lost, and the control of the city passed into the hands of the Hindus. From Calcutta, the civil war spread to the central India, to the northern Punjab, to the area of Delhi, and finally to the East Bengal.

In January 1947, the League responded by creating a civil disobedience movement, which led to the resignation of the government; this event was followed by several clashes that led to the massacre of Sikhs. So, on the eve of the arrival of Mountbatten, the civil war had spread to India as a cyclone and, in addition, various movements arose among the subordinate classes, supervised by young intellectuals and by the Communist Party of India.

In this situation, most of the leaders of the Congress were convinced that the partition of India was necessary. The plan provided for the transfer of the powers to two dominions<sup>42</sup>, India and Pakistan, which could then secede from the Commonwealth: this project was approved by the British government, the Congress, the representatives of the Sikhs and by Jinnah, and, on the 18<sup>th</sup> of July 1947, the British Parliament ratified the “India Independence Act”, so the raj was destroyed in advance. In the night between the 14<sup>th</sup> and the 15<sup>th</sup> of August, India was declared independent and Jawaharlal Nehru became the first prime minister of the independent government.

Meanwhile, Gandhi moved to Delhi and continued to carry on his work of pacification of the country, and in January 1948, he undertook his last fast of protest, which ended on the 27<sup>th</sup> of January, when he was called upon to speak in public to explain his reasons. On the evening of the 30<sup>th</sup> of January 1948, Mahatma was approached by a Hindu fanatic named Nathuram Godse, who accused Gandhi of sacrificing the interests of India and of the Hindus in order to achieve the

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<sup>40</sup> Also known as “Direct Action Day”, which marked the so-called “Week of the Long Knives”.

<sup>41</sup> Michelguglielmo Torri, *Storia dell'India* (Bari: Laterza, 2010), 603.

<sup>42</sup> Michelguglielmo Torri, *Storia dell'India* (Bari: Laterza, 2010), 608.

consent of all religious minorities<sup>43</sup>, so he shot and killed Gandhi. The assassination of Mahatma Gandhi was the demonstration that his non-violent struggle had not gone unnoticed and left a big collective regret.

After the Second World War, the world was divided into two blocks: the “Western bloc”, led by the United States, and the “Communist bloc”, led by the Soviet Union. It was the so-called Cold War, which marked the period between the 50s and the 80s, characterized by a non-military conflict, based on the technological competition and on the arms race.

Between 1947 and 1989, India was led by the prime ministers coming from Nehru’s family: the first was, in fact, Jawaharlal Nehru, from 1947 to 1964; then it was the turn of his daughter, Indira Gandhi, whose surname was taken from her husband (who did not have any family relationship with Mahatma), and she ruled the country from 1966 to 1977 and again from 1980 to 1984; and, finally, it was the turn of Rajiv Gandhi, the elder son of Indira, who ruled from 1984 to 1989, and then he ruled also a coalition government from 1990 to 1991, when he was assassinated.

The India of those years was characterized by the idea of political democracy and secularism, and by the economic protectionism. The new constitution, approved on the 26<sup>th</sup> of January 1950, stated that India was a republic and a union of states, based on democracy and secularism of the state, and the universal suffrage was introduced for all the citizens over 21 years. Moreover, the Constitution also fixed a number of fundamental rights, including the freedom of religion, property, expression, assembly, association, movement and the equality of all citizens before the law.

Although there were already many conditions for the establishment of democracy in India, the choice of a democratic system in 1947 was not so obvious. Indeed, the separation between religion and politics, as well as social inequality, made very difficult to adopt the principles which inspired the Western democracies; however, the Constituent Assembly made sure that different cultures and civilizations could interact, testifying, in this way, that the modernization is a dynamic process, in which the sequences can vary<sup>44</sup>. Moreover, in 1947, democracy was very fragile because of the dominance of the Congress and because of the political and economic backwardness of the majority of population; however, in 1951-52, the various parties presented themselves to the elections and, during the nehruvian period, it was clear that the internal democracy of the political parties was essential.

The first national elections saw the victory of Nehru, and so the victory of the Congress, which presented itself as a mass party and, as Simonetta Casci stated, “with a central leadership sided with

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<sup>43</sup> “L’uccisione del Mahatma Gandhi”, *Numismatica e storia*, accessed September 13, 2012, <http://numistoria.altervista.org/blog/?p=2805>.

<sup>44</sup> Simonetta Casci, “L’ordinamento politico e la forza del pluralismo”, in *L’India tra i grandi. Politica, economia e società sessant’anni dopo*, edited by Giampaolo Calchi Novati, Silvio Beretta and Simonetta Casci (Roma: Carrocci, 2008), 22.

a notability belonging to the middle classes, who controlled the levers of power in their own regional states". The electorate, to which the Congress addressed, was composed by the poor of the lower castes, by the former untouchables and by the religious minorities, who identified with the nationalism of Gandhi and Nehru.

In the idea of social justice, Nehru promoted an agrarian reform, aimed at the creation of wealth and at the industrial expansion, built during the colonial period by the private sector. The state would have had a fundamental role in this expansion, both as a regulator and as a promoter of the economic development, through the creation of five-year plans.

The first plan was launched in December 1952, and it provided for the control by the state of sectors such as heavy industry and infrastructure, which would have implied low or zero earnings in the short or medium term, so as to meet the needs of the private national capitalism. Moreover, the state promoted, through tariffs and exchange reserves, the replacement of foreign industrial products with the domestic ones, thus protecting the economic system and the Indian capital from the foreign competition.

All the economic activities had to be approved by the state, and this gave a great power to the government and to the bureaucracy. On the other hand, there were also some negative aspects: there was a great concentration of capital in the large industrial and financial groups, such as Tata<sup>45</sup> or Birla<sup>46</sup>, although this was not the objective; moreover, the Indian parties were financed only by fees and contributions from supporters, including the big capitalists, who, on the one hand, had more political influence, but they were also more vulnerable to blackmail by the government. This created a large network of corruption and conflicts, which gave rise to a long process of deterioration of the system and of morality.

However, at the time, the first five-year plan had good economic outcomes, and so Nehru, between the end of 1954 and the beginning of 1955, announced the goal of creating a society based on a "socialistic" model, and that objective was incorporated into the second and the third five-year plans, through the strengthening of the state intervention in the economy and the restructuration of the rural world with the socialization of agriculture<sup>47</sup>. The idea was to create a cooperative system, strongly controlled by the state, which would have appointed one third of the steering committee of each cooperative, while the remaining two thirds would have belonged to the members of the cooperative. Each cooperative would have provided credit to its members, the 51% by the state and the rest also by the self-taxation, which would have benefited the poorest farmers.

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<sup>45</sup> The Tata Group is one of the major Indian industrial giants dealing with the automotive industry.

<sup>46</sup> Aditya Birla Group, also known as Birla Management Corporation, is responsible for the chemical, metallurgical and telecommunications sectors, and it is one of the first Indian multinationals.

<sup>47</sup> Michelguglielmo Torri, *Storia dell'India* (Bari: Laterza, 2010), 642.

This reform was against the rich peasants and merchants, who had a lot of power in the Congress and on the state bureaucracy, and so they had the means to hinder Nehru, also facilitated by the lack of social cohesion that prevented the subordinate layers to react.

Thus, despite the continued efforts of Nehru to push through its reform, it was suspended, leading to a limited agricultural production, speculations and the emergence of a fervent black market.

With regard to the energy policy, Nehru promoted the construction of dams, irrigation works and the production of hydropower, as well as a program for the creation and exploitation of the nuclear energy.

Despite the many limits of the nehruvian economic policy, such as having overshadowed education, the five-year plans gave impetus to the basic industry, which, since the 60s, created the conditions for the start of the so-called “Green Revolution”<sup>48</sup>, the rise in productivity and in the agricultural production.

In foreign policy, during the Cold War, Nehru announced India’s independence from the two opposing blocs, on the one hand, because it was not in the national interest to be involved in this conflict, and on the other hand, because the non-alignment was seen as a positive role of mediation, which could have facilitated the process of detente.

Moreover, the policy of non-alignment was perfectly consistent with the ideals of non-violence of Gandhi: therefore, at the international level, Nehru became the spokesman of the Afro-Asian peoples in a series of diplomatic initiatives, such as in the mediation between the United Nations and the communist forces in Korea, or between the French and the Vietnamese in the Indochina War.

It must be said, however, that this equidistance from the two superpowers was not too clear: in fact, while the relationship between India and the United States was getting pretty cold, Nehru felt closer to the Soviet Union, which he considered the homeland of socialism, despite the lack of democracy, partly because Russia and India had developed from similar conditions of economic and social backwardness. In fact, it was not a coincidence if the USSR had supported India about the Kashmir question, while the relations with the U.S. deteriorated in 1954, when Pakistan joined the SEATO (South East Asian Treaty Organization), and so it joined the system of the anticommunist alliances. Nehru condemned the American imperialism and, in April 1955, a conference was held in Bandung<sup>49</sup>, among the representatives of 29 Afro-Asian newly independent nations and those of a varied set of “oppressed nationalities”<sup>50</sup>. In addition to Nehru, the other protagonists of the summit

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<sup>48</sup> The introduction of high-yielding varieties of seeds and the increased use of fertilizers and irrigation, which provided the increase in production needed to make India self-sufficient in food grains, thus improving agriculture in India.

<sup>49</sup> An Indonesian city, the capital of West Java province.

<sup>50</sup> Michelguglielmo Torri, *Storia dell'India* (Bari: Laterza, 2012), 649.

were Sukarno for Indonesia, Tito for Yugoslavia and Chou Enlai for China. The most prestigious leader of the Arab world, who took part in the conference, was the Egyptian Nasser, who in the same year had refused to join the Baghdad Pact<sup>51</sup>.

The presence of China and of other communist countries made the conference critical towards the United States and the West in general, partly because, at the end of 1955, Nikita Khrushchev, the Secretary of the Soviet Communist Party, and Nikolai Bulganin, the President of the USSR, visited India and they signed with it a series of economic and political agreements<sup>52</sup>.

Since 1958, the relationships between India and the Soviet Union cooled, because Nehru condemned the Soviet intervention in Hungary and because the Soviet hostility towards Yugoslavia was renewed, since Tito, one of the instigators of the non-aligned movement, had maintained a certain independence from the Soviet Union.

However, the Bandung conference marked the success of the so-called “Third World”<sup>53</sup> and accelerated the process of decolonization; moreover, Nehru stated the basic principles of its foreign policy: non-alignment, anti-colonialism, anti-racism, Afro-Asian centrism and peaceful negotiations without preconditions<sup>54</sup>.

The good relations between India and China, in fact, hid the problem of the borders, which were not clearly defined, because, in fact, there were areas, such as Tibet, which were independent, but they were claimed by both India and China. In 1930, the Indian government recognized the claim of Beijing that Tibet was part of China and withdrew its garrisons from the Tibetan territory, so the relations between India and China became friendly, even though they both aimed at expanding in the north and south of the Himalayas.

After the Tibet question, Nehru aimed at re-establishing the boundaries of India, which had been established by Britain during the colonial period, but the government of Chou En-lai did not want to recognize them. In 1954, China and India began a series of fruitless talks, but in the meanwhile and in total secrecy, the Chinese began to build a road which linked the southern Tibet directly with the eastern province of Xinjiang. India became aware of the existence of the China National Highway in 1957, and the tension rose sharply.

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<sup>51</sup> Signed on the 24 of February 1955, initially between Turkey and Iraq, and then also Iran and Pakistan added, and it was an agreement of mutual defense against communism, advocated by Great Britain and especially by the United States, that with the Presidents Truman and, later, Eisenhower would have pursued a policy of isolation of the USSR, while Egypt and Syria perceived this initiative as another attempt by the Western powers to extend its influence in the Arab region.

<sup>52</sup> Grants to Indian steel mills and support on the questions of Kashmir (against Pakistan) and Goa (against Portugal).

<sup>53</sup> A term coined by the French economist Alfred Sauvy in the early fifties, and it entered in the language of international politics during the Bandung conference, to distinguish the developing countries from those with a market economy and from those with centralized economy.

<sup>54</sup> Michelguglielmo Torri, *Storia dell'India* (Bari: Laterza, 2010), 650.

In October 1962, hostilities broke out and the Chinese army, superior in number, preparation and logistics to the Indian one, prevailed.

The defeat in 1962 was politically disastrous for Nehru: the Defence minister was forced to resign and a motion of no confidence was presented against the Nehru government in August 1963.

### **1.4 Indira and Rajiv Gandhi**

Indira Gandhi, the only daughter of Nehru, became prime minister and she began to identify more and more with the left of the party, distancing herself from the rich farmers and from industrialists, with the external support of the Communist Party and of the DMK<sup>55</sup>. However, Gandhi's position was quite weak, also because the Upper House of Parliament (Rajya Sabha) was controlled by forces hostile to her, so, in December 1970, Indira Gandhi decided to dissolve the Lower House (Lok Sabha) and she called new elections in 1971, which saw the great victory of Gandhi's Congress.

By this time, Indira Gandhi began to exert an authoritarian political style<sup>56</sup>: in June 1970, she reworked the powers of the Prime Minister to widen them and the internal democratic process was suspended. From here, the offices of the Congress, as well as the heads of government of the governed states, will no longer be chosen by the base, but by the leaders of the party and by the prime minister.

After the elections, the Indian government became involved in the third Indo-Pakistani War, in 1971: the Government of India intervened in stimulating the liberation movement of Bangladesh territory and, after two weeks of intense fighting, the Pakistani forces surrendered in Bengal, and India promoted the creation of the independent state of Bangladesh. With this victory, Indira Gandhi won the elections in March 1972; however, her economic and social reforms failed, accompanied by poor governance and by the corruption of the system. This led to the emergence of an opposition movement which spread among the workers, and especially among the railwaymen, strongly repressed.

India wanted to emphasize the need for a global nuclear disarmament, so India decided not to take part in the "Non-Proliferation Treaty" in 1968. After the nuclear test in 1974, the popularity of Gandhi was short-lived and, in June 1975, the High Court of Allahabad declared that the election of Gandhi in 1971 was not valid, but she had no intention of leaving his office, despite the request for her resignation, so she proclaimed a state of internal emergency on the 26<sup>th</sup> of June 1975, and this

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<sup>55</sup> A regional party, expression of the Tamil ethnic group and with socialist tendencies.

<sup>56</sup> Michelguglielmo Torri, *Storia dell'India* (Bari: Laterza, 2010), 671.

allowed Gandhi to establish a real dictatorship, although within the limits of the law, with the consequent and immediate imprisonment of all political opponents.

The block of the democratic system had prevented from renewing the party and the society, so Gandhi decided to place in key positions people related only to her and she increasingly leaned to her younger son Sanjay, who organized a youth structure parallel to the Party, the “Youth Congress”, from whose ranks several characters were extracted to be included in key positions in the nation, and he recruited them in his own image and likeness<sup>57</sup>.

In January 1977, Gandhi announced early elections, and when the emergency was over and the opposition forces, the non communist ones, were freed, they were able in a short time to get organized in a single formation, the “Janata Party”, and many members of Congress found the strength to rebel and form a new party, the “Congress for Democracy”, which allied with Janata, thus winning the election.

The weakness of Janata led to social violence in the rural world by the outcasts, then repressed with a massacre, led to the split of the Janata Party in 1979. Thus, the president of the republic was forced to call new elections in 1980, which saw a new victory of Indira Gandhi, of her Congress and of her son Sanjay, who was elected to the Lower House.

In 1979-1980, the country was hit by a severe drought and this worsened the economic situation of the country, added to the domestic inflation and to the Second Oil Shock. To face the situation, Indira Gandhi decided to use, for the first time, the loans from the international institutions and from the International Monetary Fund, which imposed to India some changes in line with its liberal ideas, such as deregulation, the reduction in the tax burden or the reduction of restrictions to imports, and this encouraged the foreign investments from abroad.

However, in politics, Gandhi introduced new laws to expand the repressive powers: the unions responded with a general strike in 1981, which was repressed with the arrest of 23.000 activists. The elections within the party did not happened anymore, and, after the death of Sanjay, she recruited her eldest son Rajiv Gandhi, who until then had never been interested in politics, and he was appointed as Secretary General of the Congress. Since the two Muslim and Harijan<sup>58</sup> groups abandoned her in 1977, she decided to address to the Hindu electorate. In the early 80s, in India a Sikh extremist movement grew up , which aimed at the independence of Indian Punjab. During the riot, the members of the extremist group took refuge in the Golden Temple of Amritsar and Indira

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<sup>57</sup> Michelguglielmo Torri, *Storia dell'India* (Bari: Laterza, 2010), 681.

<sup>58</sup> The term “Harijan” means “God’s children”, as the Mahatma had baptized the outcasts.

Gandhi decided to intervene with the army, known as “Operation Blue Star”, and she stormed the holy temple of the Sikhs with a bombing and a bloody occupation<sup>59</sup>.

A few months later, Indira Gandhi was assassinated, on the 31<sup>st</sup> of October 1984, by her own Sikh bodyguards, and a further violence unleashed against the members of the community around the country.

After the death of Indira Gandhi, Rajiv became prime minister and the leader of the party. He was seen as an incorruptible politician, and, thanks to the emotion aroused by the tragic death of his mother, the party won great acclaim in the elections held in December of that year.

The Rajiv period was characterized by three elements: its low cultural and intellectual thickness; his belief that the systematic application of science and of the modern management techniques was sufficient to solve the situation in India; finally, “the lesson he drew from his mother’s death”<sup>60</sup>, which convinced him of the need to enter into agreements to settle the inter-community political tensions.

Despite this, from the beginning, Rajiv followed the footsteps of his mother and he was supported by former executives and former officials of institutions like the World Bank, and he began to use a communitarian policy, from the time when he became prime minister.

Rajiv gave start to a series of reforms and the Indian economy was further liberalized. Although, in the following years, almost all of his initiatives were a fiasco, some, however, turned out to be positive. First, it was approved the “Antidefection Bill”<sup>61</sup>, for which the abandonment by a member of his own party would have resulted in the loss of the seat. Moreover, Rajiv promoted the computer industry and its spread in India, so the Bangalore became the realm of software. Finally, he was given a new impetus to the nuclear industry, which, in 1988, led to the signing of an agreement with the USSR to build two plants for the production of enriched uranium, not to mention that, in the same year, India sent its first satellite into orbit. Therefore, the new economic policy of Rajiv Gandhi was to promote the economic liberalization and the expansion of private capital, so taxes on natural and legal persons were reduced, as well as tariffs, and the license system was abolished for twenty-five sectors<sup>62</sup>.

During the tenure of Rajiv Gandhi, the economic growth continued unabated, but accompanied by public debt, which imposed the government an increase in taxation, in 1989, causing a rise in the prices of durable consumer goods.

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<sup>59</sup> Guida India, La rivolta del Punjab, accessed September 21, 2012.

[http://www.guidaindia.com/index.php?option=com\\_content&view=article&id=836&Itemid=61](http://www.guidaindia.com/index.php?option=com_content&view=article&id=836&Itemid=61).

<sup>60</sup> Michelguglielmo Torri, Storia dell'India (Bari: Laterza, 2010), 697.

<sup>61</sup> Michelguglielmo Torri, Storia dell'India (Bari: Laterza, 2010), 700.

<sup>62</sup> Michelguglielmo Torri, Storia dell'India (Bari: Laterza, 2010), 701-702.

In foreign policy, India of Rajiv Gandhi entered a new phase of activism within the non-aligned countries, promoting the economic boycott of the racist government of South Africa and supporting the struggle for the independence of Namibia, by giving full diplomatic recognition to SWAPO<sup>63</sup>. In addition, Rajiv brought forward the refusal to sign the Treaty of Non-Proliferation, proposing, by contrast, the so-called “Declaration of Delhi” in November 1985, signed jointly with Mikhail Gorbachev, which advocated a complete nuclear disarmament by 2010 and the dismantling of the military bases beyond national borders and military pacts.

Between the 24<sup>th</sup> and the 26<sup>th</sup> of September 1989, Rajiv Gandhi surprisingly proclaimed new elections for the renewal of the Lokh Sabha and, meanwhile, the oppositions had found ample space. Between these parties there was the Bharatiya Janata Party (BJP)<sup>64</sup>, which represented the Hindu religious right, and with which V.P. Singh, as president of the National Front and of the Janata Dal, had actively committed. At the elections, the Congress collapsed and, although it still had the relative majority, the absolute majority belonged now to the opposition, and “this marked the beginning of the Congress decline and of the dominant party system”<sup>65</sup>. From 1989 to 2004, India had more or less ten governments and there were seven general elections, and during this period, it became clear that no party could no longer govern alone, especially without the support of the regional parties or without being part of the Congress or of the BJP.

### **1.5 The BJP period and the present India**

The last decade of the twentieth century was marked by the rise of Hindu fundamentalism, both ideologically and politically. One of the main causes is that the growth of the political and cultural importance of some forms of religious fundamentalism was a widespread phenomenon that has emerged in the United States, Israel, in the Arab world and also in India. During the 90s, the idea that politics and religion are closely linked found expression in India in the arguments of well-known intellectuals who have criticized the concept of Western secularism, and thus alien to the Indian culture.

It was in this context that the BJP shifted from 2 to 88 seats in the general elections in 1989 and from 88 to 161 in the 1991. “The Bharatiya Janata Party advocated the Hindu nationalism and the social conservatism, self-reliance, social justice, foreign policy driven by a nationalist agenda, a strong national defence and a more economically liberal fiscal policy”<sup>66</sup>. Since 1993, the BJP

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<sup>63</sup> South West Africa People’s Organization.

<sup>64</sup> Michelguglielmo Torri, *Storia dell’India* (Bari: Laterza, 2010), 724.

<sup>65</sup> Michelguglielmo Torri, *Storia dell’India* (Bari: Laterza, 2010), 734.

<sup>66</sup> “Bharatiya Janata Party”, *Raajnet* (2012), accessed January 3, 2013. <http://raajnet.com/politicalparties.aspx?q=2>.

proposed itself as a party of good government, made up of honest and disciplined officials, able to save India from corruption: the result was a split in the Congress and the election in 1996 saw the overtaking by the BJP that, for the first time, won the majority of seats.

The task of forming the government was entrusted to the new prime minister Atal Behari Vajpayee, and it found acceptance in many regional parties, despite their many differences, since many were suspicious about the objective of the BJP to create a strong central state. Supported by the United States, the BJP was able to change the Indian economy in the neoliberal sense, thus accelerating the growth of the country.

Another important goal was to make Hindu the Indian society, through education and handling, promoting the traditional Hindu culture and the Sanskrit.

Inside, the BJP was divided between the “moderate” wing, headed by the prime minister, and a “radical” wing, headed by the leaders of the largest extra-parliamentary organizations of the Sangh Parivar<sup>67</sup>, and it became the protagonist of a series of intimidations and violence against minorities and secular intellectuals. The weakness of the BJP was evident in its inability to take action against those responsible for the massacres: nevertheless, this government lasted until 2004, and it is currently the largest opposition party against the Indian Congress of Sonia Gandhi.

On the 22<sup>nd</sup> of May 2004, Manmohan Singh became prime minister, currently still in office: he is member of the Indian Congress Party led by Sonia Gandhi, and later, in 2009, he was confirmed by the elections until 2014. In the last decade of the twentieth century, India has seen the transformation of its economic system, as well as the transformation of the political system. In fact, since the 24<sup>th</sup> of July 1991, the new government of P.V Narasimha Rao replaced the old system, based on the state intervention in the economy, with the new Neoliberal model.

The severe financial crisis that hit India, because of the large loans obtained from the international market, was worsened by new competition from the new former communist countries and by the oil crisis caused by the invasion of Kuwait by Iraq, in August 1990, which led to the increase in oil prices and the rising cost of the Indian imports. So close to bankruptcy, the Rao government aimed at obtaining the necessary credit to overcome the crisis from the IMF, which, however, dispensed only conditional loans to the Third World countries: in exchange for loans, in fact, India should have implemented a series of measures to restructure the Indian economy in a Neoliberal sense. This new economic policy, designed by the then Finance minister Manmohan Singh, was divided into three points<sup>68</sup>: the reduction of state intervention in the economy by eliminating the licensing system to the private industry and the promise to dismantle the unproductive state-owned industries; the reduction of the tax imposition to create an conducive environment to the private initiative;

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<sup>67</sup> Michelguglielmo Torri, *Storia dell'India* (Bari: Laterza, 2010), 750.

<sup>68</sup> Michelguglielmo Torri, *Storia dell'India* (Bari: Laterza, 2010), 739.

finally, the lowering of tariffs and the promotion of “joint ventures”<sup>69</sup> for the gradual integration of India in the international market. This policy of reforms was strongly implemented up to the budget law of 1995, and it was pursued by all the governments that followed Rao's one. However, even if there was not a complete transformation of the economic system in the Neoliberal sense, there have been many remarkable results, because “the economy grew at a rate of 6-7% per year, in the 90s, up to reach the 8% in 2003”<sup>70</sup>.

Today, India is one of the so-called “emerging economies”, with a GDP of 900 billion dollars<sup>71</sup>. However, the level of underdevelopment is still such as to place the country among the poorest in the world in terms of living standards.

“The new guidelines on the economic policy have therefore forced the state to withdraw, recognizing the importance of the role of the free market in the development process”<sup>72</sup>.

However, the analysis of the essential features of the Indian growth in the last two decades, with particular attention to its social impact, allows us to reflect on the contradictions in the globalization process, which has powerfully affected the world today.

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<sup>69</sup> A cooperation agreement between two or more firms.

<sup>70</sup> Michelguglielmo Torri, *Storia dell'India* (Bari: Laterza, 2010), 740.

<sup>71</sup> Alessia Amighini and Stefano Chiarlone, “L'integrazione nell'economia globale: promesse e anomalie”, in *L'India tra i grandi. Politica, economia e società sessant'anni dopo*, edited by Giampaolo Calchi Novati, Silvio Beretta and Simonetta Casci (Roma: Carrocci, 2008), 67.

<sup>72</sup> Finance Business Review Italy, *L'India e la globalizzazione, tra aumento della competitività e squilibri sociali* (April 2011), accessed September 27, 2012.  
<http://www.fbritaly.it/articolo.php?aId=0000000139&n=L'India+e+la+globalizzazione%2C+tra+aumento+della+competitivit%E0+e+squilibri+sociali>.

## 2. Development indicators in India: the economic potential and social weaknesses

### 2.1 A rapid development

If we base ourselves only on the images that the media transmit, we might think that India has become a rich country. In fact, India has entered a period of great growth and of GDP expansion, but “if we look only to the amount of growth, we cannot fully understand the quality of this development”<sup>73</sup>, which is not at all complete.

Since 2001, India has taken part in the group of the so-called “BRIC countries”<sup>74</sup>, which also includes Brazil, Russia and China and which share a large population, a vast territory, abundant natural and strategic resources and, more important, they have been characterized by a rapid and strong GDP growth and the share in world trade, especially at the beginning of the XXI century. The BRIC countries are all relatively poor and dynamic, and extremely large in terms of area and population: the smallest of the four, India, is the seventh largest country in the world.

Anno 2000			Anno 2007			Anno 2014		
N	Paese	PIL	N	Paese	PIL	N	Paese	PIL
1	United States	9.816,98	1	United States	13.807,55	1	United States	16.927,84
2	Japan	4.668,79	2	Japan	4.384,38	2	<b>China</b>	<b>8.500,10</b>
3	Germany	1.905,80	3	<b>China</b>	<b>3.382,45</b>	3	Japan	5.354,41
4	United Kingdom	1.480,53	4	Germany	3.320,91	4	Germany	3.292,87
5	France	1.333,20	5	United Kingdom	2.803,40	5	France	2.951,58
6	<b>China</b>	<b>1.198,48</b>	6	France	2.593,78	6	United Kingdom	2.507,61
7	Italy	1.100,56	7	Italy	2.117,52	7	<b>Russia</b>	<b>2.231,79</b>
8	Canada	725,16	8	Spain	1.439,98	8	Italy	2.225,27
9	<b>Brazil</b>	<b>644,28</b>	9	Canada	1.436,09	9	<b>India</b>	<b>1.739,98</b>
10	Mexico	628,85	10	<b>Brazil</b>	<b>1.333,50</b>	10	<b>Brazil</b>	<b>1.666,75</b>
11	Spain	582,38	11	<b>Russia</b>	<b>1.294,38</b>	11	Spain	1.554,15
12	Korea	533,70	12	<b>India</b>	<b>1.102,35</b>	12	Canada	1.502,20
13	<b>India</b>	<b>461,91</b>	13	Korea	1.049,32	13	Mexico	1.139,28
14	Australia	389,96	14	Mexico	1.025,43	14	Korea	934,40
15	Netherlands	386,20	15	Australia	909,74	15	Netherlands	858,52
16	Taiwan	321,37	16	Netherlands	777,24	16	Australia	852,71
17	Argentina	284,20	17	Turkey	649,13	17	Indonesia	679,32
18	Turkey	266,44	18	Belgium	459,03	18	Turkey	644,82
19	<b>Russia</b>	<b>259,70</b>	19	Sweden	453,84	19	Saudi Arabia	601,54
20	Switzerland	250,20	20	Indonesia	432,06	20	Belgium	510,04

Fonte: elaborazioni Attilio Folliero su dati "International Monetary Fund, World Economic Outlook Database", Aprile 2009

According to a macroeconomic perspective, the data about the Indian giant relate to the population and the growth rate of GDP in recent years. India is a country in rapid transformation: it is the second most populous nation in the world, because it exceeded the threshold of one billion

<sup>73</sup> Amit Bhaduri, “Crescita, eguaglianza, pace sociale”, in *L’India tra i grandi. Politica, economia e società sessant’anni dopo*, edited by Giampaolo Calchi Novati, Silvio Beretta and Simonetta Casci (Roma: Carrocci, 2008), 13.

<sup>74</sup> “BRICS forum”, accessed January 3, 2013. <http://www.bricsforum.org/#>.

inhabitants in 2000<sup>75</sup>, although its demographic transition is not yet complete; about the growth rates of GDP, the exceptional data is that India exceeded the maximum value of 8%<sup>76</sup> per year between 2005 and 2006.

India is a nation that is gone out from a condition of subjection as a former colony, in a context of profound backwardness, reaching the level of worldwide power today: this rapid process has led to strong contrasts. However, “this speed in transformation is still lower than to the needs and expectations of a growing population”<sup>77</sup>.

“The demographic transition in India has four phases”<sup>78</sup>: in the first phase, which went from 1891 to 1921, the population increased at a very low annual rate of 0,19%, with a birth rate to 49,2% and a similar mortality rate, to 48,6%; in the second phase, which went from 1921 to 1951, there was an increase in population growth around 1, 2% per year, with a slowdown in the birth rate and a significant reduction in the mortality rate; the third phase, from 1951 to 1981, experienced a growth rate of 2,1%, while the fourth phase, from 1981 to 2001, saw a slowdown in population growth, steady at 2,1% per year, during the 80s, before falling to 1, 9% in the next decade. Birth and mortality rates show that the fifth phase, which is currently underway, could lead to the possible end of the demographic transition over the next thirty years, as the birth rate has fallen below 25% and the mortality rate is very low, at around 8%.

One of the positive points of this rapid growth is the opening of a huge consumer market with great potential and which has led to the investments opening. The strengths of the Indian economic structure include “a budget of mineral reserves, a large agricultural sector, and so a manufacturing activity spread throughout the territory and a still low cost of labour”<sup>79</sup>. Economic activities are developed differently depending on the sectors: the agricultural techniques of last generation have developed innovative crops models, although they are still included in the background of traditional farming agricultural, which is the basis of the Indian economy.

## 2.2 The development of the economic sectors

India is a real agricultural giant: it is the world's largest producer of milk, tea and spices, the second for fruit and sugar cane, and the third for cereals, not to mention the 450 million heads of livestock and the largest area of irrigated lands. Moreover, India is more and more open to the

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<sup>75</sup> Jean-Joseph Boillot, *L'economia dell'India* (Bologna: Il Mulino, 2007), 41.

<sup>76</sup> Stefano Beggiora, *India e Nordest: il mercato del terzo Millennio* (Venezia: Cafoscarina, 2009), 19.

<sup>77</sup> Stefano Beggiora, *India e Nordest: il mercato del terzo Millennio* (Venezia: Cafoscarina, 2009), 20.

<sup>78</sup> Jean-Joseph Boillot, *L'economia dell'India* (Bologna: Il Mulino, 2007), 41.

<sup>79</sup> Stefano Beggiora, *India e Nordest: il mercato del terzo Millennio* (Venezia: Cafoscarina, 2009), 20.

agricultural exchanges and it is the leading exporter of tea and spices, the second for rice and the seventh for wheat.

Within the country, thanks to the diversity of climates and to a favourable mountain range, the 60% of the country's surface is cultivated<sup>80</sup>, more than half of the active population is engaged in agriculture and the 70% of the population is rural<sup>81</sup>: as a result, "the agricultural GDP still affects 1/3 of the total GDP and nearly half of demand"<sup>82</sup>. The monsoon cycle, characteristic of the subcontinent, with its summer and winter crops, still influences the fluctuations of the entire Indian economy.

During the first five-year plans, as part of the nehruvian policy for development, the boom in the Indian industry was possible thanks to the productivity of agriculture, based on the fundamental system of farming microeconomics. Furthermore, not only food security, but basically the struggle for lowering the poverty of the country, the challenge that India has to face in the new millennium, "can only be based on the total rise in investment and on the enhancement of the agricultural sector"<sup>83</sup>.

The Indian industrial take-off is slower, for example, compared to the Chinese one, and the pattern of industrialization is less specialized, less open, more diversified, high value-added per unit in its modern side, so as to offset its structural disadvantages, such as infrastructures, but "it is still very late in the informal sector"<sup>84</sup>.

From 2002-2003 there are constant annual increases in industrial production: from 5.7% in 2002-2003 to 7% in 2003-2004; an imperceptible rise to 8.2% in 2005-2006, up to a leap of 11.5% in 2006-2007<sup>85</sup>.

"The ideological choices adopted at the independence time still strongly influence the structure of the modern Indian industry"<sup>86</sup>. The public sector has grown to represent 1/3 of the value added, before the turn of the 90s; it still represents more than 25% of the value added, and it is concentrated in a few large units. So, the public industry accounts for 5% of the companies, but it constitutes almost 1/3 of the capital.

On the other side, the private sector of large enterprises has long been controlled before the liberalization made by Indira Gandhi in the 80s. This is the sector which most benefited from the reforms in 1991<sup>87</sup>, although the greater internal and external competition brought two major

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<sup>80</sup> Jean-Joseph Boillot, *L'economia dell'India* (Bologna: Il Mulino, 2007), 53.

<sup>81</sup> Ibidem.

<sup>82</sup> Jean-Joseph Boillot, *L'economia dell'India* (Bologna: Il Mulino, 2007), 54.

<sup>83</sup> Stefano Beggiora, *India e Nordest: il mercato del terzo Millennio* (Venezia: Cafoscarina, 2009), 133.

<sup>84</sup> Jean-Joseph Boillot, *L'economia dell'India* (Bologna: Il Mulino, 2007), 58.

<sup>85</sup> Stefano Beggiora, *India e Nordest: il mercato del terzo Millennio* (Venezia: Cafoscarina, 2009), 149.

<sup>86</sup> Ibidem.

<sup>87</sup> Jean-Joseph Boillot, *L'economia dell'India* (Bologna: Il Mulino, 2007), 59.

changes. The first concerns the fact that the large family groups have been unable to adapt to the new situation, and there was the emergence of new private family groups much more aggressive, such as Bharti<sup>88</sup> and Pantaloon<sup>89</sup>, and large foreign groups, such as Suzuki and Hyundai, have taken advantage from the opening of industries, such as the automotive one, telecommunications and cement, not to mention that many people have been able to exploit the situation by creating joint ventures with foreign companies, such as Hero-Honda<sup>90</sup>, Toyota-Kirloskar<sup>91</sup>, Michelin-Apollo<sup>92</sup>. Secondly, the competition has forced the Indian groups to focus on their strengths, leaving the structure based on the industrial licenses. “Thus a paradox was born: some areas have enormously expanded, but employment is scarce or even decreases in the large groups listed on the stock exchange”<sup>93</sup>.

However, the Indian industry is dominated by the familiar trait, despite the growing professionalization of managers: for example, in the first private group in the country, Tata, the only family member present in the board of directors is founder’s grandson, Ratan Tata<sup>94</sup>.

Another very important element is the small-scale industry, which produces nearly 40% of industrial output, whose about 1/3 is exported, and it is the largest employer, with an annual growth of 4-5%.

A specific element of Indian growth of the 90s was “the strong contribution from the services”<sup>95</sup>. From 1951 to 1980, the Indian services grew on average by 4.5% per year and, in the 80s, there was an acceleration to 6,6% per year. The increase reached 7.5% in the 90s and then it stabilized at a rate close to 8-9% per year, and it was such to contribute for more than 60% to the GDP growth in India.

Although the image of a “services revolution”<sup>96</sup> in India is closely linked to the sector of the so-called Information Technology or ICT (Information and Communication Technology) and so with the IT services or business (BPO or business process outsourcing), these latter were, in 2003, less than 2% of India’s GDP and less than 4% of services, with only 650.000 direct employees. The dynamics of post-1990 has really affected all the modern services, allowing India to be more efficient around the world in the activity of sub-supply in sectors such as healthcare, finance, legal

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<sup>88</sup> Bharti Enterprises is an Indian business conglomerate headquartered in New Delhi and it has businesses spanning across telecom, retail, financial services, manufacturing and software.

<sup>89</sup> Pantaloon is a large Indian retailer, headquartered in Mumbai and part of the Future Group, and it operates in multiple retail formats in both, value and lifestyle, segments of the Indian consumer market.

<sup>90</sup> Hero Motocorp Ltd., formerly Hero Honda is an Indian motorcycle and scooter manufacturer based in New Delhi.

<sup>91</sup> Toyota Kirloskar Motor Private Limited is joint venture between Toyota Motor Corporation and the Kirloskar Group, for the manufacture and sales of Toyota cars in India.

<sup>92</sup> Michelin-Apollo Tyres Pvt Ltd is an automotive joint venture between Michelin Group and Apollo Tyres Ltd.

<sup>93</sup> Jean-Joseph Boillot, *L’economia dell’India* (Bologna: Il Mulino, 2007), 59

<sup>94</sup> Ibidem.

<sup>95</sup> Jean-Joseph Boillot, *L’economia dell’India* (Bologna: Il Mulino, 2007), 68.

<sup>96</sup> Jean-Joseph Boillot, *L’economia dell’India* (Bologna: Il Mulino, 2007), 69.

or tourism. In particular, since the 90s, the business services have experienced an annual growth superior to 20%, followed by communication services (15%) and by the financial sector (13%), of which more than 20% are non-banking services. Therefore, the take-off of the Indian economy has taken place properly within the services sector, which has seen the gradual formation of a remarkable band of skilled labour and, who cost much less with respect to the western standards.

The India progress in world of services is a very recent phenomenon: with an annual growth of 17% in the 90s, compared to the world average annual rate of 5.6%, India has become the world's number one for the dynamism and the importance of the services exports. These have gone from 2 to 5% of India's GDP between 1995 and 2005. Very focused on computer services (It) and on subsupply for businesses, these exports have brought nearly 20 billion dollars in 2004, to which are added almost 8 billion of income produced by the experts went abroad, that is about one-third of the exports of goods.

The story dates back to the early 80s, with the creation of the current giants Infosys and Wipro alongside of TCS (Tata group) by engineers who emigrated to the United States. Their return to India has benefited from a strong institutional support through association Nasscom (National Association of Software and Service Companies) and various technical ministries that they have created, around the Indian Institutes of Technology (IITs) and the public scientific research centres as the DRDO (defence), the C-DAC (computer science), technology parks (Software Technology Parks, Stp) which enjoy many benefits including "tax exemption on importation of more modern materials"<sup>97</sup>. Attracted to this dynamic basis, companies around the world have begun to invest directly in India or outsource their software activities and, gradually, also other services such as the remote accounting or an increasing number of communication services to customers through the famous call centre. The latest concerns the "knowledge-process outsourcing" (Kpo), which affects the pharmaceutical sector, the biotechnology, medical and legal services and activities of research and development. In 2005, Nasscom has estimated the market of the international subsupply only for the studies of the American lawyers (litigation support) in 5 billion dollars.

In a short time India has become a country with a high potential for development, and investment to India increased by 36% in this sector during the 90s, reaching almost a quarter of the country's total FDI. However, "the top twenty Indian companies in the sector still accounts for half of total sales, led by TCS, while foreign multinationals account for almost one quarter of exports"<sup>98</sup>.

In total, India hosts almost 40% of the It projects intended for countries in the developing world, and even if "multinationals buy now Indian companies who are struggling to establish itself"<sup>99</sup>, the

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<sup>97</sup> Jean-Joseph Boillot, *L'economia dell'India* (Bologna: Il Mulino, 2007), 103.

<sup>98</sup> Ibidem.

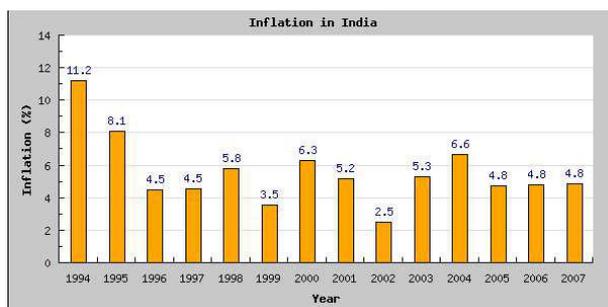
<sup>99</sup> Ibidem.

same Indian groups globalize themselves by detecting specialized companies all over the world, particularly in Europe, or by creating subsidiaries in key present markets (68% in the U.S.) or future markets (particularly in China and Asia-Pacific). Thus, more than 300 Indian companies are present in the United States and nearly a hundred in Europe, the second largest market of computer science.

Now, considering a period of five years, from 2000 to 2005, we can analyze the performance of the main economic indicators<sup>100</sup>. In this period, the GDP at constant prices grew steadily and linearly, from 452,4 billion dollars in 2000 to 796,5 in 2005, with the same steady increase in the real GDP from 3.9% in 2000 to 8.5% in 2005.

With regard to inflation, even in this case, the data fluctuate within a range rather stable: the dominant factor here was “the trend of steadily rising oil prices, partly offset by the monetary policy of the Government and by the manoeuvres on rates interest by the Reserve Bank of India”<sup>101</sup>. Very interesting are the indices of the currency reserves in exponential growth<sup>102</sup>, but offset by the negative balance of payments. The public debt was and remains enormous and it is very incisive in the overall percentage of GDP. With a GDP at current prices of about 911,75 billion dollars between 2006 and 2007, “India is one of the major economies in the world”<sup>103</sup>, ranked at the twelfth place by the World Bank. Nevertheless, there is still a strong imbalance in the wealth distribution, with a percentage of people living below the poverty line equal to 22% of the total population.

Since 1999, one of the primary objectives of India was the containment of inflation to be kept under 5-5.5%, according to a threshold set by the Reserve Bank of India. This target had been achieved until 2006, then increasing at an alarming rate and then slowing down for the first half of 2007. According to the calculus of variations of the Wholesale Price Index, the annual inflation was 4.4%, with peaks of up to 6%. The main cause was the continued rise in the world price of oil, which India had to import for about 70%. In the first week of June 2008, the annual change in the wholesale price index reached 11%.



<sup>100</sup> Stefano Beggiora, *India e Nordest: il mercato del terzo Millennio* (Venezia: Cafoscarina, 2009), 26.

<sup>101</sup> Stefano Beggiora, *India e Nordest: il mercato del terzo Millennio* (Venezia: Cafoscarina, 2009), 26.

<sup>102</sup> Ibidem.

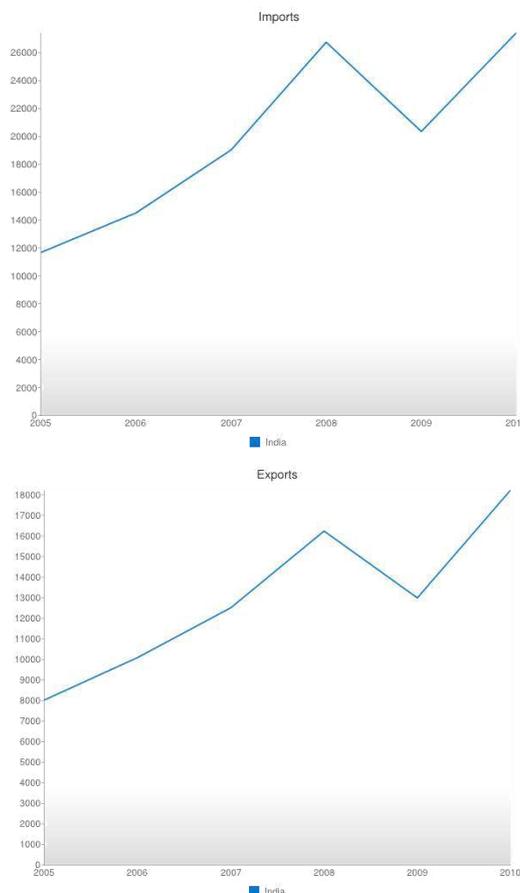
<sup>103</sup> Stefano Beggiora, *India e Nordest: il mercato del terzo Millennio* (Venezia: Cafoscarina, 2009), 28.

It is clear, therefore, that “inflation pushes downward the Indian market”<sup>104</sup>, but the Finance Ministry issued, in this regard, a statement that inflation for thirty consumer goods slowed to 7.47% against 7.80% in the week before the end of October 2008<sup>105</sup>, and also listed the six primary goods whose prices would decrease and other sixteen products and services that have remained unchanged for the same period. Finally, during the first week of November 2008, there was a decrease in the prices of food products such as vegetables, fruit and wheat.

So, there are widely differing opinions about the plausible trend for the near future of India, however, the signs seem to indicate that this is “a period of adjustment”<sup>106</sup>.

A very successful year for foreign exchange reserves was 2006, when the share touched 176.105 billion dollars: this result was mainly due to the work of thousands of Indian immigrants abroad and remittances from each of the countries that have relations with India<sup>107</sup>.

As for the debt, the situation remains very serious, with a deficit calculated on a percentage of the GDP which, still in 2005, remained above 7%.

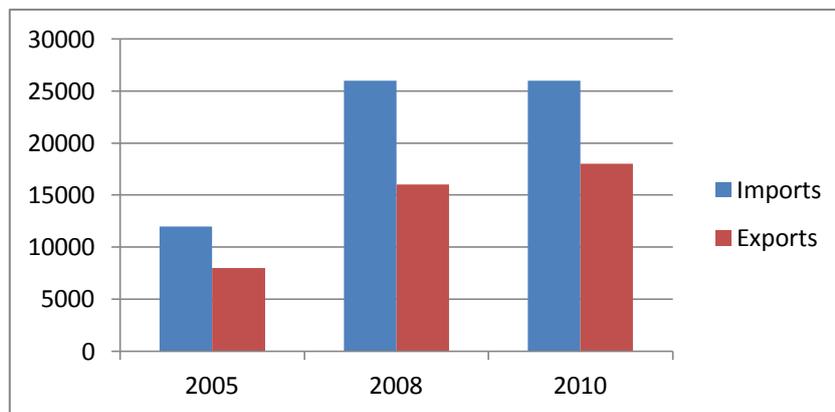


<sup>104</sup> Stefano Beggiora, *India e Nordest: il mercato del terzo Millennio* (Venezia: Cafoscarina, 2009), 32.

<sup>105</sup> Stefano Beggiora, *India e Nordest: il mercato del terzo Millennio* (Venezia: Cafoscarina, 2009), 34.

<sup>106</sup> Stefano Beggiora, *India e Nordest: il mercato del terzo Millennio* (Venezia: Cafoscarina, 2009), 35.

<sup>107</sup> Stefano Beggiora, *India e Nordest: il mercato del terzo Millennio* (Venezia: Cafoscarina, 2009), 37.



In fact, the graphs above show that, from 2005 to 2010, the Indian trade balance is in deficit: the country imports more than it exports, thus releasing a large number of capitals.

With regard to the external debt, in 2005-2006 it amounted to about 15% of GDP, compared with 17.3% in 2004-2005. India has always tried to avoid using private creditors or government agencies of other countries, “a sign of great confidence that this nation has in their abilities”<sup>108</sup>, and it seems to be very punctual in repaying debts.

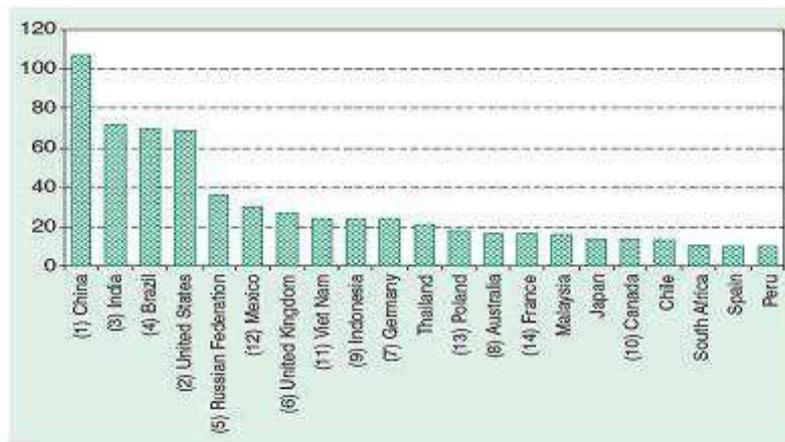
In conclusion, in terms of the acceleration of the general growth of the country, the decade after the '90s was instrumental, resulting from the so-called policy of openness. The year 2007 seems to have been the culmination of this “hyperbolic rise”<sup>109</sup>, with a growth rate of 9.4%.

With regard to foreign direct investment (FDI) in India, they have been progressively liberalized, especially after 1996: since that time, foreigners could invest freely in India, except in the sectors considered strategic, such as the defence industry, the atomic energy industry and railways. If we consider the period between 2007 and 2010, we can see a steady growth of the outward FDI stocks (from 44.080 million dollars to 93.915 million dollars) and of the inward FDI stocks (from 105.790 million dollars to 198.427 million dollars)<sup>110</sup>.

<sup>108</sup> Stefano Beggiora, *India e Nordest: il mercato del terzo Millennio* (Venezia: Cafoscarina, 2009), 39.

<sup>109</sup> Stefano Beggiora, *India e Nordest: il mercato del terzo Millennio* (Venezia: Cafoscarina, 2009), 40.

<sup>110</sup> OECD Factbook statistics, Country statistical profile: India 2011-2012 (18 January 2012), accessed October 25, 2012. <http://dx.doi.org/10.1787/csp-ind-table-2011-1-en>.



Source: UNCTAD survey.

### 2.3 The Human Development Report and the development indicators

In 2010, the Human Development Report was published for the United Nations Development Programme (UNDP), in the occasion of the 20<sup>th</sup> Anniversary Edition, and it represented the real wealth of nations, “with its newly devised Human Development Index”<sup>111</sup>.

The human development is different from economic growth: the objective of development should be to create an enabling environment for people to enjoy long, healthy and creative lives, but it is not always the case. The policies and reforms compatible with progress vary widely across institutional settings and depend on structural and political constraints: attempts to transplant institutional and policy solutions across countries with different conditions often fail, and policies typically must be informed by the prevailing institutional setting to bring about change. For instance, the economic liberalization in India sought to ease an overly restrictive and family-dominated business environment by reducing regulation and introducing more competition: in short, while institutions are a key determinant of human development, how they interact with their context deserves careful investigation.

Analyzing tables of the Human Development Index, we can see an overall picture of backwardness of India, very different from what comes out when we consider the development only on the basis of the growth of GDP, of industry and of the economic sectors. In this report, India is ranked at 119th place in the Human Development Index in 2010, among the countries with medium human development, with a value of 0.519, a very low value when compared, for example, with Italy, which is at 23th place in the rank, among the countries with very high human development, with a

<sup>111</sup> Helen Clark, foreword to Human Development Report 2010, by United Nations Development Programme (New York: Palgrave Macmillan, 2010), 4.

value of 0.854: that is why, to better understand what level of backwardness India has, we will compare it with Italy.

Hungary	36 ↓ 1
Iceland	17 ↓ 10
India	119 ↑ 1
Indonesia	108 ↑ 2
Iran, Islamic Republic of	70 ↑ 10

Comparing the data on the other components of the Human Development Index, we can see that life expectancy at birth in India is of 64.4 years, while in Italy is of 81.4 years: this is a very significant data, which makes us understand that this difference of about twenty years is due to the very different standards of living. If we look at the data on schooling, we can notice that in India the mean years of schooling is of 4.4 years, while in Italy it is of 9.7 years, and the expected years of schooling in India are 10.3 years, while in Italy are 16.3 and this means that the level of education in India is very low, because, although they are about 10 years of school, only 4 are actually attended and 37.5% of the population has at least a severe deprivation in education: there may be many reasons, such as the fact that 50% of children are not recorded to the registry. In India, primary school enrolment rates of males and females touch alarming levels. Surveys carried out on samples of households<sup>112</sup> reveal that the actual school attendance rose from 75% in children to 61% for girls, reflecting a discriminatory behaviour usually by parents. In general, phenomena such as discrimination against girls and school dropout are much more intense in rural areas and small towns; much more often than one might imagine the children go to work at an early age simply because in their village school missing physically. Thus, 50% of the adult population is literate, of whom 64% are men and 36% are women.

In the Human Development Report, three main measures of HDI are introduced: the Inequality-adjusted Human Development Index, the Gender Inequality Index and the Multidimensional Poverty Index.

This Report introduces the Inequality-adjusted Human Development Index (IHDI) as a measure of the level of human development of people in a society that accounts for inequality. The IHDI, estimated for 134 countries, captures the losses in human development due to inequality in health, education and income. Losses in the three dimensions vary across countries and the table ranks

<sup>112</sup> “Insieme Senza Confini - SVDP ‘87 ONLUS”, Scheda Paese India, accessed October 25, 2012. [http://www.arpnet.it/insieme/India/India\\_sk.htm](http://www.arpnet.it/insieme/India/India_sk.htm).

countries according to their inequality-adjusted human development index and compares it to their HDI<sup>113</sup>.



The “Loss (%)” column, given by the difference between the HDI and the IHDI and expressed as a percentage, indicates the “loss” in potential human development due to inequality.

If we look at the data regarding the life expectancy at birth and education for India, we can see that about the Inequality-Adjusted Life Expectancy at Birth Index it had found a loss of 31.3%, compared to 4.3% of Italy; about the Inequality-adjusted Education Index, India has recorded a loss of 40.6%, compared to 11.8% in Italy, and this suggests that the level of inequality in India is very high.

The measure of gender inequality has been introduced because the disadvantages facing women and girls are a major source of inequality. All too often, women and girls are discriminated against in health, education and the labor market, with negative repercussions for their freedoms. This Report establishes a new measure of these inequalities, built on the same framework as the HDI and the IHDI, to better expose differences in the distribution of achievements between women and men.

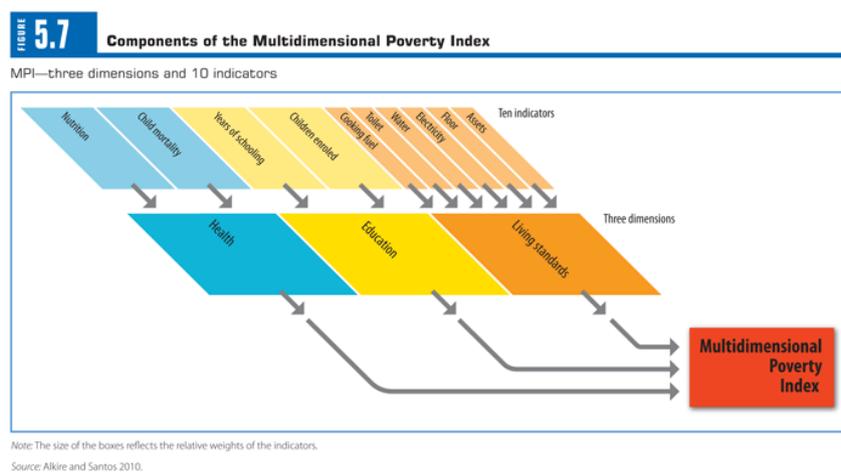
The Gender Inequality Index shows that countries with unequal distribution of human development also experience high inequality between women and men: among them there is India. The maternal mortality ratio in India between 2003 and 2008 was 450, defined as maternal death per 100,000 live births, compared with a rate of 3 in Italy, and the births attended by skilled health personnel between 2000 and 2008 in India was of 47%, against 99% in Italy, which also means a great backwardness of health facilities and organizational in India.

In 2008, in India, the percentage of seats in Parliament for women was only of 9.2%, compared to 20.2% of Italy, even greatly overcome by Sweden, with 47% of the seats, which shows that in India there is a severe mental and cultural block against women in positions of power, not to mention that

<sup>113</sup> “Inequality-adjusted Human Development Index (IHDI)”, Human Development Reports, accessed January 3, 2013. <http://hdr.undp.org/en/statistics/ihdi/>.

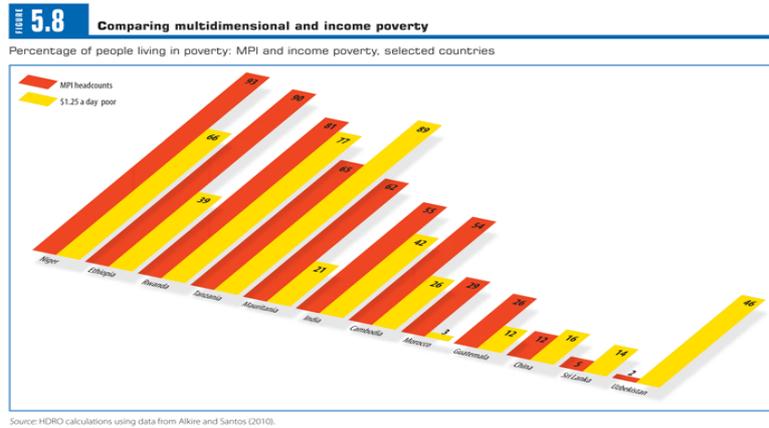
the female labour force participation rate in India in 2008 was only of 35.7%, compared to 51.6% of Italy, which means that more than half of the female population in India does not work and, therefore, it is presumed to have intended to look after the family and home, a function that tells us that the Indian society is far from being “industrialized”.

Like development, poverty is multidimensional and this year’s Report introduces the Multidimensional Poverty Index (MPI), which complements money-based measures by considering multiple deprivations and their overlap. This index “goes beyond a traditional focus on income to reflect the multiple deprivations that a poor person faces with respect to education, health and living standard”<sup>114</sup>.



About this index, we can compare India to China, and so it turns out that, between 2000 and 2008, the intensity of deprivation of the Population in Multidimensional Poverty in India was of 53.5%, compared to 44.9% of China, and the Population at Risk of Multidimensional Poverty in India amounted to 16.1%, compared to 6.3% of China. Determinant are the percentages of population with at least one severe deprivation: about education, as already mentioned, the deprived population is 37.5%, compared to 10.9% in China; with regard to health, the deprived population in India amounts to 56.5% compared to 11.3% in China; finally, with respect to living standards, the deprived population in India amounts to 59.6%, compared to 12.4% in China. Not surprisingly, the population below income poverty line in India amounts to 41.6%, against 4.4% of China, which means that the level of China’s growth, in addition to industry and GDP, is far greater than that of India, from the social point of view, despite China is not a democracy.

<sup>114</sup>Sabina Alkire and Maria Emma Santos, “Multidimensional Poverty Index”, Oxford Poverty & Human Development Initiative (2008): 1, accessed January 3, 2013. <http://www.ophi.org.uk/wp-content/uploads/OPHI-MPI-Brief.pdf>.



Empowerment “refers to increasing the spiritual, political, social, educational, gender, or economic strength of individuals and communities”<sup>115</sup>. The Human Development Report divide. Empowerment in various items: from the data, we can see that India has the same level of democracy than Italy in 2008, with a score of 2, which is the highest, but the score for Human Rights Violations in India is 4, almost maximum, while the index related to the Press Freedom in India in 2009 is equal to 29.3, which indicates more freedom of press than China, for instance, which is 84.5, which indicates a substantial censorship.

## 2.4 Social and structural problems

After this careful analysis, based on data and numbers, “on the one hand we have the modern India which attracts computer experts from all over the world and marries its girls with costs absurd for weddings; on the other hand, the massive poverty which affects hundreds of million people”<sup>116</sup>. No one knows exactly how many the poor people in India are, even though India has its own definition of the poverty line, defined as “the minimum calories required to ensure the subsistence level of a person”<sup>117</sup>: 2.400 calories per day and per adult in rural areas; 2.100 calories in urban areas, to which a small fee for non-food products is added. In terms of purchasing power parity with the U.S. dollars this would give an income of respectively 0.18 and 0.21 dollars in 2003, but it is actually of 0.97 and 1.13 dollars, if you calculate on the basis of domestic prices (purchasing power parity). According to this definition, the latest official estimate dates back to the 55th Round (1999-2000) of the National Sample Survey, according to which the 26% of the Indian population, i.e. 260 million people, live below this threshold of extreme poverty. The FAO report in 2004 stated about

<sup>115</sup> “Education Policy and Reform Unit (EPR)”, UNESCO Bangkok, accessed January 3, 2013.

<http://www.unescobkk.org/education/epr/medium-term-expenditure-framework-mtef-portal/glossary/>.

<sup>116</sup> Jean-Joseph Boillot, *L'economia dell'India* (Bologna: Il Mulino, 2007), 71.

<sup>117</sup> *Ibidem*.

221 million undernourished people in India in 2000-02, compared to 142 in China, out of a total of 814 million worldwide, not counting the proportion of the population below the level of the median income, i.e. less than a dollar a day (in terms of purchasing power parity) in extreme poverty conditions and two dollars for the poverty line considered by the United Nations (UNDP): the Human Development Report, in fact, count that in 2008 the Gross National Income pro capita in India, in terms of purchasing power parity, was of 3,337 dollars.

Moreover, from an international perspective, the pace of poverty reduction in India is not particularly fast<sup>118</sup>, when compared to that of China. Poverty reduction has not seen a real acceleration than in previous decades to the reforms in 1991. Using the data from the period 1958-91, Datt<sup>119</sup> and Ravallion<sup>120</sup>, in 2002, estimated that the elasticity of poverty with regard to the annual growth in consumption was already of 0.9, i.e. at a level comparable to that of the 90s. The limited reduction of absolute poverty, despite the acceleration of growth, results from the combination of at least three factors: lack of job creation, geographic inequalities and social inequalities<sup>121</sup>.

In a country where 92% of the active population works in the “informal” sector<sup>122</sup>, that is not regulated by the law or contract, and where the subsidy of unemployment does not exist, it is difficult to measure the actual employment. The 2010 Human Development Report estimated that the employment to population ratio in India was of 55.6% in 2008, and it included people aged 15 to 64 years. In 2002, three-quarters of the poor and unemployed people lived in the countryside, where only half of the population has electricity and a quarter the television, compared with two-thirds of those who reside in the city. Similarly, the spread of the cars affects only 7% of the population (23% in city) and 5.3% with regard to the fixed telephone (compared to 24.3% in the city). “The manufacturing sector is not so dynamic”<sup>123</sup>, as it is working harder in an effort of rationalization to absorb the opening of the internal market, rather than in investments that can expand this market. The intensive growth of skilled labor is largely dominated by a lack of dynamism of the mass domestic demand and by the offering constraints represented by administrative and management problems, by the weakness of infrastructures and by inflexible labor laws in the formal sector of the larger firms.

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<sup>118</sup> Jean-Joseph Boillot, *L'economia dell'India* (Bologna: Il Mulino, 2007), 73.

<sup>119</sup> Gaurav Datt joined the Department of Economics as Associate Professor and Deputy Director of the Development Research Unit in August 2011 at the Monash University, in Australia.

<sup>120</sup> Martin Ravallion is an Australian economist who is currently director of the research department at the World Bank.

<sup>121</sup> Jean-Joseph Boillot, *L'economia dell'India* (Bologna: Il Mulino, 2007), 77.

<sup>122</sup> *Ibidem*.

<sup>123</sup> Jean-Joseph Boillot, *L'economia dell'India* (Bologna: Il Mulino, 2007), 79.

This growth is also accompanied by strong regional inequalities, “because of the role played by the policies adopted by the state governments in influencing growth and human development”<sup>124</sup>.

The extent of inequality catches the eye when you consider that 6 out of 28 states (Maharashtra, Uttar Pradesh, Andhra Pradesh, Tamil Nadu, Gujarat and West Bengal) generate slightly more than 50% of the total GDP. Among the various factors that influence the performance of a state there are the type of soil, with its impact on agricultural productivity and the variety of climatic conditions, and the varying availability of raw materials crucial. However, among the most backward reality there are states rich in mineral resources such as Bihar, Chattisgarh, Jharkand and Orissa, while “the performance of the north-eastern states cannot be explained only in terms of geographical conditions”<sup>125</sup>. The crucial factor seems to be the evolution of the economic policy during a large period of time, especially since the colonial period: this impact, whose greatest strength was issued by the Presidencies of Bengal, Bombay and Madras, was not only concentrated at the regional level, but in fact was reflected in a very different way even within the territories of the three Presidencies. Regional inequalities are then significantly deepened in the period after Independence, and this for two main reasons. The first is the inevitable trend towards cumulative divergence in economies where markets play an important role: the best investment and human capital are in fact attracted toward regions that are already developed, absorbing mineral resources from other regions that are lagging behind. Advantaged regions also tend to generate more revenues for the provincial governments, so they can strengthening infrastructure. The growth of productivity and incomes, moreover, creates dynamic local markets of goods and services.

A second reason for this divergence is the role of the central government: in fact, the centre would have to address these gaps, because it has the task to collect and re-distribute revenues among the states, but this did not happen and the regional differences expanded spontaneously.

India attracts a lot of attention for its potential, for the market size and for its labor-power, low-cost and unlimited: in this context, the Indian labor market is characterized by the presence of a large informal sector and of a formal sector, “by an institutional mixture which oscillates between tradition and modernity”<sup>126</sup>, with surprising results from an economic point of view, but very poor for the level of wages and social protection. In the Indian market, therefore, workers benefit of only a small part of the economic growth, while being themselves the pin of the accumulation process: it

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<sup>124</sup> C. P. Chandrasekhar, “I divari regionali dello sviluppo indiano”. *IndiaIndie* numero 2 (2011): 2, accessed October 29, 2012. [www.iai.it/pdf/IndiaIndie/IndiaIndie\\_02.pdf](http://www.iai.it/pdf/IndiaIndie/IndiaIndie_02.pdf).

<sup>125</sup> *Ibidem*.

<sup>126</sup> M. Biggeri and S. K. Mehrotra, “Il peso delle attività informali nel mercato del lavoro”, in *L'India tra i grandi. Politica, economia e società sessant'anni dopo*, edited by Giampaolo Calchi Novati, Silvio Beretta and Simonetta Casci (Roma: Carrocci, 2008), 125.

is an ununiform market, which varies according to the castes, to the gender, to the age and to the geographical areas, with a strong distinction between urban and rural areas.

“The size of informality in the labor market in India is such that its role cannot be ignored”<sup>127</sup>, and the concept of informality is very important in the study of emerging economies and developing countries. The term “informal sector” is able to incorporate a diverse set of activities that are generally not regulated by the State and which are excluded from the traditional economic measures of national income. Informal activities arise in a developing country in response to a specific set of socio-economic circumstances and in India, in fact, there are three ongoing processes: firstly, there is a process from below, with the creation of informal activities due to a diachrony between the population growth and the employment growth, in a mix of urbanization and the inability of the system to create formal jobs; secondly, there is a process from the top, which sees the informality created by firms through subsupply, to reduce costs and to be better able to deal with the national and international market, where competition is more and more turned on because of globalization; finally, there is the expansion due to the recent past made by policies of liberalization and privatization of enterprises public.

Typical result of the first two processes are the so-called home workers, who cover the lowest level in the global value chain. The home workers and street vendors are, in reality, the two major subgroups of the informal labor force, and they account for about 10-25% of the non-agricultural labor force in developing countries and more than 5% of the total labor in developed countries. The home workers are in the middle between self-employed and salaried workers as such, and they are often forced by circumstances to work for low wages, without a contract job security or benefits in kind. In addition, they are obliged to cover some important production costs and risks associated with them, including the purchase or rental and maintenance of equipment, the provision of the locations to work in and the payment of utility bills so generated, the purchase of certain production inputs, often without the contribution of employers. This implies that the net remuneration of these workers is generally lower than that paid by the piece that they have to receive.

“The banking system has a very important role in the Indian economy, as it is the main source of funding for growth”<sup>128</sup>. Mainly private until 1969, the Indian banking system was then subjected to a process of nationalization and characterized by a deep dirigisme, financing obligations of the priority sectors, particularly heavy reserve and liquidity requirements, which reduced the

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<sup>127</sup> M. Biggeri and S. K. Mehrotra, “Il peso delle attività informali nel mercato del lavoro”, in *L'India tra i grandi. Politica, economia e società sessant'anni dopo*, edited by Giampaolo Calchi Novati, Silvio Beretta and Simonetta Casci (Roma: Carrocci, 2008), 126.

<sup>128</sup> Stefano Chiarlone, “Evoluzione e prospettive del sistema bancario”, in *L'India tra i grandi. Politica, economia e società sessant'anni dopo*, edited by Giampaolo Calchi Novati, Silvio Beretta and Simonetta Casci (Roma: Carrocci, 2008), 107.

operational independence and the competitiveness of banks. Since 1992, a course of reforms have started to liberalize the system and promote competition and autonomy of the banks, with the possibility of establishing private banks, reducing the share of public banks in the State through public offerings of purchase of shares and by facilitating the market access to foreign banks. Moreover, prudential regulations were introduced, in line with the international standards.

In the light of these reforms, India is moving towards a more modern and efficient financial system, even if there are many shadows: the efficiency of institutions in India is lower than in other emerging countries; the weight of the public ownership of banks remains significant and the level of consolidation is very low, while the continuing obligations of erogation and reserve constrains the autonomy of the banks. At the same time, the limited development of intermediation corresponds to a substantial credit exclusion of the weaker segments of the population. Finally, “the openness to foreign institutions are not yet complete and it seems that this step will follow the process of consolidation of the banks in India”<sup>129</sup>. Currently it is estimated at about 300 million the number of Indians excluded from the traditional banking system: the 70% of the rural population has not a bank account and almost 90% do not have access to credit. Faced with this failure of the traditional banking system, it exists in India, however, a growing demand for credit, as evidenced by the rapid development of microfinance institutions and of their clients. The multiplication of experiences, thanks to the NGOs, shows that “microfinance can be a profitable and efficient tool in the fight against poverty through the economic exclusion”<sup>130</sup>. Currently this type of finance meets the credit needs of about 12-15 million poor families and it is estimated at 50-75 million of households the number of potential customers in India.

“Poverty reduction depends on two factors: the rate of growth and the evolution of its distribution”<sup>131</sup>. About growth, compared to its initial target of 8% annual growth, the Indian economy has remained closer to 6.5%, despite the record of 8.5% in the period 2003-04. However, “the work of Dani Rodrik<sup>132</sup> and Subramanian Swamy<sup>133</sup> in 2004”<sup>134</sup> show that it is possible to reach an acceleration of at least 7% for the period 2005-25. The first factor is the favorable equation saving-investment: so far, this factor has increased only at a slow pace and it is at a much lower level than most of the Asian economies at the moment of their economic take-off.

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<sup>129</sup> Stefano Chiarlone, “Evoluzione e prospettive del sistema bancario”, in *L’India tra i grandi. Politica, economia e società sessant’anni dopo*, edited by Giampaolo Calchi Novati, Silvio Beretta and Simonetta Casci (Roma: Carrocci, 2008), 108.

<sup>130</sup> Jean-Joseph Boillot, *L’economia dell’India* (Bologna: Il Mulino, 2007), 86.

<sup>131</sup> Jean-Joseph Boillot, *L’economia dell’India* (Bologna: Il Mulino, 2007), 88.

<sup>132</sup> Dani Rodrik is an economist turkish, currently Professor of International Political Economy at the John F. Kennedy School of Government at Harvard University in the United States.

<sup>133</sup> Subramanian Swamy is an Indian academician, politician, and economist. He is the President of the Janata Party of India.

<sup>134</sup> Jean-Joseph Boillot, *L’economia dell’India* (Bologna: Il Mulino, 2007), 89.

“There are also risks that may hinder the objective of accelerating growth and its goal of poverty reduction”<sup>135</sup>: the first is the risk of a perverse effect of the expansion of the information technology, which would not spread their growth for social and spatial reasons; on the social level, there is the risk of a lack of the mass teaching, taking into account the caste barriers and the serious delay of primary education, especially among the poorest; in geographical terms, the spatial inequalities have already been mentioned above. The dynamic centers of services or of modern industries are not present in the most of the economically backward states, but at the same time they are more dynamic by a demographic point of view.

Therefore, the risk of dualism is very strong and could stunt the growth if economic policy is not able to facilitate the spread: everything passes through education and the development of infrastructure, that are public goods that only the state can provide, or at least, incentivize.

In fact, “growth is only a statistic that documents some aspect of change”<sup>136</sup>, but, in reality, people are more interested in spiritual things, such as values, religion, relations with the rest of humanity, in opportunity to be valuable to society, health and education, that is all that can lead to realize their full potential. Thus, “growth is important because these things are related and made possible by income and wealth”<sup>137</sup>: more specifically, they are influenced by the levels of income and wealth.

So, most of the people conceives the richness especially as an insurance against the uncertainty, instability and disruption of income, and, in fact, the main objective for most people is just to have a decent income level. The growth in developing countries is not just about the economy, but it has also something to do with the leadership, institutions and politics, and the interaction between these factors and the economic performance. In other words, growth requires investment and “one of the tasks of the leaders is to involve all, build a consensus in support of a long-term vision, supported by a credible strategy for growth and development”<sup>138</sup>. Many countries remain for a long time in a situation of zero growth or low growth, and it is a balance that must be broken and replaced with a new sustainable model. Usually, it is an impulse that comes from the outside, by the management, and often at a time of crisis; a further boost comes sometimes from a favorable change in the external environment, for example, to see what happens in other countries, thanks to television and computer networks, change in leaders and in peoples the perception of what is possible.

The miracle of the Indian democracy, since 1950, lies in the fact of being able to create, in the presence of extreme diversity (religion, social class, caste and language), a feeling of pride and national identity linked to the chaotic and conflictual democratic structure. “Creating the ability to

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<sup>135</sup> Jean-Joseph Boillot, *L'economia dell'India* (Bologna: Il Mulino, 2007), 90.

<sup>136</sup> Michael Spence, *La convergenza inevitabile* (Bari: Laterza, 2012), 37.

<sup>137</sup> Michael Spence, *La convergenza inevitabile* (Bari: Laterza, 2012), 37.

<sup>138</sup> Michael Spence, *La convergenza inevitabile* (Bari: Laterza, 2012), 40.

govern themselves has been and is what was allowed and allows India to make tough choices, to invest, and now to grow”<sup>139</sup>. India has a large amount of infrastructure to be built and it is making steady progress, especially in recent times, but it will take years. The state of India’s infrastructures is painful, but in the last decade India accelerated its growth: so India will grow if the “production” in education and infrastructure will be able to grow fast enough.

It is still too early to know if the Indian opening will have the same overall effects of the Chinese opening: “from a certain point of view, the similarity occurred”<sup>140</sup>. In fact, the share of trade in goods and services almost doubled, from 17 to 31% of GDP between 1990 and 2000, while China, in the previous decade, passed from 18 to 34%. However, compared with other Asian economies, India is still in the last place in the index of openness calculated by CEPII (Centre d’Etudes Prospectives et d’informations internationales) only for goods and weighted by GDP calculated on a comparable purchasing power.

Also “the role of India in the international division of labor is very different from that of the other emerging Asian economies”<sup>141</sup>. Firstly, it is more limited: the share of the country in world exports is now less than 1%, compared with 8% of that of China. Moreover, the Indian competitiveness is higher in the trade of services, a sector that has largely contributed to the acceleration in the growth rate of the national GDP; manufactured exports, however, increased only by 76% between 2000 and 2004, compared to 150% of China, and now India is only the 29th largest exporter of goods; Indian exports consist of manufactured goods to the extent of only 33%, while more than half of exports consists of services.

This particular structure of exports reflects a sectoral composition of GDP, where industry is still small (27% of GDP) and uncompetitive, agriculture, though backward, extremely vulnerable to weather conditions and largely motivated by the objectives of subsistence, has an important weight (20%) and services represent the dominant share (53%). For this reason, the structure of the Indian economy is unusual compared to many countries in the developing world, in which the weight of industry prevails on that of services.

Although the increased weight of services is a common trait to processes of modernization and economic development of many countries in the developing world, two characteristics of the growth of this sector in India are unusual: firstly, the decline of agriculture has mainly resulted in an increase in the weight of services without any impact on industry, while in China, the reduction in

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<sup>139</sup> Michael Spence, *La convergenza inevitabile* (Bari: Laterza, 2012), 42.

<sup>140</sup> Jean-Joseph Boillot, *L’economia dell’India* (Bologna: Il Mulino, 2007), 99.

<sup>141</sup> Alessia Amighini and Stefano Chiarlone, “L’integrazione nell’economia globale: promesse e anomalie”, in *L’India tra i grandi. Politica, economia e società sessant’anni dopo*, edited by Giampaolo Calchi Novati, Silvio Beretta and Simonetta Casci (Roma: Carrocci, 2008), 67.

the weight of agriculture led to an increase of industry; secondly, this development did not lead to employment.

In a nutshell, India is now one of the most important emerging economies, and it lived a long period of central planning and autarky before introducing the market mechanism and opening itself to the rest of the world. However, “India has paid the costs of its infrastructural delays and it has benefited from its high level of higher and further education”<sup>142</sup>.

This particular development model presents some characteristics that can also be considered as limits. One of the most important limitations seems to be the lack of consistency regarding the allocation of resources of the country: “it is unlikely that specialization in a sector with a high density of knowledge and intensive use of skilled labor can absorb the abundance of labor force not qualified, that India has”<sup>143</sup>; therefore it is important to continue the path of reforms to increase the competitiveness in traditional sectors that represent a more “natural” outlet to the surplus labor still present in agriculture. On the other hand, this strength in services, especially in the software, may have a positive impact on the modernization of the manufacturing sector, especially if the limitations on the mobility of the labor force will have gradually reduced. In fact, in the machinery industry, the products are highly dependent on the software that enables their automated operation and, in many cases, the software itself represents a significant amount of the added value. The specialization in the Indian software industry could be, on one hand, a pull factor for foreign retailers who want to relocate in this country part of their production, and, on the other hand, it could be a major competitive advantage for Indian manufacturers who wish to increase their competitiveness in these productions.

Also in this case, the largest Indian specialization in these areas would be the result of internal technological expertise and not only of the integration with foreign producers, “drawing a model of development less disconnected from the local production of what has taken place in the Chinese case”<sup>144</sup>.

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<sup>142</sup> Alessia Amighini and Stefano Chiarlone, “L’integrazione nell’economia globale: promesse e anomalie”, in *L’India tra i grandi. Politica, economia e società sessant’anni dopo*, edited by Giampaolo Calchi Novati, Silvio Beretta and Simonetta Casci (Roma: Carrocci, 2008), 78.

<sup>143</sup> Alessia Amighini and Stefano Chiarlone, “L’integrazione nell’economia globale: promesse e anomalie”, in *L’India tra i grandi. Politica, economia e società sessant’anni dopo*, edited by Giampaolo Calchi Novati, Silvio Beretta and Simonetta Casci (Roma: Carrocci, 2008), 79.

<sup>144</sup> Alessia Amighini and Stefano Chiarlone, “L’integrazione nell’economia globale: promesse e anomalie”, in *L’India tra i grandi. Politica, economia e società sessant’anni dopo*, edited by Giampaolo Calchi Novati, Silvio Beretta and Simonetta Casci (Roma: Carrocci, 2008), 78.

## 2.5 The Indian potential

India has grown significantly in the last decade at a rate much higher than that of the global economy than the historical average growth of 3% per year maintained until the early nineties, when the country started the process of gradual reforms economic. The Indian middle class is certainly richer than they were ten years ago and “the growth of this social stratum is the greatest achievement of the emergence of India in the last decade”<sup>145</sup>. Even the higher layers of society are getting richer, but, despite this, the poorest are not fully benefiting from the economic and social benefits brought about by the change: agriculture continues to suffer due to the limited access of the poor condition of agricultural infrastructure, low commodity prices, illiteracy among rural farmers. India is the largest democracy in the world: historically, the country has always been a melting pot of people of every race and religion who have come and set up in thousands of years. This democratic value is of immense importance for India: regardless of whether there are 22 official languages, all religions practiced in the world and an infinite variety of human types, the political stability enjoyed by the country is fundamental. “The emphasis on karma, on hard work, sincerity, fair competition by the middle class worker has helped millions of engineers, doctors and other professionals working in the global economy to emerge in the world”<sup>146</sup>: these values are very important for the country. The growth of the Indian population, although it should be controlled, provides a huge advantage in terms of the number of young people participating in the Indian economy every year. Diversity can also be an advantage, but if the political parties use the differences of the people of India to grab votes, then it becomes a problem and this creates cultural insensitivity, leading to multi-party coalition governments that may not always work in search for optimal solutions for the country, but they rather focus on issues of short-term, restricted to individual questions of community representatives, not to mention that the Indian culture shows many weaknesses: these consist of its social ills such as the issue of dowry, infanticide, the casteism (racism based on the caste system of the Hindu religion), all issues that can be overcome with education, employment and structural changes of this kind.

The high stability of India within the emerging world, mainly due to its democratic structure, though very imperfect, “allows us to develop models of relatively accurate projections”<sup>147</sup>, in

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<sup>145</sup> Emanuele Schibotto, India: intervista a Vivek J. Cherian, Indian Institute of Technology (January 2012), accessed November 3, 2012. <http://www.equilibri.net/nuovo/articolo/india-intervista-vivek-j-cherian-indian-institute-technology>.

<sup>146</sup> Emanuele Schibotto, India: intervista a Vivek J. Cherian, Indian Institute of Technology (January 2012), accessed November 3, 2012. <http://www.equilibri.net/nuovo/articolo/india-intervista-vivek-j-cherian-indian-institute-technology>.

<sup>147</sup> Jean-Joseph Boillot, L'economia dell'India (Bologna: Il Mulino, 2007), 115.

particular with reference to two sets of structural processes: the demographic transition and the continuation of the gradual reforms implemented during the eighties.

“The Indian demographic equation in the coming decades corresponds perfectly to the concept of demographic window of opportunity, which connects the transformations of structure induced by the dynamic of the demographic transition when a virtuous economic process starts, as long as the institutions and the strategy of the country participate in this evolution”<sup>148</sup>. The first transformation is the evolution of the dependency ratio, which links the level of potential savings to the number of inactive people borne by the active (ratio of inactive/active). The second relates to the supply of labor, with the dual stimulating effect of the growth of the potential active population (15-59 years) than that of the population and of a rejuvenation of the active. The third series of transformations corresponds to the effects of market: on one hand, the Indian population will continue to grow, albeit more weakly, and it should exceed China’s population in 2030 by 1,4 billion people, to reach 1,6 billion in 2050; on the other, this population will undergo profound changes, such as the number of people urbanized should grow from 285 million in 1980 to 700 million in 2050, and the share of agriculture in GDP could fall below 10% in 2025. These effects, added together, should theoretically stimulate demand factors around 6-8% per year.

Among the best-known researches, two in particular provide comparable and reliable estimates on the potential of India's growth in the coming decades, despite the adoption of quite different methodologies. The first, known by its acronym BRIC, which stands for Brazil, Russia, India and China, uses a model of “conditional convergence”<sup>149</sup> inspired by the theories of the endogenous growth: the growth potential comes from the combination of endogenous permissive factors (investment rate, population growth and level of education, quality of institutions) and from an increase in productivity (technological convergence) as a function of the initial gap with GDP per capita of the more advanced countries. Despite an investment rate that will remain at around 25% of GDP, and a mediocre coefficient of education, the BRIC scenery gives for India a potential growth rate of 5.8% per year for the next three decades, with a particularly significant result: the surpassing of the growth rate of China in 2010-15, “which would enter in a declining phase”<sup>150</sup> to settle to a 3% in 2040-50, against an increase of 5% for India. A more optimistic variant speaks about a possible growth of 7.4% by 2030, with a rate of convergence faster, due primarily to a large concentration of investment in education.

The second research, made by Rodrik and Subramanian, is inspired by the same theoretical approach of the endogenous growth, but with only internal parameters: it is so estimated a potential

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<sup>148</sup> Jean-Joseph Boillot, *L'economia dell'India* (Bologna: Il Mulino, 2007), 115.

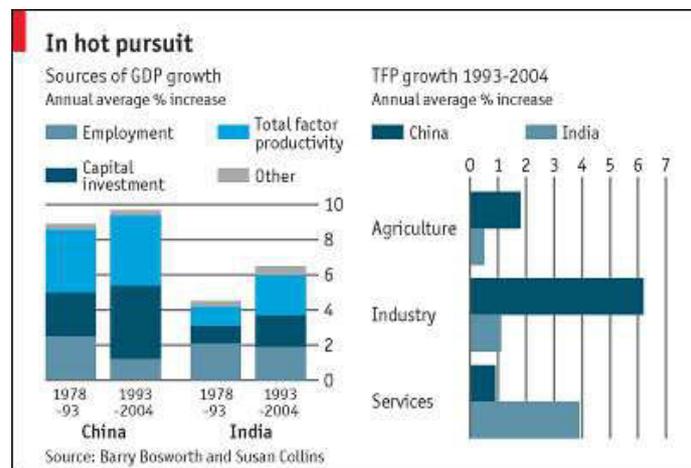
<sup>149</sup> Jean-Joseph Boillot, *L'economia dell'India* (Bologna: Il Mulino, 2007), 116.

<sup>150</sup> *Ibidem*.

growth scenery of 6.7% per year by 2025, that is a percentage point more than the BRIC scenery, which appears as a basic objective. “This study also contains accelerating factors that would bring India to that 8% growth wanted by the authorities”<sup>151</sup>.

To sum up, for the next few years scholars seem to orientate themselves toward a growth between 6 and 8%, and so “it seems to be intended to a high growth”<sup>152</sup>.

Another important indicator of the potential growth rate is the Total Factor Productivity (TFP), which measures the growth of the output, attributable to the technical progress, and “it is calculated as the difference between the rate of growth of the added value and the growth rates of the labour input and of the capital stock, weighted on the basis of their respective distributive shares”<sup>153</sup>. So, the total factor productivity takes into account the improvements in the quality of inputs, and it has a very important role to explain the growth of a country.



The graph above compares India with another emerging economy, China. On the basis of three main sources of the GDP growth (employment, capital investment and total factor productivity), it is possible to measure the annual average of growth, which, between 1978 and 1993, was much higher in China than in India: in China, in fact, there was more employment, capital investment occurred in much greater extent, and also the TFP grew much more here than in India. Analyzing specifically the TFP, which is divided into three factors (agriculture, industry and services), it can be seen that in India the services sector was more productive between 1993 and 2004, while China focused more on the growth of the primary and secondary sectors. The strong growth of TFP in services denotes a competitive advantage of India in this area, thanks to a large amount of

<sup>151</sup> Jean-Joseph Boillot, *L'economia dell'India* (Bologna: Il Mulino, 2007), 116.

<sup>152</sup> Michael Spence, *La convergenza inevitabile* (Bari: Laterza, 2012), 252.

<sup>153</sup> “Produttività Totale dei Fattori”, *DizionarioFinanziario.it*, accessed January 3, 2013.

[http://www.dizionariofinanziario.it/significato/p/1255903998/produttivita\\_totale\\_dei\\_fattori.html](http://www.dizionariofinanziario.it/significato/p/1255903998/produttivita_totale_dei_fattori.html).

innovations and to a great competence of the human capital, on which India should to keep on investing.

The challenges that India has to face to maintain its rate of growth are not negligible, and political leaders are well aware of. One of these challenges is to invest in infrastructures, massively and regularly: the problem is that the central government does not have sufficient funds available to finance the required investments. India has adopted and is developing a model for cooperation between public and private sectors where public funds, supplemented by incentives, compensate the lack of funds from the central government. The necessary infrastructures are in progress and they cover a large part of the territory, with roads, ports, rail systems modern, airports and power grids “with sufficient capacity to keep pace with the growth”<sup>154</sup>.

At the top of lists of infrastructure to realize there are the urban ones: India has one billion two hundred million inhabitants, 70% of whom still live in rural areas and villages, and the country will undergo a massive process of urbanization over the next twenty years. To support it, and to grow and run the new cities, houses, transports, sanitation, water and electricity networks are needed: the McKinsey Global Institute estimates that investments that will be necessary in urban areas are equal to 1,2 billion dollars. Only for building, each year for the next twenty years a number of properties will be needed, “equivalent to all buildings, residential and commercial, today existing in Chicago”<sup>155</sup>.

With a population that will reach 1,6 billion inhabitants by 2050, the relative share of India is expected to stabilize around 18% of the world population, “stabilization due to the entry in the last phase of demographic transition and to the increasingly important role taken from Africa, which is still in the middle of its transition”<sup>156</sup>.

India, in fact, will change the equation in the population of the world from two points of view: firstly, the rapid aging of the developed areas and of China itself will give India a relative weight that it had never had in the past. Europe will fall to one third of the Indian population and the United States will fall below the threshold of 5% of the world's population, while the highly developed continental western Europe is expected to fall to 2%, such as Japan. Secondly, the structure of the Indian population in the coming decades could have great influence on the active part of the world population.

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<sup>154</sup> “Produttività Totale dei Fattori”, DizionarioFinanziario.it, accessed January 3, 2013.

[http://www.dizionariofinanziario.it/significato/p/1255903998/produttivita\\_totale\\_dei\\_fattori.html](http://www.dizionariofinanziario.it/significato/p/1255903998/produttivita_totale_dei_fattori.html).

<sup>155</sup> Michael Spence, *La convergenza inevitabile* (Bari: Laterza, 2012), 253.

<sup>156</sup> Jean-Joseph Boillot, *L'economia dell'India* (Bologna: Il Mulino, 2007), 118.

Thus, between 2030 and 2060-70, “India could benefit of the lowest dependency rate in the world”<sup>157</sup> with a good balance between young and old people, to the benefit of the generations of students and of the active population. Between 2015 and 2025, the country is expected to account nearly 20% of young people around the world (15-24), that is nearly twice of Europe and the United States combined, but in a context in which the rate of education will not be more one to ten as in 1970, when young people in Europe were as numerous as in India. With regard to the working population (15-59 years), India is expected to overtake China in 2025 with a gap of 250 million of active in 2050. The subcontinent will therefore represent in the coming years, according to the UN projections, the 70% of the world five-year variation of this age group and it will be far ahead of the rest of the developed world over the next fifty years.

The advantage of the BRIC scenery in the period 2025-2050 is to show “the strength of the inertias economic despite the deep deformation of the world population”<sup>158</sup>. On the whole, the comparison of GDP measured at purchasing power parity can be useful to give an order of the size of the potential size of a market. From this point of view, India is already at the fifth place in the world after the United States, the European Union as a whole, China and Japan. The Indian growth of 6% per year over the next thirty years represents a significant stimulus to the world economy and it makes increasingly important to the relative share of India.

The affirmation of India as a dynamic economy in full growth is gradually replacing the traditional image of a country affected by massive poverty. Apparently, they seem to be all the conditions to enable the country to maintain its momentum in the coming decades of rapid growth and to become, along with China, one of the great new world political and economic actors.

In this situation, India will face huge challenges: the political governance, particularly at the level of states that tomorrow will be populated as the European Union of fifteen; the drastic improvement of infrastructure, particularly in transport and energy; the social and environmental development, including the reduction of mass poverty, the rapid increase in the level of education in rural areas and the control of the population explosion in megacities with the severe water and housing problems that entails. At present, and in the light of a democratic regime that, despite its flaws, “keeps policy makers under heavy pressure”<sup>159</sup>, nothing seems to indicate that India is destined to fail in its great transformation.

View from the rest of the world, the gradual affirmation of India alongside of China announces radical changes made by the risks but also by opportunities, that “it’s worth trying to anticipate

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<sup>157</sup> Jean-Joseph Boillot, *L'economia dell'India* (Bologna: Il Mulino, 2007), 119.

<sup>158</sup> Jean-Joseph Boillot, *L'economia dell'India* (Bologna: Il Mulino, 2007), 120.

<sup>159</sup> Jean-Joseph Boillot, *L'economia dell'India* (Bologna: Il Mulino, 2007), 131.

today to learn how to control them”<sup>160</sup>: the change in the size scale of globalization and especially in the services, while the revolution of new technologies should allow the sale of services to reach and exceed that of the goods; major challenges in the field of environmental sustainability, as shown in particular the current battle for the black gold, the renewal of nuclear and the difficulties to associate these new emerging powers to the Kyoto Protocol on climate change; and finally, the opening for India of a new network of alliances, “with the United States which in 2004 seem to have made the first step, but with an Europe which does not want to be absent”<sup>161</sup>.

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<sup>160</sup> Jean-Joseph Boillot, *L'economia dell'India* (Bologna: Il Mulino, 2007), 131.

<sup>161</sup> Jean-Joseph Boillot, *L'economia dell'India* (Bologna: Il Mulino, 2007), 133.

### 3. Economic development and sustainability: land and environment

#### 3.1 Environmental sustainability and the energy question

According to the data from the 2010 Human Development Report about sustainability and vulnerability, the ecological footprint of consumption in India in 2006 was of 0.8 hectares per capita, compared to the 4.9 in Italy. In 2007, the percentage of fossil fuels used in India was of 70%, while the use of renewable sources was of 29%. Even on the basis of these data, the population living on degraded land in India in 2010 was of 10%, compared with the 2% of Italy, with 12% of people without access to water and 69% without access to sanitation in 2008. The most significant data, however, concerns the death due to indoor or outdoor air and water pollution, which in India in 2004 amounted to 954 million people, compared to 137 million people in Italy, and this means that the level of pollution in India is very high.

Sixth world producer of greenhouse gases and second for the pace of growth of its emissions after China, India is expected to represent more than 10% of the global emissions in 2030. But the country also risks to be one of the main victims of pollution, due to the already serious problems of drought and poor distribution of rainfall over time and territory. “This correlation should encourage India to be one of the most active countries in the fight against climate change”<sup>162</sup>, in particular in the framework of the Kyoto climate protocol signed in 1997. And indeed it is so, even if there are several ambiguities. India, in fact, signed the agreement, but without making commitments to reduce its emissions, and limiting itself to the so-called mechanisms of “flexibility”, which allow developing countries to enter into cooperation with foreign firms to divide the benefits of the reductions in carbon dioxide.

The fundamental disagreement, as in most of the international negotiations, concerns the issues of equity and the risks of growth. India would like, first of all, that the rich countries accept to recognize their historical responsibility in the atmospheric concentration of greenhouse gases. Emissions per capita are, for example, 20 times higher in the United States than in India (6 tonnes of carbon dioxide per year). “A pure principle of equity should then distribute the emission shares in different ways, i.e. in proportion to the number of inhabitants”<sup>163</sup>. On the contrary, the principles defended by the United States, non-signatory country of the Kyoto Protocol, are the right to the clause of benefits obtained (grandfathering) and the principle of economic efficiency, which should not submit the growth to the imperative of reducing the pollutant emissions. On the latter point,

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<sup>162</sup> Jean-Joseph Boillot, *L'economia dell'India* (Bologna: Il Mulino, 2007), 127.

<sup>163</sup> Jean-Joseph Boillot, *L'economia dell'India* (Bologna: Il Mulino, 2007), 127.

India agreed with the United States and it accepted, in August 2005, the initiative of Vientiane<sup>164</sup>, which brings together six countries including China, Japan and Australia. The idea is to put the emphasis on technological solutions available to the developing countries: in practice, India plays on several fronts and it is one of the most active countries in the joint application of Kyoto, in the form of the mechanisms of clean development. In 2005, nearly a hundred projects were submitted to the national authority (DNA) responsible for validating these partnerships. In fact, “the international community will have to find compromise solutions in the medium term”<sup>165</sup>, which will allow India to control its future emissions of greenhouse gases without compromising economic development.

India is the sixth world consumer of oil and, above all, it is “the third in the marginal variation”<sup>166</sup> after China and the United States. Its consumption has increased by more than 6% per year over the last decade, compared to 1.5% of the rest of the world. The very rapid development of its petrochemical industry, with the largest refinery under construction of the world (20 million tons), makes it one of the biggest players in the industry, as evidenced by the proliferation of purchases in Africa and especially in the former Soviet Union and the strategic projects of oil pipelines from Iran, Central Asia or from Myanmar, even at the cost of a strategic peace with Pakistan. India imports almost 75% of its oil and its domestic production begins to decrease after the record of 32.4 million tons reached in 2000. According to the report “Green India” of Teri<sup>167</sup> (average between the maximum and minimum estimate), the total requirement is estimated at 150 million tons in 2008, 224 million tonnes in 2020 and nearly 500 million tonnes in 2047.

In the coming years, the energy could be a serious problem for India and its consequences could affect the whole of the geopolitical and geo-economic landscape of the sector. The demand for energy, however, is expected to increase from 455 billion to 722 billion tons equivalent of oil by 2012, when the Indian Ministry of Energy would like to electrify all the houses of the country: in fact, “many villages have not yet been connected to the electric network and the interruptions of electricity are frequent”<sup>168</sup>.

Only this goal represents an increase in the electricity production of 100 billion kW in eight years and it is expected to triple by 2020, as only 20% of Indian households currently receive electric current on a regular way, with an average per capita consumption of 365 kW per year in 2001, compared to 8.351 of France or to 3.600 kW of Poland.

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<sup>164</sup> The Asia-Pacific security forum held in Vientiane, capital of Laos, is an extension to the Kyoto Protocol and it has been signed by the United States, China, Japan, India, Australia and South Korea.

<sup>165</sup> Jean-Joseph Boillot, *L'economia dell'India* (Bologna: Il Mulino, 2007), 128.

<sup>166</sup> Jean-Joseph Boillot, *L'economia dell'India* (Bologna: Il Mulino, 2007), 125.

<sup>167</sup> The Energy and Resources Institute.

<sup>168</sup> Silvia Dotti, “L'India, terra propizia per le energie rinnovabili”, *Cartografare il presente*, accessed November 12, 2012. <http://www.cartografareilpresente.org/article115.html>.

The tenth floor of economic planning, which provides for a scheme of energy supply based on two-thirds of thermal sources, will lead to the consumption of 538 or 688 million tons of coal, depending on the scenery more or less favourable (growth with a greater or lesser consumption of energy), of 195-245 million tons of oil and, finally, of 65-70 million cubic meters of gas; “i.e. to a doubling or a tripling of the coal consumption as appropriate”<sup>169</sup>.

Given the likely evolution of the hydrocarbons and of the pollutant emissions difficult to reconcile with the worries of the international community, India is faced with painful choices. The share of hydropower is expected to increase to 19% in 2020, but at the cost of increasing imports from the neighbouring countries (Bhutan or Nepal), although “there are limitations due to geographical and geo-strategic reasons (concentration of sources in the Himalayan range)”<sup>170</sup>. This leaves two alternatives. The first, indicated in the report of the Plan, insists on the renewable energies, which would provide large economic, social and environmental gains. Already the fifth world producer of wind power, also the solar energy and biomass offer significant potentials for India, being also creators of occupation in rural areas. But these energies, “less than a strong technological and economic progress”<sup>171</sup>, will represent only 5-10% of the productive capacity in 2020. The second alternative is nuclear energy, rebecome current in 2005, after the improvement of the relations with the United States.

India was one of the first countries to establish a specific ministry, the Ministry of Nonconventional Energy Sources (MNES), established in 1992 and, in 2006, it was renamed the Ministry of New and Renewable Energy (MNES). Destined to promote precisely these forms of energy, including the small hydraulic (but not the great hydraulic, which is under the Ministry of Energy), MNES can count on an immense potential: thanks to the monsoons, India has usable wind resources estimated at 45.000 MW. “The sun shines 300 days a year, so it heats water and the photovoltaic panels (for converting the sun's rays directly into electricity)”<sup>172</sup>. Finally, agriculture continues to be the main economic activity for the vast majority of the population, of which almost three quarters live in villages, and this situation opens up excellent prospects for the use of the green waste in plant biomass production, which not only generate heat, but also electricity. Thus, the potential of biomass in India is estimated at 12.000 MW (without bio fuels). In ten years, in the subcontinent thousands of windmills and solar panels have been installed and, to encourage the development of the renewable energies, the Ministry has adopted specific support measures for the different sectors. To this end, it has a financial instrument, the Indian Renewable Energy

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<sup>169</sup> Jean-Joseph Boillot, *L'economia dell'India* (Bologna: Il Mulino, 2007), 126.

<sup>170</sup> Jean-Joseph Boillot, *L'economia dell'India* (Bologna: Il Mulino, 2007), 128.

<sup>171</sup> *Ibidem*.

<sup>172</sup> Silvia Dotti, “L'India, terra propizia per le energie rinnovabili”, *Cartografare il presente*, accessed November 12, 2012. <http://www.cartografareilpresente.org/article115.html>.

Development Agency (IREDA), a public body who gives aid to finance projects of various kinds: for example subsidized loans (at rates lower than market) for the installation of wind farms, or subsidies for the purchase of solar energy plants. These helps can be requested by both the end-users (individuals or companies) and by the financial intermediaries or public entities (banks, government agencies, NGOs). To assist companies which develop wind projects, the Centre for Wind Energy Technology (C-WET), a study centre created in 1998 by MNES, provides data on the potential of wind in different areas, on the modelling of the parks, at affordable prices. Also supplier entities of electricity of the 29 Indian states contribute to the policy of MNES, by purchasing at encouraging prices a part of the electricity produced by windmills. Finally, the private sector is a major source of funding for the renewable energies: more and more companies, in fact, invest in wind farms to ensure the provision; of course, the current produced by the turbines does not arrive directly to the investor's factory, but the local electric entity ensures to provide it with an amount equal to that which will be generated.

In 2008, India announced its first National Action Plan on Climate Change<sup>173</sup>, redefining the present and future regulations to better address the global problem of climate change. Among the many programs offered there are: the National Solar Mission, the National Mission for Enhanced Energy Efficiency, the National Water Mission and the National Mission for a “Green India”.

The renewable industry in India has been identified as a priority area also from the Bank of India and the Indian government is therefore encouraging the private sector participation through the Public-Private Partnership model (PPP), to attract investment and expertise in the field.

To increase foreign investment, the government has relaxed the rules relating to Foreign Direct Investment (FDI) in India, giving the possibility of foreign direct investment at 100%, and ensuring more relaxed policies for investment and industrial activities in the area. “Renewable energy in India are generating, and will continue to do so in the coming years, significant opportunities for investors in the clean energy sector, for suppliers and manufacturers of machineries and equipment useful for the construction of plants, and for the independent power producers (IPP)”<sup>174</sup>.

Considering the high potential of the renewable energy sources that India possesses, and the new regulations designed to promote the flow of investments and know-how from abroad, the range of opportunities for collaboration in the field will be really wide.

About the nuclear power, India has always maintained a high-level nuclear research, not without a certain ambiguity on its military and civilian aspects, an attitude that has caused the international

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<sup>173</sup> Sergio Sgambato, “Energie rinnovabili: una priorità per l’India”, *L’Italia nel mondo: ItalPlanet.it*, accessed November 12, 2012. <http://www.italplanet.it/interna.asp?sez=858&info=21536>.

<sup>174</sup> Sergio Sgambato, “Energie rinnovabili: una priorità per l’India”, *L’Italia nel mondo: ItalPlanet.it*, accessed November 12, 2012. <http://www.italplanet.it/interna.asp?sez=858&info=21536>.

sanctions by the group of signatories of the treaty of non nuclear proliferation after the explosion of Pokhran II in 1998. Isolated, India nonetheless aims at an ambitious plan to increase its civil production capacity from 3.3 GW to 20 GW by 2020. In this way, the share of electricity produced with the nuclear power would increase from 2.5 to 6%, with fifteen reactors already active and nine under construction. The lack of uranium, the technical difficulties in the use of thorium, of which India has one fourth of the world's reserves, and especially the excessive cost of a series of very heterogeneous plants, has pushed the country to leave the nuclear energy in a rather marginal in the absence of international cooperation. However, the new economic realities, the increasing pressure to reduce energy constraints and the new geopolitical pragmatism adopted toward the United States and Europe (that has a large technological superiority in this field) can give back a more important role to the nuclear power in the medium term and give it back, also thanks to the help of China, that international credibility it had lost in the 90s. It is very likely, however, that “the political weight of the civil society and of the environmental NGOs will prevent any radical solution and it will make India in the coming decades one of the privileged regions for the alternative energy sources”<sup>175</sup>.

One of the most serious environmental problems of India is the air pollution, especially in the cities: in the country there are also the most serious cases in the world of human exposure to toxic waste, in particular near the mines of metals such as chromium. The number of car ownership is increasing in the urban areas and this phenomenon is worsening the air pollution.

Most of the environmental problems in India are, however, “more structural from the lack of adequate wastewater treatment, of clean water, of modern methods of domestic heating, as well as from the failure to apply of controls on job security and on the environmental standards in the mines”<sup>176</sup>. The river Yamuna flowing through the capital, Delhi, is a prime example: due to discharge into the river of 3595, 75 million litres of wastewater per day, the river itself is as dead when it leaves the city.

The University of Yale and the Columbia University, in collaboration with the World Economic Forum and the Joint Research Centre of the European Commission published the “2010 world ranking of countries, according to the index of environmental sustainability (Environmental Performance Index - EPI)”<sup>177</sup>. In this ranking, India is located at the 123th place, so very near the bottom of the list: the pollution in many parts of India has reached dangerous levels and there are

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<sup>175</sup> Jean-Joseph Boillot, *L'economia dell'India* (Bologna: Il Mulino, 2007), 129.

<sup>176</sup> Bill Emmot, “I paesi emergenti e il dilemma ambientale: Cina e India al bivio tra modello americano e giapponese”, *The Economist* 18, accessed November 12, 2012. <http://www.italcementigroup.com/NR/rdonlyres/4B7E2D4A-CC91-4661-8CE6-446787D54072/0/IntervistaEmmott.pdf>.

<sup>177</sup> Interprofessional network, “Inquinamento in India: al 123 su 163 posti nell'Environmental Performance Index”, *CorriereInformazione.it*, accessed November 12, 2012. <http://www.corriereinformazione.it/201002101116/imprese/internazionalizzazione/inquinamento-in-india-al-123-su-163-posti-nellenvironmental-performance-index.html>.

many areas of the country where the limits of contamination of the terrestrial flora have abundantly exceeded. It is a situation that the Indian Environment Minister, Jairam Ramesh, has really clear, but that does not seem easy to solve, as evidenced by an excerpt from his speech at the Copenhagen Summit, in which he says: “Our per capita emissions are very low. We are ready to discuss on the level of energy efficiency: but we must have a sense of realism, which developed countries seem not to have, on what developing countries can and cannot do”<sup>178</sup>.

This situation makes it urgent for India the need to also consider the agricultural potential of the country, to enhance the resources; it is essential to build a model of development that is environmentally friendly, since the one currently adopted makes Indian cities more and more polluted. In this regard, for example, there is an organization in background environmentalist, Navdanya, founded by Vandana Shiva in 1987 in India, which is designed to promote sustainable agriculture, biodiversity, healthy food and the defence of the rights of the small farmers all over the world, “according to an approach that, through agriculture, can reconcile economy and ecology”<sup>179</sup>. Navdanya means “nine seeds” and alludes to a farming system based on the ancient wisdom of mixing crops on the same field, which makes them more resistant to drought and frost, as well as more productive. Through this movement, Shiva has created various seed banks GMO-free, that offer support to small local farmers through training and the free provision of seed, just to help them to defend themselves from the assault of multinationals to their land, to their crops and to the biodiversity that depends on them.

The organic sector in India is rapidly expanding and “the Government has created a system that allows manufacturers to access the certifying authority under almost free”<sup>180</sup>. The birth and development of organic farming has been promoted and supported by the Indian government to protect small producers and the biodynamic farming has been a great opportunity to get out of a dangerous failure. The Green Revolution has caused serious damages in India, because of the population density: the uncontrolled use of pesticides has led to an exponential increase in the genetic diseases and the aircraft treatments on the crops have caused the intoxication of the population and the contamination of the rivers water. The Green Revolution has been successful only in an initial phase by increasing production, but, after a while, the effect reversed, coming to

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<sup>178</sup>Interprofessional network, “Inquinamento in India: al 123 su 163 posti nell’Environmental Performance Index”, CorriereInformazione.it, accessed November 12, 2012. <http://www.corriereinformazione.it/201002101116/impres/internazionalizzazione/inquinamento-in-india-al-123-su-163-posti-nellenvironmental-performance-index.html>.

<sup>179</sup>Vincenzo Petraglia, “Agricoltura sostenibile in India: “Navdanya” e le banche dei semi Ogm free”, Wise Society: people for the future, accessed November 12, 2012. <http://wisesociety.it/ambiente-e-scienza/agricoltura-sostenibile-in-india-navdanya-e-le-banche-dei-semi-ogm-free/>.

<sup>180</sup>Agribionotizie, “Seminario Agricoltura Biodinamica in India con A. Thimmaiah”, accessed November 18, 2012. <http://www.agribionotizie.it/rubriche/thimmaiah.htm>.

these severe damages for the environment and health: so, shifting to the organic method has become a need for survival.

“India is also one of the countries that have acceded to the treaty on sustainable fishing, even if with a delay of ten years”<sup>181</sup>. Strongly supported by the WWF, which has made a lot of pressure on the Indian government, the Indian Ocean Tuna Commission (IOTC) has begun the iter for the sustainable management of its water, a crucial step, since the Indian Ocean is one of the most important fish reserves in the world. The measures for sustainable fisheries are aimed at the protection of fish stocks which are declining all over the world, but also at helping to save the lives of millions of seabirds and turtles, who unwittingly become victims of unfair practices, such as bottom trawling and other barbarism.

### 3.2 The problem of waste and air pollution

The father of nonviolence, Mahatma Gandhi said: “Everyone is the sweeper of himself”<sup>182</sup>, an exhortation that if applied would solve all problems. The context in which he spoke was the one in which the craft of manual collection of waste was relegated to certain castes, but even today the disposal problem remains, and it is very difficult to eradicate. The problems of a so vast country are very huge, but there are also innovations and the search for models that improve the quality of people life: for this New Delhi, Mumbai and Pune have decided to embark on a new path and make a change in their waste policy. In Mumbai, 70% of the population still lives down the street or in slums that are located throughout the city, including the centre. According to a recent study entitled “Quality of Life Report 2007”, published by the Mercer Human Resource Consulting, which analyzes the hygienic and sanitary conditions of the world's biggest cities, Mumbai is the seventh most polluted city in the world. Going around Mumbai and looking at the massive presence of pollution of the atmosphere, of the soil and of water, and the large amount of waste in the city, it is hard to believe that it is only the seventh most polluted city in the world. Mumbai is completely invaded by the municipal waste, but this type of waste, which are often collected only in part by the local government, is a source of income for those without work. The “waste recycling in India is a mostly “illegal” business”<sup>183</sup>, but tolerated by the state as it gives employment to millions of people and allows their survival. In Mumbai there is a neighbourhood, specialized in the recycling of

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<sup>181</sup> Marco Mancini, “Pesca sostenibile, anche l’India aderisce ai trattati internazionali”, *Ecologiae*, accessed November 12, 2012. <http://www.ecologiae.com/pesca-sostenibile-india-trattati-internazionali/56365/>.

<sup>182</sup> Marinella Correggia, “India, rifiuti «toccabili» e rifiuti «intoccabili»”, *Vivi Consapevole* (2007), accessed November 12, 2012. <http://www.viviconsapevole.it/articolo.php?id=8408>.

<sup>183</sup> Pierpaolo Mittica, “Vite Riciclate”, *Pierpaolo Mittica Photographer* (2007-2008), accessed November 12, 2012. <http://www.pierpaolomittica.com/home/italiano/vite-riciclate/>.

waste, nicknamed “Compound 13”, within the largest slum of the whole Asia: Dharavi. Thirty thousand people work in this neighbourhood, who come from Dharavi and from slums of the city, used in the recycling of 6.000 tons of waste generated each day by the 18 million people of Mumbai. Here everything is recycled, from plastic to paper, from iron to glass: in this place is any material can be recovered; they recycle up to 600 tons of plastic a day, not counting all the other materials. At the expense of the great social and ecological work that these people do, they are forced to work and live in a state of misery and degradation beyond the human limit and to die very young due to a number of diseases caused by their work: in fact, they dig with bare hands in the waste, in the landfills, in the sewages in the gutters of the city, in the garbage cans, looking for any waste that could be sold in order to live. The paradox of this work is that if, on the one hand, the recycling of materials allows to save the environment by reusing resources, on the other hand, the chemicals used for recycling and heavy air pollution due to toxic fumes, determined by the fusion of the various materials, cause a high degree of pollution in the area and so a big risk for the workers and the local population. Moreover, there are neither union or sickness protections nor holidays, as these works are mostly illegal (in Compound 13 there are more than 700 small and medium-sized enterprises, of which more than half are illegal) and “the state is often absent in India in the workers protection”<sup>184</sup>. Many employers exploit the labour force, who desperately needs to work in order to survive: these people earn two Euros a day, allowing them to barely survive with their families in the slums of the city, while these small entrepreneurs without scruples can get between 50 to 350 Euros a day, which in India is a real fortune. The “trash pickers” are the first link in a chain that involves the collection of waste and the sale to wholesalers, who separate materials on the basis of factors such as quality, colour, etc; then they shred the material to merge it and they give it new life.

The Indian city to the east of Delhi, Seelampur, is becoming the main world centre where computers, mobile phones and televisions find new life. According to a recent study, India will increase by 500% the purchase of waste electronic materials by 2020, compared to the 2007 levels: most of the electrical and electronic equipment, the so-called “e-waste”<sup>185</sup>, from the United States and Europe, however, is recycled through hazardous processes and the non-governmental organizations in India are trying, with great difficulties, to find solutions more respectful of humans and of the environment. “A mountain out of a billion and a half tons has also reached the banks of

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<sup>184</sup> Pierpaolo Mittica, “Vite Riciclate”, Pierpaolo Mittica Photographer (2007-2008), accessed November 12, 2012. <http://www.pierpaolomittica.com/home/italiano/vite-riciclate/>.

<sup>185</sup> Rassegna stampa, “Seelampur, India: capitale mondiale dei rifiuti elettronici”, E-rifiuti (2011), accessed November 17, 2012. <http://www.e-rifiuti.it/rassegna-stampa/seelampur-india-capitale-mondiale-dei-rifiuti-elettronici>.

the Ganges”<sup>186</sup>, but the real problem is the disposal of this material, which often happens in improvised conditions, causing serious damages to the health of workers, who have to deal every day with hazardous materials such as lead and mercury, and so, every day, they inhale poison: “this can lead to serious diseases such as tuberculosis”<sup>187</sup> and the lack of precautions, such as wearing gloves and masks, exposes these workers, including children, to a very high risk that often leads to death.

The attempt at innovation in India in the field of waste disposal was not long in coming. On the 7<sup>th</sup> of November 2012, the “Stakeholder Meeting” was held in New Delhi under the “Sahyog” project<sup>188</sup>, which has as its coordinator the Frascati Research Centre “ENEA”, the Italian national agency for new technologies, energy and the sustainable economic development<sup>189</sup>. The “Sahyog project”, funded by the Seventh Framework Programme (FP7)<sup>190</sup> of the EU, is born from a joint collaboration of the European Commission with the Department of Biotechnology of the Indian Government: the goal is to link the research activities carried out in Europe and India and continue the work of creating a network of contacts involving researchers, funding agencies, companies and professionals in the field of biomass. The results of the project will support the cataloguing of scientific resources and interventions, as well as the preparation of a Strategic Research Agenda (SRA)<sup>191</sup> for a concerted planning of the future EU-India initiatives of research in the field of biomass and organic waste.

Another attempt to disposal is through the technique of the so-called “worm-culture”. The former president of the Indian WWF, Shanta Chatterij, at the conference of “Ethical choices in society, the economy and the environment”, which was held in Siena from the 4<sup>th</sup> and the 6<sup>th</sup> of May 2006, explained the program of environmental and urban restoration, the so-called “Clean Air Island”<sup>192</sup>, an idea born five years ago in Mumbai with the objective of recovering, from the urban and environmental point of view, the fourth most polluted city in the world. The main innovation,

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<sup>186</sup> Rassegna stampa, “India: dramma dei rifiuti elettronici, 1 miliardo e mezzo di tonnellate”, E-rifiuti (2011), accessed November 17, 2012. <http://www.e-rifiuti.it/rassegna-stampa/india-dramma-rifiuti-elettronici-1-miliardo-e-mezzo-di-tonnellate>.

<sup>187</sup> Rassegna stampa, “India: dramma dei rifiuti elettronici, 1 miliardo e mezzo di tonnellate”, E-rifiuti (2011), accessed November 17, 2012. <http://www.e-rifiuti.it/rassegna-stampa/india-dramma-rifiuti-elettronici-1-miliardo-e-mezzo-di-tonnellate>.

<sup>188</sup> JonicaNotizie, “Rotondella: dall'Enea all'India Interventi biotecnologici nel settore delle Biomasse e rifiuti organici per una bio-economia sostenibile” (2012), accessed November 17, 2012. <http://jonicanotizie.blogspot.it/2012/11/rotondella-dall-all-interventi.html#/2012/11/rotondella-dall-all-interventi.html>.

<sup>189</sup> Enea, “Centro Ricerche Frascati” (2012), accessed November 17, 2012. <http://www.enea.it/it/centro-ricerche-frascati>.

<sup>190</sup> Enea, “SAHYOG Project Meeting and Stakeholder Meeting” (2012), accessed November 17, 2012. [http://www.enea.it/it/enea\\_informa/events/sahyog\\_5-7nov2012/sahyog-meeting](http://www.enea.it/it/enea_informa/events/sahyog_5-7nov2012/sahyog-meeting).

<sup>191</sup> Enea, “SAHYOG Project Meeting and Stakeholder Meeting” (2012), accessed November 17, 2012. [http://www.enea.it/it/enea\\_informa/events/sahyog\\_5-7nov2012/sahyog-meeting](http://www.enea.it/it/enea_informa/events/sahyog_5-7nov2012/sahyog-meeting).

<sup>192</sup> Spiritual, “Progetto Indiano: Smaltire i Rifiuti con la Vermicoltura” (2006), accessed November 17, 2012. <http://www.spiritual.it/it/notizie/progetto-indiano-smaltire-i-rifiuti-con-la-vermicoltura,3,29519>.

implemented with considerable success, concerns the disposal of municipal waste: in the project area, the function of disposal and processing the massive amount of organic waste has been delegated to the microscopic worms; this “worm-culture”, besides providing a great benefit to the environment and to the landscape, allows also a good economic saving<sup>193</sup>.

### 3.3 Eco-tourism and sustainable infrastructures

The contemporary India is giving great emphasis to the eco-tourism, in order to better preserve flora and fauna: this has allowed to have a huge variety of species, that can be seen in the Indian parks, as the Corbett National Park, not far from Delhi, “with its 250 square kilometres of dense forests and savannahs, and with tigers, elephants, leopards, deer and other animal species”<sup>194</sup>.

India, in 2010, was visited by 70.000 Italians. In addition to the traditional destinations, such as cities or the spiritual centres, ecotourism destinations are becoming very important: there are more than 250 protected areas, adding the national parks and the regional reserves that the Indians call “Wildlife Sanctuaries”. The naturalist tourism is growing because travellers are realizing that in every region, not far from a popular art centre, there is a nature reserve which is worth to be visit. Also the way to stay in India is changing: in addition to the “globalized” style hotels, the eco-lodges are increasing<sup>195</sup>, which are sophisticated facilities, full of links with the local culture, and with low or no environmental impact. This is the case of Banjaar Tola Tented Camp, an eco-lodge located on the edge of one of the most beautiful natural parks in central India, the Kanha National Park in the state of Madhya Pradesh, where tourists come to experience the photo safari among tigers, jaguars and rare species of birds. The local people produce most of the objects that are in this lodge, including all the tribal sculptures that decorate it, thus promoting the development of the traditional crafts, as well as, for example, “the breeding of bees for the production of honey that customers consume in this lodge for breakfast, not to mention that the staff is largely made up of indigenous”<sup>196</sup>. The example of Banjaar Tola is not isolated in India: this is a trend that is slowly but steadily gaining ground, and if the way of sustainable tourism is still long in Asia, it could be said that India is on the right way.

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<sup>193</sup> Spiritual, “Progetto Indiano: Smaltire i Rifiuti con la Vermicoltura” (2006), accessed November 17, 2012. <http://www.spiritual.it/it/notizie/progetto-indiano-smaltire-i-rifiuti-con-la-vermicoltura,3,29519>.

<sup>194</sup> Incredibile India, “Eco turismo” (2010), accessed November 18, 2012. <http://www.promozioni.opodo.it/india/?target=turismo>.

<sup>195</sup> Marco Restelli, “Il turismo sostenibile in Asia: un trend in crescita” (2011), accessed November 18, 2012. <http://www.milleorienti.com/2011/05/26/il-turismo-sostenibile-in-asia-un-trend-in-crescita/>.

<sup>196</sup> Marco Restelli, “Il turismo sostenibile in Asia: un trend in crescita” (2011), accessed November 18, 2012. <http://www.milleorienti.com/2011/05/26/il-turismo-sostenibile-in-asia-un-trend-in-crescita/>.

Among the main proponents of the sustainable architecture and the green building in India there was Laurie Baker, an Indian architect died at the age of 90 years, “who has dealt, with a fierce critique, the modern architecture, which did not want to support a building based on the use of local materials”<sup>197</sup>. He has shown through his work that it is possible to create an accommodation in the subcontinent for millions of people, and he has thus become a source of inspiration for a generation of young architects in India and throughout Europe.

In the region of Kerala, in 1960 and after, Baker developed and applied an approach to architecture that came from an intense understanding of the local climate, from the availability of building materials and from the skill of craftsmanship, as well as from the specific needs of each customer, often poor. He applied this approach to designing for hundreds of homes, hospitals, schools, religious and governmental buildings, and in this process he managed to create a simple and elegant Indian architecture, in stark contrast to the Western architecture. Baker reported in his writings in 1975, which “it was Gandhi who inspired his work, when he said that all building materials had to be found within five miles from the building place and that it was necessary to use low-cost techniques, considering the poor, so the aim could still be to design buildings in the simplest possible way and for all”<sup>198</sup>. For a low-cost housing, Baker eliminated the non-local materials: thus, the cement plasters were removed using flat plate roofs; the glass windows were replaced with local bricks, and windows and other openings were replaced by models of small openings in masonry, thus providing naturally an adequate amount of light and ventilation.

Over the past 20 years, Baker’s approach for a sustainable architecture was undertaken by non-profit groups and movements, such as the Science and Technology Centre for Rural Development (Costford), founded in 1980 in Kerala by a group of his supporters. Outside India, Laurie Baker was not widely known, but “its guidelines have been very useful to develop a sustainable architecture, which allows millions of poor Indians to have a decent house”<sup>199</sup>.

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<sup>197</sup> Genitron, “Architettura Sostenibile: Laurie Baker guru e pioniere di un’architettura e di una bioedilizia per tutti. Un architetto indiano, i suoi progetti e i suoi obiettivi” (2012), accessed November 18, 2012. <http://www.genitronsviluppo.com/2008/02/29/architettura-sostenibile-laurie-baker-guru-e-pioniere-di-unarchitettura-e-di-una-bioedilizia-per-tutti-un-architetto-indiano-i-suoi-progetti-e-i-suoi-obiettivi/>.

<sup>198</sup> Genitron, “Architettura Sostenibile: Laurie Baker guru e pioniere di un’architettura e di una bioedilizia per tutti. Un architetto indiano, i suoi progetti e i suoi obiettivi” (2012), accessed November 18, 2012. <http://www.genitronsviluppo.com/2008/02/29/architettura-sostenibile-laurie-baker-guru-e-pioniere-di-unarchitettura-e-di-una-bioedilizia-per-tutti-un-architetto-indiano-i-suoi-progetti-e-i-suoi-obiettivi/>.

<sup>199</sup> Genitron, “Architettura Sostenibile: Laurie Baker guru e pioniere di un’architettura e di una bioedilizia per tutti. Un architetto indiano, i suoi progetti e i suoi obiettivi” (2012), accessed November 18, 2012. <http://www.genitronsviluppo.com/2008/02/29/architettura-sostenibile-laurie-baker-guru-e-pioniere-di-unarchitettura-e-di-una-bioedilizia-per-tutti-un-architetto-indiano-i-suoi-progetti-e-i-suoi-obiettivi/>.

There are many projects in India of sustainable architecture and green building. A first example is an educational centre, the “Druk White Lotus School”<sup>200</sup>, located on one of the Himalayan highlands. Despite the 3.500 meters of altitude, the winter temperatures which drop to -30°, and the snow, that for about five months isolates the area from the rest of India, the structure was made autonomous in terms of energy and water: the south walls of the classrooms are made up of large windows, which catch the sunlight, thus providing heat during the morning hours; the building has also been isolated from the cold through the construction of wall made by a window, positioned approximately 10-20 cm from the wall, with the function of accumulating heat; finally, the school is self-sufficient in the production of electrical energy, through the installation of photovoltaic panels, while, in order to obtain hot water, there are tanks for the collection of rainwater, connected to pumps powered by solar energy.

Another project is called “Hut to Hut”<sup>201</sup>, and it represents a new opportunity for the development of eco-tourist residences able to meet the recent demand for housing that the Indian town of Kumta (Karnataka state, in south-eastern India ). Made possible thanks to the collaboration between the Norwegian study “Rintala Eggertsson” and the “Panchabhuthas Conservation Foundation”, the prototype has the objective of promoting the use of local materials and techniques to ensure the minimal environmental impact, in an area that can be considered one of the richest of biodiversities in the world. It is an environmentally friendly alternative, through the use of eucalyptus wood, bamboo grids, mosquito nets, compost toilets and solar panels, to be used in disadvantaged areas, where resources are often limited and, if well managed, it can serve as a watershed for the dissemination of practical skills required to raise awareness towards the proper management of the environmental issues.

With regard to the sustainable mobility, there are many nations that are giving more and more space to policies aimed at supporting the electric vehicles. After Japan, France and the United States, the program for the spread of the zero-emission mobility in the next eight years comes also from India, a policy that aims also to reduce the country dependence on oil. Electric mobility, besides reducing fuel consumption, will also reduce the air pollution in the nation, where the government estimates indicate that the transport sector in India is responsible for about one third of the total consumption of crude oil. “It has also been predicted that the sale of 6-7 million electric vehicles, including two-wheel vehicles, will help to save about 2.250.000 tons of fuel by 2020”<sup>202</sup>.

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<sup>200</sup> Francesca Pedico, “Arup sfida il gelo con una scuola energeticamente efficiente” (2012), accessed November 18, 2012. <http://www.architetturaecosostenibile.it/architettura/nel-mondo/arup-scuola-energeticamente-efficiente-043.html>.

<sup>201</sup> Michele Candiotta, “Hut to hut: sensibilità norvegese per l’India di domani” (2012), accessed November 18, 2012. <http://www.architetturaecosostenibile.it/architettura/nel-mondo/hut-to-hut-norvegese-india-034.html>.

<sup>202</sup> Mobilità, “L’India punta sulla mobilità elettrica” (2012), accessed November 18, 2012. <http://www.rinnovabili.it/mobilita/lindia-punta-sulla-mobilita-elettrica39286/>.

### 3.4 Employment, health and education

After a careful analysis of the environmental sustainability in India, it is necessary to analyze its economic sustainability, that is its ability to generate income and employment for people's livelihood; then it is necessary to analyze social sustainability, understood as the ability to ensure conditions of human comfort (safety, health, education) equally distributed between class and gender, and, finally, the institutional sustainability, that is the ability to ensure conditions of stability, democracy, participation, and justice.

In the debate on the nature of the recent growth of the Indian economy, the question of work is becoming particularly urgent. During the last two decades, in fact, the sustained acceleration in the growth rate of gross domestic product did not appear to generate sufficient decent employment opportunities. The majority of the Indian labour force, which accounts for over 400 million people, is employed, as previously mentioned, in the so-called informal or unorganized sector. As a rule, the workers in the informal sector do not have access to the social security systems provided by the labour legislation.

The National Commission for enterprises in the unorganized sector, recently established by the Indian government, introduces the definition of "unorganized worker", which includes not only "those who work in businesses or households are not organized, with the exception of regular workers who enjoy the social protection system"<sup>203</sup>, but also "workers in the formal sector, who do not enjoy any social protection system or job security"<sup>204</sup>. This definition captures a reality in constant expansion of the globalized India, that is the coexistence, within the organized sector, of a number of contract conditions, expression of the recent trend to the gradual loosening of the labour laws. In general terms, it is important to note that, if in the early nineties the 90% of the labour force belonged to the informal sector, today the phenomenon is exacerbated, affecting 93% of the active population. The period immediately after the initiation of reforms of the 90s was characterized by a slowdown in the growth rate of average annual employment. In fact, this indicator shifted from 2.4% in the decade between 1983 and 1993, to 1.85% in the following decade. However, the most substantial decline took place in the period from 1993-94 to 1999-2000, when the average annual employment growth rate was around 1.07%, while in the first five years of the new millennium it has seen, apparently, a remarkable recovery, reaching 2.6%. Subsequently, between 2005 and 2008, the rate of employment growth dropped again, with an annual average of just 0.17%.

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<sup>203</sup> Matilde Adducci, "Il lavoro nell'India della globalizzazione: una questione urgente", *IndiaIndie* 1 (2011), accessed November 18, 2012. [http://www.iai.it/pdf/IndiaIndie/IndiaIndie\\_05.pdf](http://www.iai.it/pdf/IndiaIndie/IndiaIndie_05.pdf).

<sup>204</sup> *Ibidem*.

Looking at the second half of the nineties, “the decline in the rate of employment growth concerned all kinds of employment”<sup>205</sup>, in particular, the permanent employment, whose growth rate stood close to zero. So, that period of time has been characterized not only by a rate of generation of employment lower than the previous decade, but also by a process of further employment casualization. In the early 2000s, on the contrary, the increase in the rate of generation of employment was accompanied by a very significant growth of the self-employment both in urban and in rural areas: more than 80% of the new workers were, in fact, part of this category. The official statistical studies conducted on the quality of this type of employment have revealed that almost 50% of workers did not consider him sufficiently rewarding, despite the very low expectations (a monthly salary equal to 1500-2000 rupees, equivalent approximately to 30-40 dollars, would have been considered adequate by the majority of self-employed workers).

Today people tend to think that the increase in self-employment in the first five years of 2000 was largely a result of the intensification of difficult conditions in the Indian countryside after the agrarian crisis, which pushed part of the labour force, especially women, to take refuge in non-agricultural activities with low or very low incomes. So, “the subsequent decline in the rate of generation of employment seems to be partially related to the recent improvement in agricultural productivity”<sup>206</sup>, which led part of the female rural labour force to leave the unprofitable self-employment, accepted when the economic conditions were extremely difficult. If this makes the latest trends in employment less dramatic, it is also true that the employment scenery for large sections of the population continue to seem deeply worrying, especially in the countryside, where the phenomenon of underemployment continues to demonstrate a significant incidence.

Then, looking at the Indian economy as a whole, it is important to remember that the phenomenon of the unprofitable self-employment continues today to affect over 50% of the active population, and “this is an indicator of the lack of a salaried employment able to guarantee decent living conditions”<sup>207</sup> and, therefore, of a very little sustainable economy. To complement this framework, it is necessary to report an increase in unemployment among the groups of younger workers (15-19 years), both in the rural and in the urban areas.

In India the caste system also works in the health care, with abysmal socio-economic and geographical inequalities. “India, with 17% of the world's population, has 20% of the global burden

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<sup>205</sup> Matilde Adducci, “Il lavoro nell’India della globalizzazione: una questione urgente”, *IndiaIndie* 3 (2011), accessed November 18, 2012. [http://www.iai.it/pdf/IndiaIndie/IndiaIndie\\_05.pdf](http://www.iai.it/pdf/IndiaIndie/IndiaIndie_05.pdf).

<sup>206</sup> Matilde Adducci, “Il lavoro nell’India della globalizzazione: una questione urgente”, *IndiaIndie* 3 (2011), accessed November 18, 2012. [http://www.iai.it/pdf/IndiaIndie/IndiaIndie\\_05.pdf](http://www.iai.it/pdf/IndiaIndie/IndiaIndie_05.pdf).

<sup>207</sup> Matilde Adducci, “Il lavoro nell’India della globalizzazione: una questione urgente”, *IndiaIndie* 3 (2011), accessed November 18, 2012. [http://www.iai.it/pdf/IndiaIndie/IndiaIndie\\_05.pdf](http://www.iai.it/pdf/IndiaIndie/IndiaIndie_05.pdf).

of diseases, 20% of maternal deaths and 25% of the mortality of children under 5 years”<sup>208</sup>. The main health indicators of India are far worse than those of other Asian countries with similar levels of development, and, within the country, marked by deep inequalities in socio-economic and caste divisions, there are also deep inequalities in health.

According to the OECD 2012 Health Data, the Indian total spending for health, in 2010, accounted for 4.1% of GDP, lower than the OECD average of 9.5%. The mortality rate of children under the age of 5 years born to mothers with no qualifications is more than twice that of children of the same age born to mothers with at least 5 years of education; moreover, India has also deep geographical inequalities, reflecting the different levels of economic development: “so, for example, in Kerala, life expectancy at birth is of 74 years, while in Madhya Pradesh is of 56 years (a difference of 18 years)”<sup>209</sup>. Even in the access and the use of health services are recorded gross inequalities: if, in 2005-2006, the national vaccination coverage was of 44%, the data related to the most discriminated caste was of 31.3%, compared to the 53.8 % for the most favoured groups, not to mention the big differences in the vaccination coverage also between urban (58%) and rural areas (39%).

According to the 2010 Human Development Report, between 2000 and 2008, the percentage of births attended by skilled health personnel in India accounted only for 47%, compared to the 99% of Italy, but the richest women have a much higher probability than the poorest women to give birth in a qualified facility. Only 10% of the Indian population is covered by some forms of health insurance (public or private): consequently, the most common form of payment is the direct payment of services (out-of-pocket), but many poor people do not address to the health care, because they know they will not be able to bear the cost. These families often have to rely on loans to pay for medical expenses and, in addition to these costs, there are also those related to the need to move around for treatment, to live away from home and not to being able to work for health or personal reasons or to care for a sick family member.

The situation in the Indian health system is compounded by a growing crisis in the field of human resources, a crisis which is quantitative, qualitative and of fairness in the distribution of available resources. According to the WHO, the standard amount of the health personnel should be of 25.4 health workers (doctors, nurses and midwives) per 10.000 population: for India the data is 11.9 health workers per 10.000 population, with large differences between the states (Chandigarh: 23.2;

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<sup>208</sup> Marta Balli and Elettra Pellegrino, “India. Le diseguaglianze nella salute e nell’assistenza sanitaria”, *SaluteInternazionale* (2011), accessed November 19, 2012. <http://www.saluteinternazionale.info/2011/07/india-le-diseguaglianze-nella-salute-e-nell%E2%80%99assistenza-sanitaria/>.

<sup>209</sup> Marta Balli and Elettra Pellegrino, “India. Le diseguaglianze nella salute e nell’assistenza sanitaria”, *SaluteInternazionale* (2011), accessed November 19, 2012. <http://www.saluteinternazionale.info/2011/07/india-le-diseguaglianze-nella-salute-e-nell%E2%80%99assistenza-sanitaria/>.

Meghalaya: 2.5) and between urban and rural areas, not to mention that two thirds of the health workers are men, while women represent only 17% of medical personnel.

The 70% of the health professionals work in the private sector (which employs many civil servants too). Public facilities are under-staffed: 18% of primary care centres have no doctors; in the community health centres, 52% of places for specialists and 18% of places for nurses are vacant. The quality of services is also affected by the high percentage (> 40%) of absenteeism among the employees of the public health system, by the limited office hours, by the insufficient availability of drugs, by the poor quality of the working environment and of the training institutions. But the quality of private hospitals is not better, especially in rural areas, where the population has no chance to receive appropriate care even when it turns to the private sector: “those who are poor, therefore, receive poor service anyway”<sup>210</sup>.

The human resources crisis in the health sector has the face of the massive emigration: between 1989 and 2000, 54% of graduates have left the country. The Indian doctors represent the largest number of foreign doctors working in the United States (4.9%) and in the UK (10.9%), the second largest in Australia (4%) and the third in Canada (2.1%).

With regard to the percentage of illiterates in the adult population, according to the 2010 Report of UNESCO, India has a literacy rate of 66%, with a strong gender imbalance: the percentage of males increased to 77, that of females falls instead to 54, before falling further to 47% in rural areas, to get up to 33% in a state like Bihar. “It is important to notice that “adults” include those individuals older than 14 years, and “young people” are those included in the age group of 15-24 years”<sup>211</sup>.

An examination of the censuses from 1951 to 2001 shows that India is not only the country with the highest absolute number of illiterates among adults, but it also has a much higher percentage of illiterates than the rest of the world, where the percentage of literates is increased from 76% to 84%. “For the future projections, UNESCO is not optimistic”<sup>212</sup>: it is estimated by 2015 a 72% literates among adults (81/62 values for males and females), for a total of 262 million illiterates, while, among the younger, the projections of increase of literates talk about a value of 88% (with a gender gap narrowing: 90/86). The absolute value of the illiterates, however, would remain high: more than 29 million young people.

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<sup>210</sup> Marta Balli and Elettra Pellegrino, “India. Le diseguaglianze nella salute e nell’assistenza sanitaria”, *SaluteInternazionale* (2011), accessed November 19, 2012. <http://www.saluteinternazionale.info/2011/07/india-le-diseguaglianze-nella-salute-e-nell%E2%80%99assistenza-sanitaria/>.

<sup>211</sup> Antonio Cobalti, “L’istruzione in India”, *Quaderno 52 108* (2010), accessed November 19, 2012. <http://www.unitn.it/files/quad52.pdf>.

<sup>212</sup> Antonio Cobalti, “L’istruzione in India”, *Quaderno 52 108* (2010), accessed November 19, 2012. <http://www.unitn.it/files/quad52.pdf>.

Today, there is a fervent debate about the meaning of democracy in India, considered the largest democracy in the world. The 2010 Human Development Report shows that India, in 2008, had a score of 2 (highest score) with regard to the level of democracy, and in fact, India is a real democratic country, even if with some shortcomings. India has an unequal and stratified society, which has become even more unequal and stratified as a result of the operation of the colonial system that, in fact, is one of the parents of the present India. On this unequal and stratified society was gradually added, through a process that started in the seventies of the nineteenth century, a democratic political system, which, in itself, has not led to the end of the injustices and discrimination, but it played an important role in the reduction of these injustices and discrimination: there were, for example, “social groups, usually organized on the caste basis, which, thanks to the existence of a functioning democracy, were able to organize themselves politically and to acquire significant shares of political, social and economic power”<sup>213</sup>.

“The political structure of the country and the same system as a whole provide a good stable government”<sup>214</sup>. The UPA coalition, currently at the helm of the Indian nation, seems to hold up well over the reins of the run of the country, even if it had to yield to the pressure of the Indian left parties and of the growing political and social opposition to the privatization process.

At the institutional level, the Indian administrations seem hardly reformable and the corruption indices place the country at the bottom of the world ranking.

### **3.5 The legal and economic framework for sustainability**

With regard to the financial system, a recent study by the IMF shows that there are still many difficulties to finance the local enterprises, especially medium-sized, and that this system is still centred on a debt particularly high for a country at this level of development. In terms of income distribution, “people often speak about the Indian middle classes as a key driver of the domestic consumption”<sup>215</sup>, but the very recent re-evaluations of GDP at purchasing power parity show that the population under the poverty line of two dollars a day exceeded 800 million people in 2005.

For a sustainable and guaranteed development it is necessary also to consider the legal framework of a country. Foreign investors have discovered India with some delay with respect to China and Russia, and the reasons are in the legal system, in particular with regard to the separation of powers, regulatory transparency, certainty and predictability of rules, availability of a high qualified number

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<sup>213</sup> Michelguglielmo Torri, “Significato di democrazia in India”, Yatra (2009), accessed November 19, 2012. <http://www.yatraweb.it/notizie/588>.

<sup>214</sup> Stefano Beggiora, India e Nordest: il mercato del terzo millennio (Venezia: Cafoscarina, 2009), 52.

<sup>215</sup> Jean-Joseph Boillot, “L’India: quale gigante economico nei prossimi anni?”, in *La centralità della periferia: l’India e i suoi vicini*, edited by ISPI, Quaderni di Relazioni Internazionali n° 7 (Milano: EGEEA, 2008), 12.

of technicians (lawyers, judges, etc.), publicity of the trial, acceptable degree of independence of the judiciary.

Politically, religiously and ideologically open and pluralistic, until 1991 “India sent a confusing message and it offered, on the contrary, a legal and economic framework seemingly neutral and undifferentiated”<sup>216</sup>, and therefore theoretically accessible to the foreign economic operators, but in reality, in detail, full of prohibitions and administrative and regulatory, tax and currency obstacles of a country with many monopolies, of a huge public sector and a powerful bureaucracy, of privileged rules and uses for this sector, of protectionism, autarky and economic dirigisme. The import of foreign products met a series of bans, high tariffs, quantitative restrictions and compulsory licenses. In the regime of inconvertible rupee, every trade transaction had to bow to the strict preventive controls by the Reserve Bank of India and other organs, not only federal.

The last fifteen years have witnessed, however, a constant and gradual liberalization of the rules governing trade with India and the foreign investments in India, and they have become subject of advertising, pride and disclosure, but this liberalization has not been accompanied by an adequate systematization, simplification and illustration of the same rules.

India is a country with a peculiar legal tradition of common law, then in theory based on the case law, but with a Constitution (1947) and numerous written laws. Just the British colonial government experienced in his time a codification sui generis, which gave rise to codes still in force (Criminal Code, Code of Criminal Procedure and Code of Civil Procedure). However, “the constitutional prescription to create a uniform civil code have not been executed yet”<sup>217</sup>. In fact, the term “Uniform Civil Code” is misleading, because it concerns only the issue of family and inheritance, but not the trade, and it is closely related to Hinduism and to the problem of religions. The Indian common law had also to compete with a very broad and complex public administration, in part inherited from British rule, with a powerful bureaucracy, whose development was supported by the federal shape of the state and by the adoption of a protectionist economy and dirigisme. The directors, at various levels and in different spheres, have dedicated themselves to an intense production of rules of problematic coordination and whose effective hierarchy, with respect to the acts and the judge-made law, is not always obvious. The regulatory system, therefore, far from

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<sup>216</sup> Gabriele Crespi Reghizzi, “Il quadro giuridico per uno sviluppo sostenibile e garantito”, in *L’India tra i grandi: politica, economia e società sessant’anni dopo*, edited by Gianpaolo Calchi Novati, Silvio Beretta and Simonetta Casci (Roma: Carrocci, 2008), 84.

<sup>217</sup> Gabriele Crespi Reghizzi, “Il quadro giuridico per uno sviluppo sostenibile e garantito”, in *L’India tra i grandi: politica, economia e società sessant’anni dopo*, edited by Gianpaolo Calchi Novati, Silvio Beretta and Simonetta Casci (Roma: Carrocci, 2008), 85.

being incorporated in an organic and coherent corpus, is “based on a complicated and magmatic web of legislative measures, judicial decisions and administrative regulations”<sup>218</sup>.

The inevitable result is a very segmented and of difficult reconstruction universe, especially for the interpreter coming from a tradition of civil law on a codified basis. In particular, a compact and specific legislation on foreign investment is missing, whose most important discipline is dispersed in a number of legislative texts. Beyond the legal primary sources, there is a number of very important measures of regulatory nature, or simply administrative, assigned to different organs “in the form of circulars, press notes, notices, manuals, guides, communications, procedures, and so on, which change and succeed one another with variable cadences”<sup>219</sup>. To the laws and sub-legislative acts, important long-term governmental policies are added, such as the policy on foreign trade, expressly provided by the Foreign Trade Act (1992, Art. 5). Moreover, any adjustments and additions have to be considered to be made to the regulation of foreign investment by the Finance Acts of the Union.

In recent years, thanks to the accession of the Republic of India to the WTO, there was also an attempt to co-ordination and rationalization in terms of information and presentation a little more organic than this heterogeneous material regulations, however, provide an overall rich but discordant, now shallow, now excessively detailed.

However, many services have been established to facilitate the foreign investor in the search of information and material (guides, procedures, forms). India is a member of several multilateral and bilateral treaties and it is a member of the Modern Commonwealth and of the WTO since its foundation in 1995, and it is part of some international conventions of uniform substantial law.

Starting with the economic reforms of the early nineties, India adopted a more liberal policy towards the foreign investments, launching a series of initiatives to facilitate the presence and the operation of foreign companies on its territory. This strategy of opening follows a cautious policy of privatization or “disinvestment”<sup>220</sup> in Indian terms, which started in 1996 and was intensified in 1999, leading to a significant reduction in the number of companies publicly owned. The result of this policy is that only in the field of the atomic energy and of the railway transports the individual actions are excluded.

Currently, therefore, most of the economic activities have been completely liberalized and also foreign investors are allowed to work in a growing number of sectors, and they also can participate

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<sup>218</sup> Gabriele Crespi Reghizzi, “Il quadro giuridico per uno sviluppo sostenibile e garantito”, in *L’India tra i grandi: politica, economia e società sessant’anni dopo*, edited by Gianpaolo Calchi Novati, Silvio Beretta and Simonetta Casci (Roma: Carrocci, 2008), 85.

<sup>219</sup> Ibidem.

<sup>220</sup> Gabriele Crespi Reghizzi, “Il quadro giuridico per uno sviluppo sostenibile e garantito”, in *L’India tra i grandi: politica, economia e società sessant’anni dopo*, edited by Gianpaolo Calchi Novati, Silvio Beretta and Simonetta Casci (Roma: Carrocci, 2008), 87.

with a partial or total ownership. However, there is still a relevant number of restrictions and prohibitions.

The Indian government periodically indicates the opened sectors and the accessible shares by the foreign direct investor seeking to operate in a corporate form. The limits vary depending on the area where it is planned to invest; moreover, there are also different regimes of authorization and approval.

The first limit to the foreign direct investment is the establishment and the frequent adjustment of maximum quotas of participation in the capital of Indian companies by non-residents, which vary depending on the economic sector concerned, from 100 to 26% with some sectors where the Foreign Direct Investment (FDI) is not allowed (gambling, betting and lotteries, nuclear energy, retail trade, with the exception of retail sale of single brand products, and almost all sectors of agriculture and real estate). In addition to the limits for the commodities and participation sectors so far illustrated, there are also other constraints, represented by the licensing requirements still provided, although to a lesser number, by the “Industries (Development and Regulation) Act”<sup>221</sup> (1951) and by the specific regulation of the sector. So, for example, it is necessary to obtain an industrial license for the production of alcoholic beverages or dangerous chemicals, and so on.

There is also a specific policy for the FDI in small enterprises. In general, a small enterprise, where the investment of fixed capital does not exceed 10 million rupees, cannot be owned by another subject (Indian or foreign) in excess of 24% of the total, except to obtain an industrial license or a derogation authorized by the government.

So, there is a worrying swing of permissions and prohibitions, rules and exceptions, general principles and rules of detail, which show that the policy of reform and opening has not yet been translated into a sufficient deregulation, and that “the progressive and unstoppable market liberalization has not eliminated the practice and the mentality typical of a country once described as license raj”<sup>222</sup>.

Apart from the limitations outlined above, the authorization regime of foreign direct investment is divided into two main routes: the free investments, which follow a more or less agile procedure called “automatic route”<sup>223</sup>, characterized by the silence-consent of the competent authorities, and the investments subject to the express authorization and approval by the government. The “automatic route” is not intended for areas that require an industrial license, and the body

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<sup>221</sup> Gabriele Crespi Reghizzi, “Il quadro giuridico per uno sviluppo sostenibile e garantito”, in *L’India tra i grandi: politica, economia e società sessant’anni dopo*, edited by Gianpaolo Calchi Novati, Silvio Beretta and Simonetta Casci (Roma: Carrocci, 2008), 88.

<sup>222</sup> Gabriele Crespi Reghizzi, “Il quadro giuridico per uno sviluppo sostenibile e garantito”, in *L’India tra i grandi: politica, economia e società sessant’anni dopo*, edited by Gianpaolo Calchi Novati, Silvio Beretta and Simonetta Casci (Roma: Carrocci, 2008), 88.

<sup>223</sup> Ibidem.

responsible for the evaluation of proposals is the FIPB (Foreign Investment Promotion Board) at the Ministry of Finance.

The foreign trade policies issued by the Ministry of Trade and Industry have always referred to as primary objective the increase in exports. To this end, some existing instruments have been strengthened in order to boost exports by people who have located their production activities in India. “The mechanism or “schemes” are basically four: the special economic zones (SEZ), the export-oriented units (EOU), the electronic hardware technology parks (EHTP) and software technology parks (STP)”<sup>224</sup>.

The SEZ are geographical areas, whose most obvious characteristic is to be considered, from the fiscal, customs and currency point of view, as “a kind of free zone or foreign enclave in India”<sup>225</sup>: the movement of goods and services from India to the SEZ and from the SEZ to the rest of the Indian territory are, in fact, as imports or exports. The advantage of carrying out operations in the SEZ consists primarily of a favorable fiscal, customs and currency regime, of a cheaper access to the property or to the land use, and of a lower administrative rigor, particularly in the field of industrial buildings. The EOU are production units dedicated exclusively to the export but, unlike the SEZ, there is a minimum capital investment, some more bureaucratic fulfillment and a system of import and export slightly less favorable.

The foreign investor who wants to operate directly in India has at his disposal a range of tools by which to exercise his activities. The first alternative consists of whether or not to build an entity of Indian law, the most suitable alternative for those who do not intend to carry out manufacturing activities on a large scale in India, but who still want to be in the area to develop future activities, for short-term projects or for primarily commercial needs. In addition to tools such as the “liaison office”<sup>226</sup>, known as the employment or representation office based on the OECD model, which is the most agile structure from the organizational point of view, but the most limited from the functional point of view, and the “project office”, whose constitution is allowed to foreign companies contractually linked to a resident company for the execution of a project, provided that such project has a particular financial cover, the foreign operator, who wants to exercise a commercial activity in India without giving rise to a new legal entity or participating in an existing

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<sup>224</sup> Gabriele Crespi Reghizzi, “Il quadro giuridico per uno sviluppo sostenibile e garantito”, in *L’India tra i grandi: politica, economia e società sessant’anni dopo*, edited by Gianpaolo Calchi Novati, Silvio Beretta and Simonetta Casci (Roma: Carrocci, 2008), 90.

<sup>225</sup> Gabriele Crespi Reghizzi, “Il quadro giuridico per uno sviluppo sostenibile e garantito”, in *L’India tra i grandi: politica, economia e società sessant’anni dopo*, edited by Gianpaolo Calchi Novati, Silvio Beretta and Simonetta Casci (Roma: Carrocci, 2008), 90.

<sup>226</sup> Gabriele Crespi Reghizzi, “Il quadro giuridico per uno sviluppo sostenibile e garantito”, in *L’India tra i grandi: politica, economia e società sessant’anni dopo*, edited by Gianpaolo Calchi Novati, Silvio Beretta and Simonetta Casci (Roma: Carrocci, 2008), 92.

Indian company, can open a branch in the country or a secondary office. The financing of the branch is provided by the main office, which also responds to all its other obligations.

If the foreign investor decides, on the contrary, to operate directly in India through an Indian legal person, so by setting up a subsidiary or a branch in India, he will have two alternatives: “the public limited company or the private limited company”<sup>227</sup>. The entity thus established in India will be subject to the Indian law to all intents and purposes, like any other national companies where foreigners participate. Both with limited liability, private and public companies correspond roughly to our “SRL” (limited liability company) and “SPA” (joint-stock company). For the rest, the Indian company law is based on models very familiar to the English-speaking lawyer and it has little to envy to the most advanced systems of company law: sophisticated shareholders' agreements, which sometimes force also society and not only the shareholders, are the order of the day and, for the moment, “they seem to be the most used and observed with respect to the legal Russian or Chinese reality”<sup>228</sup>.

The Indian legislator did not consider the joint ventures as a type or an alternative form of society, nor that concept has been precisely defined, but also in India, as elsewhere, a joint venture can be variously modulated in two broad categories: the contractual joint venture and the equity (or corporate) joint venture. The joint ventures of the first category are collaborations among companies, which found their source only in a joint venture agreement, whereby the parties establish their mutual commitments to the implementation of their agreement, without creating a new entity distinct from the parties of the contract; the joint ventures of the second category, on the contrary, create a third subject or “newco”<sup>229</sup>, a legal person independent from the companies which generate it, and which cannot be more than a type of companies permitted by the law of the State in which it goes to incorporate itself, so from the Indian law in this case.

As a common law country, India knows and applies the trust institution, a set of legal relations under which a settlor, the owner of assets, appoints a trustee to hold and administer such property in favor of a third subject, the beneficiary: the trust institution, therefore, is proposed as the purpose of preserving, maintaining and increasing the value of a capital purpose and it is regulated by the “Indian Trust Act” (1882).

The protection of intellectual property and the transnational circulation of technology in India follow rules similar, but not identical, to those prevailing in the global markets and, with regard to the technology transfer, more substantial limitations. Intellectual property, including industrial

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<sup>227</sup> Ibidem.

<sup>228</sup> Gabriele Crespi Reghizzi, “Il quadro giuridico per uno sviluppo sostenibile e garantito”, in *L'India tra i grandi: politica, economia e società sessant'anni dopo*, edited by Gianpaolo Calchi Novati, Silvio Beretta and Simonetta Casci (Roma: Carrocci, 2008), 93.

<sup>229</sup> Ibidem.

property, copyright and related rights, founds in India a proper and detailed legislative framework. India has acceded to the main international conventions and has ratified the establishing agreement of the WTO, so agreeing also with the “Agreement on Trade-Related Aspects of Intellectual Property Rights” (TRIPs)<sup>230</sup>, in force since the 1<sup>st</sup> of January 1995. As known, the TRIP treaties impose an obligation for all the member states to ensure minimum standards of intellectual property protection, reducing distortions and fighting against the unfair competition. India has agreed to bring its legislation relating to trade marks, patents and copyrights to the WTO parameters and has completed the adjustment in 2005. The discipline of patents is fixed by the “Patents Act” (1970), which was amended in 2002 and 2005 to make it compatible with the principles of the WTO, not to mention that India is among the signatories countries of the “Patent Cooperation Treaty” (PCT), the most important treaty in the field of patents, signed by 130 states today.

A treatment similar to that of the industrial inventions is expected for the industrial designs, which are divided between the “utility models”, which protect technological innovation consisting of a new form suitable to give to an industrial product a particular effectiveness or ease of application or employment, and the “ornamental designs or models”, which protect purely aesthetic innovation, provided by the “New Design Act” of 2000.

The “Trade and Merchandise Act” (1958) was dedicated to the right to use a given sign as a trademark. The TRIPs have imposed the review, which led to the promulgation of the “Trade Marks Act” (1999), in force only since 2003. Among the most important innovations, there are: the possibility of recording marks relating to services and not just to goods; the extension of the protection period of ten years instead of seven; and a more effective penalty system for the counterfeiting and the misuse of trademarks.

The copyright in India is regulated by the “Copyright Act” (1957), as amended in 1994 for an initial adjustment to TRIPS standards, and in 1999 by the “Copyright (Amendment) Act”; moreover, India adheres to the Berne Convention (1928) on copyright.

Since 1994, India also adopted a specific legislation to protect biodiversity, also obtained by means of genetic alteration, whose the regulation, unlike the patent, is designed to recognize the rights of a company of reference, not of a single subject, to prevent the attempts or manifestations of alleged “biopiracy”<sup>231</sup> by foreign companies.

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<sup>230</sup> Gabriele Crespi Reghizzi, “Il quadro giuridico per uno sviluppo sostenibile e garantito”, in *L’India tra i grandi: politica, economia e società sessant’anni dopo*, edited by Gianpaolo Calchi Novati, Silvio Beretta and Simonetta Casci (Roma: Carrocci, 2008), 96.

<sup>231</sup> Gabriele Crespi Reghizzi, “Il quadro giuridico per uno sviluppo sostenibile e garantito”, in *L’India tra i grandi: politica, economia e società sessant’anni dopo*, edited by Gianpaolo Calchi Novati, Silvio Beretta and Simonetta Casci (Roma: Carrocci, 2008), 98.

India has long equipped with a specific framework for the transfer of foreign technology in the country (technological collaboration), distinct from that required for the FDI. This discipline, on one hand, encourages the technology transfer from abroad and the entry of skills and expertise otherwise not available; on the other hand, it places restrictions and rigid price caps dictated by the fears commonly felt by all the developing countries.

In order for economic development to be sustainable, it is necessary to create knowledge, since the economic progress comes from knowledge, technology and innovation. In the developing countries, the main ingredient for a sustained and sustainable growth is learning, that is the acquisition of new knowledge and of the existing knowledge, relevant from a manufacturing point of view. Thus, knowledge, technology and practical skills are imported from the global economy, especially from the developed countries. There are many channels for this process of transfer: “the most important are perhaps those related to the Foreign Direct Investments and to the involvement in the global economy through the supply chains of multinational companies”<sup>232</sup>.

The economic impact of this transfer of knowledge depends on the extent of the gap: the higher is the gap, the greater the rate of transfer of useful technologies can be quick. But this does not happen automatically, because “every country is different with respect to the speed of learning, and these differences are due to differences in education, in the attitude and in lots of other factors”<sup>233</sup>. At the end of the path of development, a developing country becomes a developed country that creates, uses, and shares the knowledge and technologies which set in motion the economic potential and which are the foundation for growth for the advanced countries and for the global economy.

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<sup>232</sup> Michael Spence, *La convergenza inevitabile* (Bari: Laterza, 2012), 71.

<sup>233</sup> Michael Spence, *La convergenza inevitabile* (Bari: Laterza, 2012), 72.

## 4. India in comparison: the neighbour China

### 4.1 The socialist “market” economy and internal changes

In the long-term projections of Goldman Sachs, the countries that are part of the BRIC are moving very quickly and, therefore, the economic gap that separated them from the industrialized countries is progressively decreasing. In fact, the Chinese industrial production is already approaching to the American one<sup>234</sup>: China’s GDP could reach the American one between 2030 and 2040, while the Indian GDP is expected to reach the Japanese and European economies around 2030. Not surprisingly, the World Bank estimated that India in 2005, with the same purchasing power, already accounted for one fifth of global GDP.

Although Asia is in a period of extraordinary growth and all the economic indicators show that in the coming decades will be here and not in America the driving force of globalization, above all in China and India. As a matter of fact, the exceptional growth was achieved thanks to a full immersion in the globalization, accepting the rules that have been dictated by others, other cultural models, other economic schemes, other objectives. After witnessing the success of the Japanese way to globalization, now the Chinese and Indian way to globalization can be outlined.

The Chinese economy at this time is slightly less than 35 % of the American one, or of the sum of the economies of the European Union, the two largest economic blocs in the world. A very striking aspect is that China will become a major economic power in a time when its income per capita is still quite low. It is a phenomenon that has never occurred before, because so far no country so populated grew so quickly. China has a global impact and increasing responsibilities in the world, with regard to the maintenance of the stability of the global economic system, despite its income levels are still low when compared with those of the advanced countries. “Normally, the developing countries have the privilege to focus on their internal growth and on development over a period of time longer before having to worry about these things”<sup>235</sup>. Therefore, China will have its work cut out to balance the growth and development at the national level with the power, impact and the increasing responsibilities that it has worldwide.

To comprehensively investigate the reality of the twenty-first century, it is essential to consider the rise of China and the consequent impact on the balance of the international power in the last decades: Beijing has managed to achieve a very strong economic growth, with new speed, pace and ways for a State that has a population of around one billion three hundred million individuals. “It

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<sup>234</sup> Gianfranco Lizza, *Scenari Geopolitici* (Novara: De Agostini, 2009), 20.

<sup>235</sup> Michael Spence, *La convergenza inevitabile* (Bari: Laterza, 2012), 60.

has achieved the miracle to pass from a nationalized, centralized and planned economic structure to a market economy, without jeopardizing the social and political stability”<sup>236</sup>.

This does not mean, though, that the enormous and rapid changes in the recent years do not contain and produce contradictions: the industrialization that has invested so suddenly this reality, in fact, has created deep and significant differences between the different territorial groups that make up the State, particularly among the western and eastern provinces of the country. The western regions, in fact, are inhabited by groups that do not belong to the ethnic Han: they are Tibetan, Mongolian, Uighur and Hui, respectively present in Tibet, inner Mongolia and Xinjiang, who have in common their strong aspirations for autonomy. “The difficulties emerged to counter such claims are symptomatic of the strong socio-economic gap between these areas and the eastern provinces of the country”<sup>237</sup>.

The eastern part of China, especially along the densely populated coast, is the driving force and the economic centre of the State. In the late 70s, after the liberal reforms by Deng Xiaoping, just in the coastal provinces “special economic zones (SEZ)”<sup>238</sup> were created, which, through the grant of a greater administrative autonomy, were able to connect to the global market in an incredibly short period of time.

In December 1978, in front of the dual problem the political uncertainty that followed the death of Mao, in 1976, and the several years of economic stagnation, the Chinese leadership of Deng Xiaoping announced a program of economic reforms, which coincided with the shift to neoliberal solutions in England and in the United States. As a result, China created a particular type of market economy, incorporating increasingly neoliberal elements, even if linked to a central and authoritarian control. Based on the slogan by Xiaoping, that was the concept of an ideal society that provides for the well-being of all its citizens, he focused on “four modernizations”<sup>239</sup>: in agriculture, industry, science and defence. The reforms aimed to make that market forces were directed towards the domestic economy of China, in the idea of stimulating competition between state-owned enterprises and, consequently, to promote innovation and growth.

Market prices were introduced and “the political-economic power was devolved to regions and to local realities, allowing to avoid confrontation with the traditional power centres of Beijing”<sup>240</sup>: so, local initiatives have paved the way towards a new social order. To complete the work, then, China

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<sup>236</sup> Gianfranco Lizza, *Scenari Geopolitici* (Novara: De Agostini, 2009), 115.

<sup>237</sup> Gianfranco Lizza, *Scenari Geopolitici* (Novara: De Agostini, 2009), 117.

<sup>238</sup> “Special economic zone (SEZ)”, *Encyclopaedia Britannica*, accessed January 21, 2013. <http://www.britannica.com/EBchecked/topic/558530/special-economic-zone-SEZ>.

<sup>239</sup> “China under Deng Xiaoping, economic policies and the Four Modernizations”, *IB Guides*, accessed January 21, 2013. <http://www.ibguides.com/history/notes/china-under-deng-xiaoping-economic-policies-and-the-four-modernizations>.

<sup>240</sup> David Harvey, *Breve storia del neoliberismo* (Milano: il Saggiatore, 2007), 140.

was opened, although under the close supervision of the state, to the foreign trade and to foreign investments, thus ending the country's isolation from the world market. One of the goals of openness to the outside world was to obtain the technology transfer; the other one was to have sufficient foreign reserves to provide the means necessary to support a more robust domestic economic growth.

The mid-80s was the turning point for the so-called “socialism with Chinese characteristics”<sup>241</sup>: a debate on the future of the Chinese economy started and some factions began to argue that with the market resources would have been allocated in a better way than with the planning. The reformers, led by Xiaoping, wanted to reduce the power of the centre and of the party secretaries and to make the enterprises sensible to the market signals: they were able to realize part of their intent by introducing the “contract responsibility system”<sup>242</sup>, which allowed the state companies to keep for himself the gains that exceeded a certain limit.

A strong dependence on foreign direct investment made sure that the power of the capitalist class remained abroad, and this has in some way facilitated the control of the state. “The reluctance to allow forms of financial intermediation other than that of the government-owned banks subtracted to the capital one of its most important weapons in front of the state power”<sup>243</sup>. However, China had also come to terms with the neoliberal rules of the international trade established at the WTO, which China joined in 2001, and there were also political demands for liberalization.

In 1986 the protests of workers emerged through a student movement, calling for greater freedom: in 1989, the tremendous political tension that accompanied the economic neoliberalization reached its climax with the massacre of the students in Tian-An-Men. The violent repression by Xiaoping clearly indicated that the neoliberalization in the economic field was not accompanied by any progress in the of human, civil or democratic rights.

In urban areas, to prevent the unrest, a democracy of consumption was encouraged, and the creation of an entirely private sector was authorized, at first only for small initiatives in the field of production, trade and services, and with limitations with regard to the use of waged labour force.

The state-owned banking system gradually replaced the central state in providing lines of credit to the state-owned enterprises (SOE), to the township and village enterprises (TVE) and to the private sector. With the time, foreign capital was integrated in these companies and the private sector became more important, and, as the banking sector acquired strength and importance, the entire economy moved towards a neoliberal structure.

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<sup>241</sup> “Socialism with Chinese characteristics”, The 17<sup>th</sup> National Congress of the Communist Party of China (2007), <http://english.people.com.cn/90002/92169/92211/6275043.html>.

<sup>242</sup> Daniel Yergin and Joseph Stanislaw, *La grande guerra dell'economia (1950-2000)* (Milano: Garzanti, 2000), 314.

<sup>243</sup> David Harvey, *Breve storia del neoliberismo* (Milano: il Saggiatore, 2007), 142.

The peasants were allowed to use the common ground on the basis of a system of “individual responsibility”<sup>244</sup>, selling the surplus at market prices and, at the end of the 80s, the common properties were completely disappeared: even if farmers could not become the legal owners of the land, they could take it and give it for rent, hire labour and sell their products at market prices. The result was that the income in rural areas increased, and then stagnated or decreased in real terms, and the disparity between the incomes of rural and urban areas grew enormously.

In 1987, the state officially accepted the idea that development must have focused on exports, and, in 1993, it was decided to transform the state large and medium-sized enterprises in the limited liability company or joint-stock, and then to open them up to the foreign ownership.

The rapid urbanization allowed to absorb the large reserves of labour force who, from the rural areas, concentrated themselves in the cities, which have also become the place of frantic activities of building and estate speculations. China, moreover, also invested in education, science and research, and by the end of the 90s, foreign companies started to transfer a significant part of their research and development activities in China.

For most of the long period of growth, the relationship between savings and investments in China remained relatively balanced until 2005, when investments increased greatly, but savings increased even more. “In 2007, China invested 45% of GDP and saved about 55%, so with a surplus in the current account balance of 10% of GDP and an equivalent amount of investments outside of the country”<sup>245</sup>. The reserves grew at a even more high pace, because net private capital inflows continued despite the increase in the trade surplus.

In the most advanced sectors of the Chinese economy, the transition from the middle to the high income is already at an advanced stage. The structure of the economy on the supply side is moving away from labour-intensive sectors, replacing them with industrial products with higher value added and with services: the human capital and knowledge are becoming increasingly important in the Chinese economy. “But in a transition of this kind, the demand side is critical and it is here that China needs to further cultural change”<sup>246</sup>.

The rapid increase in savings as a percentage of GDP, more or less since 2000, is the result of a strong increase in savings in the business sector, together with the increase in public investment. Companies gain about 25% or more of the total income and they invest it almost entirely. An important part of the business sector is controlled in whole or in part by the State: in almost all the companies that were publicly owned, the State has reduced its shares by distributing them to employees or by putting them into the market, “but it has not ever fallen below the threshold of

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<sup>244</sup> David Harvey, *Breve storia del neoliberismo* (Milano: il Saggiatore, 2007), 146.

<sup>245</sup> Michael Spence, *La convergenza inevitabile* (Bari: Laterza, 2012), 202.

<sup>246</sup> Michael Spence, *La convergenza inevitabile* (Bari: Laterza, 2012), 204.

50%”<sup>247</sup>. The income generated by the sub-sector of the state-owned enterprises never goes through families or public sector in the form of dividends, but it is automatically reinvested: business investments of non-distributed earnings are automatically transformed in saving by the business sector. However, despite the national income has increased, the fraction of the total income and of production that comes to households in the form of disposable income is low and it is further decreasing, while in most countries the disposable income is higher and families’ savings are lower. “The debate on the reduction of the excess of savings mainly focuses on the systems of social protection and social security, and on the need to reduce the precautionary saving”<sup>248</sup>: the most important thing is to increase the fraction of national income that comes to households to increase consumption, but also to use the income of the state-owned enterprises to enhance the services for families.

#### **4.2 Industrial development, pollution and social stability**

An economic development so disruptive and sudden has inevitably also negative effects: for example, the depreciation of the Yuan to promote exports has wider repercussions. In addition to the distortion of the international money market, for the vast reserves of dollars accumulated in the state coffers, it is above inflation to represent the element that could fuel social unrests and tensions, which can affect the internal stability of the country.

The same acceleration of industrialization presents some distortions, that require large and expensive changes, even-minded. In particular, until now, the development was driven by the heavy industry, on which much of the national wealth was channelled. From this, however, a super-exploitation of resources has resulted, from the energetic ones and, apart from the damage to the environment, an export-oriented system was created, with consequent and frequent trade frictions, centred on allegations of dumping. Not to mention that “such a system is particularly vulnerable in the face of a global financial crisis like the one at the end of 2008 and that in this too few workplaces can be created”<sup>249</sup>: heavy industry, in fact, generates much less workplaces than the light industry and services, although the recent crisis has not spared even those sectors.

As for the financial system, it is still rudimentary, or at least not suitable to support a policy that balances investments. The search for profit at any cost, even in the public sector, in fact, penalizes

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<sup>247</sup> Michael Spence, *La convergenza inevitabile* (Bari: Laterza, 2012), 205.

<sup>248</sup> Michael Spence, *La convergenza inevitabile* (Bari: Laterza, 2012), 206.

<sup>249</sup> Gianfranco Lizza, *Scenari Geopolitici* (Novara: De Agostini, 2009), 119.

key sectors, from education and health. There is an obvious imbalance between the development of demand and that of investments, with the result of a threat of productive overcapacity.

The node is summed up with the concept of “sustainable autocracy”<sup>250</sup>, where capitalism is used to reinforce authoritarianism and it is not a spring to start the process of democratization. The power, in fact, shows no desire to open itself, or rather it opens, but on a different basis from those advocated in the West. The Party is strongly associated with the changes taking place, maintaining its political legitimacy; however, the power cannot ignore some of the requirements that come from the bottom and that just the growth of well-being underlines. The share of the population living below the poverty line has fallen from over 60% to less than 10% in the last two decades; the annual per capita income rose from 400 dollars in 1978 to 1.087 in 2004, and in terms of real purchasing power they are estimated at 4.900 dollars. All segments of the population have experienced a significant increase in real wages, which grew by 600%; the living standards has improved both for urban and rural population. However, also inequalities have increased, thickening shadows on the social cohesion. The income gap has widened between 1980 and 2004.

Even the so-called environmental stability changes for the worse: the effects of industrialization and urbanization, in fact, have a significant impact on the environmental balance of contemporary China. The air pollution in the Chinese cities is very high and the measures taken to limit the effects are totally ineffective. The level of fine particles and the high percentage of air emissions also have adverse effects on the quality of life of the population.

For China seems to be approaching the time when it will be absolutely necessary to reconcile the needs of development with the environmental protection, and only by avoiding such distortions China’s growth will continue over the time: this means that the State must evolve assuming the functions of the regulator, that is a State not only on the manufacturers side, but also equipped with a functioning legal system and neutral, able to understand the needs of the civil society.

“If these issues can represent significant obstacles to its international establishment, at the same time, these defects cannot hide the economic successes achieved in the recent decades”<sup>251</sup>. Therefore, it is essential to identify the secrets of this success: the secret of China’s economic boom is not only in the large labour force supply and its low cost, but also in a functional distribution network, which has allowed the access of Chinese goods in the markets around the world. The flow of investment from abroad and the choice of many companies to relocate their production are also real constants in the country’s economic growth, as ubiquitous as the joint ventures between Chinese and foreign companies, especially in sectors such as textiles, clothing and footwear.

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<sup>250</sup> Sandro Sideri, “La Cina e gli altri”, ISPI: 24, accessed January 21, 2013.  
<http://www.ispionline.it/it/documents/volumesideri.pdf>.

<sup>251</sup> Gianfranco Lizza, *Scenari Geopolitici* (Novara: De Agostini, 2009), 122.

A river of capitals, including the remittances of Chinese communities all over the world, have been invested in the industrial districts and in the mono-productive poles of the east coast, thanks to the guarantees of stability, efficiency and cheap labour force that China can ensure. “The Chinese people work more, with hours, wages and working conditions far from the Western standards”<sup>252</sup>: the whole country system works also thanks to the preparation of a ruling class which, while still anchored to a rigid Maoist-inspired policy, was able not only to renew itself, but also to make less traumatic the transition to a market economy.

In a world in which the dynamics triggered by globalization generate doubts, uncertainties and difficulties, China has succeeded where others have failed, and the speed of its economic expansion confirms these prerogatives: the revenues of positive a balance of payments represent the lifeblood for the projection of the Chinese influence all over the world.

Such expansion follows specific geographical guidelines: if economically the Chinese capitals are pouring into all markets, “China tries primarily to justify its positions in the neighbouring territories”<sup>253</sup>, such as Taiwan, Central Asia, North and South Korea and South-Eastern Asia. In these areas, Russia, India and Japan are the main opponents and the relationships with these powers affect the balances of the Asian continent.

### **4.3 How far is India compared to China?**

Growth in India began to accelerate later than in China, and the take-off was a bit more gradual. China’s growth began to advance at the end of the 70s, while in India the acceleration started at the end of the 80s. “Assuming that both countries continue to grow at the rate they are growing in the last few years, India is delayed by about fourteen years with respect to China”<sup>254</sup>. Poverty reduction in India is at a stage far less advanced and also the rate of growth is not the same in both countries: over the last five years, the Indian population has grown by 1.4% per year, while that of China by 0,6%, following the one-child policy, which effectively acts mainly in urban areas and in the most modern areas of the economy. This 1% of difference in the rate of population growth “translates into a 1% of difference between the growth of per capita income and the overall growth”<sup>255</sup>. The Chinese population is older, and so, the divergence could be accentuated. The highest rate of

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<sup>252</sup> Gianfranco Lizza, *Scenari Geopolitici* (Novara: De Agostini, 2009), 123.

<sup>253</sup> *Ibidem*.

<sup>254</sup> Michael Spence, *La convergenza inevitabile* (Bari: Laterza, 2012), 60.

<sup>255</sup> Michael Spence, *La convergenza inevitabile* (Bari: Laterza, 2012), 61.

population growth in India will have a modest negative impact on the growth of per capita income in this country compared to China. As a matter of fact, “fertility normally decreases as income, education and women’s empowerment increase”<sup>256</sup>: it is likely, therefore, that India, becoming richer, will see the rate of population growth going down, thus accelerating the growth of per capita income.

India is a power that, in a short time, will presumably be able to extend its power in the international arena. This establishment, however, will depend on its ability to exploit the strengths at its disposal, while limiting its weaknesses. Inside, despite the margins of economic growth, the Indian Union is a varied mosaic of ethnicities, religions and languages, an heterogeneity that has succeeded, not without difficulty, to reach a political balance based on a stable and lasting democracy.

If, in the light of this complexity, the success is indisputable, the question is whether in the future the democratic system, especially when compared to the Chinese authoritarian decisiveness, will prove to be a weak point in the management of a so varied and numerous population.

Of course, the rooting of the Indian Union institutions to the democratic values is a prerogative that has never been seriously questioned and perhaps this is one of the reasons that led its economy, especially after the reforms of the 90s, to reach significant levels of growth. “However, at the dawn of the third millennium, this country is hit by a transformation which is gradually changing the internal balances and the effects of these changes are still to be assessed”<sup>257</sup>.

Thanks to the large reserves of labour force that it can offer, to the reliability and the high technical qualification of the staff, to the low level of wages and to its political stability, India has managed to achieve a constant rate of growth of GDP of more than ten percentage points and a strong economic dynamism in its various industrial districts: nowadays, India became “the office of the world”<sup>258</sup>, indirectly in opposition to China, which is called the “world’s factory”<sup>259</sup>.

Despite the large margins of economic growth, uncertainties and paradoxes define the equilibrium of India and, most likely, they will shape its future: the lack of adequate infrastructures such as schools, hospitals, water supply and roads, in fact, cohabit with the launch of satellites into the atmosphere; 250 universities train engineers, working in advanced technology centres, while 40% of adults cannot read or write. The economic successes of India have not been able to minimize these contradictions, on the contrary, they have increased the disparity between developed areas and

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<sup>256</sup> Michael Spence, *La convergenza inevitabile* (Bari: Laterza, 2012), 61.

<sup>257</sup> Gianfranco Lizza, *Scenari Geopolitici* (Novara: De Agostini, 2009), 130.

<sup>258</sup> Romeo Orlandi, “India: da call center dei poveri a nuovo ‘ufficio’ del mondo”, *01net.PMIECONOMIA*, accessed January 21, 2013. [http://www.01net.it/articoli/0,1254,14\\_ART\\_9010112598,00.html](http://www.01net.it/articoli/0,1254,14_ART_9010112598,00.html).

<sup>259</sup> Silvia Andreotti, “Approvvigionamenti in Cina, la “Fabbrica del mondo”, *Il portale dell’economia trevigiana* (2006), accessed January 21, 2013. [http://www.trevisosystem-online.com/Dati/Menu-sinis/Notizie-su/Commercio-/30\\_cina.htm\\_cvt.htm](http://www.trevisosystem-online.com/Dati/Menu-sinis/Notizie-su/Commercio-/30_cina.htm_cvt.htm).

a general landscape of poverty and backwardness. Moreover, there are signs of financial instability, from a chronic budget deficit and a high debt-service: “corruption is at the level of the worst Third World”<sup>260</sup>. Above all, the unequal distribution of benefits affects the socio-political balance of the country, and the majority of the population continues, in fact, to live near, if not below the poverty line, even if two hundred million people have reached a level of middle-high income, fuelling the expansion of the internal market.

This is the same paradox that involves China, but in India it is more noticeable and disruptive. In percentage terms, the number of Chinese people living below the poverty line is lower than that of the Indians, and the percentage of illiterates in China is lower and, more generally, the growth of per capita income in India is slower than in China.

While China, even in the super-exploitation of the labour force and of the environment, seems to follow the models that led the European powers to industrialization, to a widespread prosperity and to democratic forms of government, India moves in other ways: it is, and remains, a “great poor power”<sup>261</sup>. The main reason for this difference between India and China lies, as mentioned initially, in the demography. India is still a country with a high density of farm work, mini-funds and low agricultural productivity: due to the high population density, the lack of food self-sufficiency is a major strategic deficit to which India does not seem to be able to cope. Only after having avoided the misery that afflicts the majority of the population, India may actually be considered as a great power. Therefore, the current and long-term problem is to feed five hundred million people living in total poverty and the way forward to achieve this goal is littered with obstacles, that cannot be overcome easily and quickly.

The “miraculous” and continued expansion of the Chinese economy leads to global economic changes<sup>262</sup>: in fact, between 1990 and 2003, the FDI inflows increased from a value of 3.5 billion dollars to 69.5 billion, then exceeding 108 billion in 2008. These investment flows contributed to a significant expansion of the exports of goods, grown between 1989 and 2001 at an annual average rate of 15%. The FDI, in fact, have been addressed for two-thirds to the manufacturing sector, particularly in the production of consumer goods. There are, however, investment also in the high technology areas: China, in fact, has become a strategic scope for the design and manufacture of electronic products for companies such as Acer, Ericsson, Intel, LG, Microsoft, Motorola, Nokia, Philips, Samsung, Sony and Toshiba.

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<sup>260</sup> Gianfranco Lizza, *Scenari Geopolitici* (Novara: De Agostini, 2009), 132.

<sup>261</sup> Sandro Sideri, “L’India e gli altri”, ISPI: 62, accessed January 21, 2013.  
<http://www.ispionline.it/it/documents/volume%20SIDERI%20INDIA.pdf>.

<sup>262</sup> Alberto Vanolo, *Geografia economica del sistema-mondo* (Novara: De Agostini, 2010), 156.

“The attractiveness of China cannot be explained by a single parameter”<sup>263</sup>. Of course, the low cost of the local labour plays an important role, and it is accompanied by legislation on work favourable especially for entrepreneurs. Moreover, it is often a high-profile labour force, as evidenced by the very high levels of education in the developing countries. There is also a good availability of raw materials and natural resources, which is accompanied by a good supply of transport infrastructure, especially in the coastal areas.

The rapid growth of the Chinese economy has greatly increased the demand for durable consumer goods, such as appliances and automobiles: so China is more and more the subject of investments by companies trying to penetrate the local market, and, in addition to these new foreign branches, there is often an induced of local businesses to supply and subcontracting.

Alongside the growth in the local demand, other explanations to the attractiveness of China are related to the political dimension of the phenomenon: China opened its doors to the FDI in 1979, and it has, since then, pursued a policy of progressive liberalization of the investment systems. In 2001, the country officially joined the World Trade Organization, and in the coming years other improvements are expected with regard to investments in the service sector. Finally, some peculiarities of Chinese capitalism have to be considered, as the presence of international family networks: many business networks, in fact, overlap with strong and stable family networks over time. “It is not uncommon for Chinese businessmen working and living abroad, for example, to decide to invest in China and, in particular, in the economic activities of their relatives, regardless of other economic considerations”<sup>264</sup>. The transnational family networks, in fact, carry out functions of mutual financial support, encouraging long-term relations based on personal trust and on cooperation.

Despite the relatively similar geographic area, “India has failed to grasp with the same intensity of China the benefits of globalization”<sup>265</sup>. Investments toward India, in fact, passed, from 1990 to 2008, from 0.4 to 41.5 billion dollars, a share, in absolute terms, much lower than that of China. India, however, presents itself on the international market as a direct competitor of China in attracting foreign investment, although it opened the doors to the FDI much later, in 1991.

The reasons for the lower performance of India are due to different strategic choices and economic guidelines. Firstly, while Chinese manufacturing activity is strongly export-oriented, India has traditionally pursued an industrial policy aimed at the domestic market: the FDI contribute less than 10% to the country’s exports, while in the case of China the contribute is over 50%. In the past, the Indian strategy was linked to the import substitution, and this orientation is to be found today in the

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<sup>263</sup> Alberto Vanolo, *Geografia economica del sistema-mondo* (Novara: De Agostini, 2010), 156.

<sup>264</sup> Alberto Vanolo, *Geografia economica del sistema-mondo* (Novara: De Agostini, 2010), 157.

<sup>265</sup> *Ibidem*.

high technology areas. Foreign investments are, therefore, poorly linked to the low cost of labour in the manufacturing sectors, but they are directed to the services in the ICT sector.

Despite the regulatory system about the environmental and tax scope is, in some cases, more favourable than the Chinese one, the legislation on work makes China more attractive, which has, among other things, the availability of infrastructures (in the eastern provinces), levels of schooling and per capita income higher than the Indian ones. The family networks phenomenon is also widespread in the Indian case, although to a limited extent, both in terms of number of connections and of the volume of money involved.

To sum up, China and India are going through a difficult transition, but starting from different political ideologies, economic strategies and times, and both are rightly included in the group of the emerging countries. However, the development of China has been much more prolonged and intense, focused in particular on the industrial sector, while the development of India insists on tertiary and on services. China, by limiting in various ways the growth of the population, has been able to enjoy much earlier than India of the slowdown in the rate of the population growth, but now it begins to suffer from the serious problems associated with the aging of the population, while India enjoys a very young and potentially productive population.

The main paradox of India is the combination, on the one hand, of the economic masses, which are marked by the traditional character of the Indian economy and by a level of poverty still high, and, on the other hand, of a great change of the heart of the Indian economy, which is going to achieve the highest levels of income and productivity in the world: “history will tell whether India has fallen into the trap of dualism or not”<sup>266</sup>.

#### **4.4 Inclusive and extractive institutions**

After the Second World War, “the different governments in the North and in the South adopted very different ways of organizing their economies”<sup>267</sup> and countries differ in their economic success because of their different institutions, the rules influencing how the economy works, and the incentives that motivate people.

Inclusive economic institutions are “those that allow and encourage participation by the great mass of people in economic activities that make best use of their talent and skills and that enable

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<sup>266</sup> Jean-Joseph Boillot, “L’India, quale gigante economico nei prossimi anni?”, in *La centralità della periferia: l’India e i suoi vicini*, ed. ISPI Quaderni di Relazioni Internazionali (Milano: Egea, 2007), 16.

<sup>267</sup> Daron Acemoglu and James A. Robinson, *Why nations fail* (New York: Crown Business, 2012), 71.

individuals to make the choices they wish”<sup>268</sup>. This idea is very similar to that of “sustainable development” supported by Amartya Sen, according to whom the development is the elimination of various types of obstacles to freedom of choice and option, and so the development is considered as “human capability”<sup>269</sup>.

To be inclusive, economic institutions must feature secure private property, an unbiased system of law, and a provision of public services that provides a level playing field in which people can exchange and contract; they also must permit the entry of new businesses and allow people to choose their careers. So, inclusive economic institutions foster economic activity, productivity growth and economic prosperity. Secure private property rights are central, since only those with such rights will be willing to invest and increase productivity: “a businessman, who expects his output to be stolen, expropriated, or entirely taxed away, will have little incentive to work, let alone any incentive to undertake investments and innovations”<sup>270</sup>. But such rights must exist for the majority of people in society.

Secure property rights, the law, public services, and freedom to contract and exchange all rely on the state, the institution with the coercive capacity to impose order, prevent theft and fraud, and enforce contracts between private parties. To function well, society also needs other public services: roads and a transport network, so that goods can be transported; a public infrastructure, so that economic activity can flourish; and some type of basic regulations to prevent fraud and malfeasance. Although many of these public services can be provided by markets and private citizens, the degree of coordination necessary to do so on a large scale often eludes all but a central authority. The state is thus inexorably intertwined with economic institutions, as the enforcer of law and order, private property and contracts, and often as a key provider of public services.

Inclusive economic institutions create inclusive markets, which not only give people freedom to pursue the vocations in life that best suit their talents, but also provide a level playing field that gives them the opportunity to do so. Those who have good ideas will be able to start businesses, workers will tend to go to activities where their productivity is greater, and less efficient firms can be replaced by more efficient ones.

Inclusive economic institutions also pave the way for two other engines of prosperity: technology and education. Sustained economic growth is almost always accompanied by technological improvements that enable people (labour), land, and existing capital (buildings, existing machines, and so on) to become more productive.

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<sup>268</sup> Daron Acemoglu and James A. Robinson, *Why nations fail* (New York: Crown Business, 2012), 74.

<sup>269</sup> Thomas Wells, “Sen’s Capability Approach”, *Internet Encyclopedia of Philosophy* (2012), accessed January 13, 2013. <http://www.iep.utm.edu/sen-cap/>.

<sup>270</sup> Daron Acemoglu and James A. Robinson, *Why nations fail* (New York: Crown Business, 2012), 75.

Intimately linked to technology are the education, skills, competencies, and know-how of the workforce, acquired in schools, at home and on the job, that generate scientific knowledge upon which the progress is built and that enable adaptation and adoption of these technologies in diverse lines of business.

The low education level of poor countries is caused by economic institutions that fail to create incentives for parents to educate their children and by political institutions that fail to induce the government to build, finance and support schools and the wishes of parents and children. “The price these nations pay for low education of their population and lack of inclusive markets is high”<sup>271</sup>: they fail to mobilize their nascent talent. The ability of economic institutions to harness the potential of inclusive markets, encourage technological innovations, invest in people, and mobilize the talents and skills of a large number of individuals is crucial for economic growth.

All economic institutions are created by society and politics is the process by which a society chooses the rules that will govern it. “Politics surrounds institutions for the simple reason that, while inclusive institutions may be good for the economic prosperity of a nation, some people or groups will be much better off by setting up institutions that are extractive”<sup>272</sup>. When there is a conflict over institutions, what happens depends on which people or group wins out in the game of politics, who can get more support, obtain additional resources and form more effective alliances. In short, who wins depends on the distribution of political power in society.

The political institutions of a society are key determinant of the outcome of this game: they are the rules that govern incentives in politics; they determine how the government is chosen and which part of the government has the right to do what; they determine who has the power in society and to what ends that power can be used. If the distribution of power is narrow and unconstrained, then the political institutions are absolutist, where economic institutions aim at enriching themselves and at augmenting their power at the expense of society. In contrast, political institutions that distribute power broadly in society and subject it to constraints are pluralistic: instead of being vested in a single individual or a narrow group, political power rests with a broad coalition or a plurality of groups.

There is obviously a close connection between pluralism and inclusive economic institutions, even if “having inclusive economic institutions is not justified by the pluralistic political institutions, but also by a sufficient centralization and by powerful states”<sup>273</sup>. Max Weber, in fact, provided the most famous and widely accepted definition of the state, identifying it with the “monopoly of legitimate

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<sup>271</sup> Daron Acemoglu and James A. Robinson, *Why nations fail* (New York: Crown Business, 2012), 78.

<sup>272</sup> Daron Acemoglu and James A. Robinson, *Why nations fail* (New York: Crown Business, 2012), 79.

<sup>273</sup> Daron Acemoglu and James A. Robinson, *Why nations fail* (New York: Crown Business, 2012), 80.

violence”<sup>274</sup> in society. Without such a monopoly and the degree of centralization that it entails, the state cannot play its role as enforcer of law and order, let alone provide public services, encourage and regulate economic activity. When the state fails to achieve almost any political centralization, society sooner or later descends into chaos. “When these sufficiently centralized and pluralistic political institutions fail, it deals with extractive political institutions”<sup>275</sup>.

Extractive political institutions concentrate power in the hands of a narrow elite and place few constraints on the exercise of this power. Economic institutions are then often structured by this elite to extract resources from the rest of the society. Extractive economic institutions naturally accompany extractive political institutions, and depend on them for their survival, so introducing a strong feedback loop: political institutions enable the elites controlling political power to choose economic institutions with few constraints or opposing forces; they also enable the elites to structure future political institutions and their evolution. Extractive economic institutions, in turn, enrich the same elites, whose economic wealth and power help to consolidate their political dominance.

Hence, it is possible to deduce that political and economic institutions, which are ultimately the choice of society, can be inclusive and encourage economic growth, or they can be extractive and become impediments to economic growth: nations fail when they have economic extractive institutions, supported by extractive political institutions, that impede and even block economic growth. The central thesis is that economic growth and prosperity are associated with inclusive economic and political institutions, while extractive institutions typically lead to stagnation and poverty: this does not imply that extractive institutions can never generate growth, nor that all extractive institutions are created equal.

There are two distinct but complementary ways in which growth under extractive political institutions can emerge. Firstly, even if economic institutions are extractive, growth is possible when elites can directly allocate resources to high-productivity activities that they themselves control. Secondly, growth can be generated under extractive political institutions when they permit the development of somewhat, even if not completely, inclusive economic institutions.

For instance, even if Chinese economic institutions are incomparably more inclusive today than three decades ago, the Chinese experience is an example of growth under extractive political institutions. Despite the recent emphasis in China on innovations and technology, “Chinese growth is based on the adoption of existing technologies and rapid investment, not creative destruction”<sup>276</sup>.

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<sup>274</sup> Monopoly on the legitimate use of physical force”, accessed January 13, 2013.

[http://www.princeton.edu/~achaney/tmve/wiki100k/docs/Monopoly\\_on\\_the\\_legitimate\\_use\\_of\\_physical\\_force.html](http://www.princeton.edu/~achaney/tmve/wiki100k/docs/Monopoly_on_the_legitimate_use_of_physical_force.html).

<sup>275</sup> Daron Acemoglu and James A. Robinson, *Why nations fail* (New York: Crown Business, 2012), 81.

<sup>276</sup> Daron Acemoglu and James A. Robinson, *Why nations fail* (New York: Crown Business, 2012), 439.

An important aspect of this is that property rights are not entirely secure in China: every now and then, some entrepreneurs are expropriated. Because of the party's control over economic institutions, the extent of creative destruction, which Schumpeter defined as "a process of organic transformation of industry, that revolutionizes the economic structure from within, incessantly destroying and creating the new one"<sup>277</sup>, is heavily curtailed, and it will remain so until there is radical reform in political institutions.

While the early stages of Chinese growth were spearheaded by radical market reforms in the agricultural sector, reforms in the industrial sector have been more muted. Even today, the state and the Communist Party play a central role in deciding which sectors and which companies will receive additional capital and will expand in the process, making and breaking fortunes. China is growing rapidly, but this is still growth under extractive institutions, under the control of the state, with little sign of a transition to inclusive political institutions. "It is worthy to notice that political centralization is key to both ways in which growth under extractive political institutions can occur"<sup>278</sup>: without it, the Chinese Communist Party would not have felt secure enough to manufacture significant economic reforms and still manage to cling power, nor China could have been able to coordinate economic activity to channel resources toward high productivity areas.

Although, today, India is a democracy, political institutions are actually extractive, due to the poor administration of justice, the high level of corruption and the development of a rigid hereditary caste system, that limit the functioning of markets and the allocation of labour across occupations.

"The shadow of bad political institutions is the main factor that prevents the growth of many developing countries"<sup>279</sup>. These countries have inherited from the colonial period a set of institutions created by the colonizers not to encourage the development of the country, but to maximize the extraction of resources in favour of the colonizing powers. After decolonization, the new rulers had the convenience to maintain the same extractive institutions and exploit them to their advantage, thus triggering a vicious circle.

"India is an emblematic case of the long shadow of the institutions"<sup>280</sup>: during the British colonial rule, for mostly accidental reasons (the choice of institution mainly depended on the ideology of the British official responsible for the district and on the prevailing opinions in Britain at the time of the conquest), in the different districts there were different systems for collecting the agricultural

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<sup>277</sup> "La distruzione creativa", PaoloMazzoni.it (2001), accessed January 13, 2013.

<http://www.paolomazzoni.it/note%20di%20management%20n%C2%B0%202.htm>.

<sup>278</sup> Daron Acemoglu and James A. Robinson, *Why nations fail* (New York: Crown Business, 2012), 94.

<sup>279</sup> Banerjee V. Abhijit and Duflo Esther, *L'economia dei poveri* (Feltrinelli, 2012), accessed January 13, 2013.

[http://books.google.it/books?id=xxJ20PiLobMC&pg=PT230&lpg=PT230&dq=india+cattive+istituzioni&source=bl&ots=mThzFviy6c&sig=ofZnFcO5vVKDpNENN\\_2JaBUQPjk&hl=it&sa=X&ei=Pq3yUPeFOMb14QTzh4CABA&sqi=2&ved=0CDYQ6AEwAQ](http://books.google.it/books?id=xxJ20PiLobMC&pg=PT230&lpg=PT230&dq=india+cattive+istituzioni&source=bl&ots=mThzFviy6c&sig=ofZnFcO5vVKDpNENN_2JaBUQPjk&hl=it&sa=X&ei=Pq3yUPeFOMb14QTzh4CABA&sqi=2&ved=0CDYQ6AEwAQ).

<sup>280</sup> *Ibidem*.

tributes. In the Zamindari system<sup>281</sup>, the responsibility for the collection was entrusted to the local landowners: this facilitated their consolidation of power and strengthened the feudal relations. In the Rayatwari system, by contrast, the responsibility for the payment of tributes rested with the individual farmers: in these regions, more cooperative and horizontal social relations developed. The remarkable fact is that, even today, after fifty years, and in spite of the agricultural tax collection ceased long since, in the areas under the rule of the elites there are more tense social relations, lower agricultural yields and a smaller number schools and hospitals than in areas under the control of the villages.

Indian police is an almost perfect example of an institution that lasted since the days of colonialism: even if it was originally established to protect the interests of the colonialists, “after independence the attempts to reform did not produce any result, and the Police Act is still in force since 1861”<sup>282</sup>.

So, “nations fail because their extractive economic institutions do not create the incentives needed for people to save, invest and innovate, and because extractive political institutions support them by cementing the power of those who benefit from the extraction”<sup>283</sup>.

India’s economic growth, which reached 9% in the last part of the last decade, declined to 6% in the quarter ended in December 2011, recording the lowest level in the last three years. However, according to a survey of the Planning Commission<sup>284</sup>, from 2004-2005 to 2009-2010, the level of poverty in India declined from 37.2% to 29.8%, meaning that about 360 million people of a total population of 1.2 billion people still live below the poverty line.

This slowdown in the growth challenges the two visions embraced by leaders of New Delhi, according to whom the country will be able to effectively eradicate poverty within a generation, and that India will take its rightful place among the top seeds of the global powers. This, however, will depend on the adoption of economic choices that will generate sufficient resources to address the obvious shortcomings in health and education and on creating jobs, so that the mass of young people may be productive for the country.

The Congress government has failed to take full advantage of the wealth generated by the economic boom, favouring a policy of waste and corruption. “The slowdown in growth should be taken as a

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<sup>281</sup> “Zamindar”, from the Arabic “zamin”, which means “land”, was an employee who dealt, in fact, with the earth, which could belong only to who cultivated it. However, at the end of the XVII century, when the power of the Moghul emperors became weak, the zamindar took the power, buying villagers' lands and becoming the owners, and thus bypassing the law.

<sup>282</sup> Banerjee V. Abhijit and Duflo Esther, *L'economia dei poveri* (Feltrinelli, 2012), accessed January 13, 2013. [http://books.google.it/books?id=xxJ20PiLobMC&pg=PT230&lpg=PT230&dq=india+cattive+istituzioni&source=bl&ots=mThzFviy6c&sig=ofZnFcO5vVKDpNENN\\_2JaBUQPjk&hl=it&sa=X&ei=Pq3yUPeFOMb14QTzh4CABA&sqi=2&ved=0CDYQ6AEwAQ](http://books.google.it/books?id=xxJ20PiLobMC&pg=PT230&lpg=PT230&dq=india+cattive+istituzioni&source=bl&ots=mThzFviy6c&sig=ofZnFcO5vVKDpNENN_2JaBUQPjk&hl=it&sa=X&ei=Pq3yUPeFOMb14QTzh4CABA&sqi=2&ved=0CDYQ6AEwAQ).

<sup>283</sup><sup>283</sup> Daron Acemoglu and James A. Robinson, *Why nations fail* (New York: Crown Business, 2012), 372.

<sup>284</sup> C.T. Niles, “Il rallentamento dell'economia indiana: a rischio il futuro dei giovani”, *AsiaNews.it* (2012), accessed January 13, 2013. <http://www.asianews.it/notizie-it/Il-rallentamento-dell%E2%80%99economia-indiana:-a-rischio-il-futuro-dei-giovani-24284.html>. g.

warning that there won't be enough booty to be divided, if Delhi will continue its present course, instead of opting for a strong pro-growth policy"<sup>285</sup>. The question now is how long it will take for the Indian politicians to listen to the alarm launched by slow growth and to implement reforms to unlock the potential of the country.

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<sup>285</sup> C.T. Nilesh, "Il rallentamento dell'economia indiana: a rischio il futuro dei giovani", AsiaNews.it (2012), accessed January 13, 2013. <http://www.asianews.it/notizie-it/Il-rallentamento-dell%E2%80%99economia-indiana:-a-rischio-il-futuro-dei-giovani-24284.html>. g.

## Conclusion

India is now an economic and political centre of global importance. In the past decade, the country has gone through a phase of accelerated growth, to become in 2011, according to the data of the International Monetary Fund, the third largest economy in the world, in terms of purchasing power parity, after the United States and China, and the tenth in nominal terms.

India's reforms of the 1980s, led to a tripling of the India's per capita growth rate from 1.3 % per annum during 1951 to 1979, to about 3.7 % per annum during 1980 to 1991. The much more extensive economic reforms of the 1990s doubled the growth potential of the Indian economy to around 7.5 % per annum, in terms of per capita GDP, so the economy consequently entered a third higher growth phase in the 1990s. "Per capita GDP growth averaged about 7.5 % during 2003-2004 to 2007-2008, before it was struck by the global financial crisis in 2008: despite this shock, per capita GDP growth has averaged about 7 % during the nine years 2003-2004 to 2011-2012"<sup>286</sup>.

The consolidation of India as a dynamic economy in full growth is gradually replacing the traditional image of a country with massive poverty: the development of India and of the other BRIC's countries is rapidly changing the global geo-economic scenario, and the traditional theories show now their limits, due to the process of internationalization and globalization.

The traditional "theory of dependence" by Immanuel Wallerstein, for instance, considers a world-system divided into three components: the "centre" includes those countries or those economies that "are the heart of the capitalist accumulation"<sup>287</sup>; the "centre" is geographically surrounded by a "semi-periphery", which enjoys only in part of the benefits of the "centre" and which includes those countries through which the latter exercises control on the "periphery", a very extensive set of economically backward areas, sources of raw materials, agricultural products and cheap labour force. The problem is that, in general, this perspective of a rich "centre" and a poor "periphery" does not take into account the capitalistic restructuring, for which there may be rich areas in the traditional "periphery" and also poor areas in the "centre". Just think of the great Indian cities like New Delhi, Bombay, Calcutta, the nodes of larger economic networks, where there is a highest concentration of wealth. So, an important element in India is the urban primacy, that is the prominence of the cities over the rest of the urban fabric, which catalyze flows of people, technology, financial, information, goods, and they are also centre of culture production, economic power, decision and government.

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<sup>286</sup> Arvind Virmani, "Accelerating And Sustaining Growth: Economic and Political Lessons", IMF Working Paper (2012): 5, accessed January 24, 2013. <http://www.imf.org/external/pubs/ft/wp/2012/wp12185.pdf>.

<sup>287</sup> Alberto Vanolo, *Geografia economica del sistema-mondo* (Novara: De Agostini, 2010), 51.

However, it does not deal with rich or high quality of life contexts, but these are cities characterized by the so-called “paradox of the social polarization”<sup>288</sup>, plagued by fiscal crisis, widespread poverty, unemployment, spatial segregation and the gap between social classes, where, on one hand, the most advanced activities are concentrated, but, on the other hand, an informal economy dominates the most marginal areas while compensating the lack of public services.

This is the social and territorial dualism that India must overcome: it must make itself able to intercept and value these flows of ideas, knowledge and human capital, in order to become more globally competitive and to attract capital and investments.

“Economies can be divided into two sub-categories: ‘High Growth Economy (HGE)’ and ‘Potential High Growth Economies (PHGEs)’”<sup>289</sup>. “HGEs” are countries that had an average growth rate of per capita GDP of 7 % or more, for a contiguous period of 10 years or more, so their per capita GDP doubled during the decade: China has attained an HGE growth threshold in 1985 and has maintained it for 26 years, with a peak 10 year growth of 10 % in 2011. “Potential HGEs” are countries whose per capita GDP has grown by an average of 6 % or more for at least a decade, and this is the Indian case. “India has now much bigger difficulties than that of other major emerging countries”<sup>290</sup>, and some of its structural problems (bureaucratic inefficiency, corruption, political instability) begin to seem insurmountable obstacles on the way to development.

Development continues to be driven by the service sector, which accounts for about 60% of GDP, while agriculture has gradually seen to reduce its contribution to the national GDP, which currently stands at about 16%, while still absorbing over 60% of the labour force. The manufacturing sector accounts for about 15% of GDP, but in the document that anticipates the twelfth five-year plan for 2012-2017, the Indian government has announced its aim to increase this percentage to 25% within the next 15 years.

The growth rates have had a different impact in the different regions and in the social classes, increasing inequalities between rich and poor people: according to the World Bank, about 40% of India’s population would live below the threshold of poverty; at the same time, “India has the highest number of billionaires in the whole of Asia (5 million super rich and about 100 million affluent)”<sup>291</sup>.

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<sup>288</sup> Alberto Vanolo, *Geografia economica del sistema-mondo* (Novara: De Agostini, 2010), 190.

<sup>289</sup> Arvind Virmani, “Accelerating And Sustaining Growth: Economic and Political Lessons”, IMF Working Paper (2012): 5, accessed January 24, 2013. <http://www.imf.org/external/pubs/ft/wp/2012/wp12185.pdf>.

<sup>290</sup> Davide Maria De Luca, “Il problema con l’India”, *Il Post*, accessed January 24, 2013. <http://www.ilpost.it/2012/08/18/il-problema-con-lindia/>.

<sup>291</sup> “India: rapporto congiunto ambasciate/consolati/ENIT 2013”, Ministero degli Affari Esteri, accessed January 24, 2013. [http://www.esteri.it/MAE/pdf\\_paesi/ASIA/India.pdf](http://www.esteri.it/MAE/pdf_paesi/ASIA/India.pdf).

Infrastructures, education and innovation: these are the points on which India has to work further in order to meet the challenge of global competitiveness; bureaucracy, over-regulation and corruption affect the operations of market, especially the labour market.

It is clear, therefore, that in a future perspective, India will face huge challenges: political management, “particularly at the level of states that tomorrow will be populated as the European Union at fifteen”<sup>292</sup>; drastic improvement of infrastructures, especially in transport and energy; social and environmental development, including the reduction of mass poverty, the rapid increase in the level of education in the rural areas and the control of the population explosion in the megalopolis, with severe water and living problems.

A very important challenge comes from the field of the environmental sustainability, as shown in particular by the current battle for the energy resources, the nuclear renewal and the difficulties to associate this new emerging power to the Kyoto protocol on climate change. Nowadays, in fact, sustainability is usually linked to the environment: “we use more energy and water, produce more waste, emit more gas and damage biodiversity through the exploitation of land, the climate change and so on; the entrance of billions people in the category of the high-income populations, with the corresponding increase in consumption, greatly increases the pressure in such sense”<sup>293</sup>. However, the problem of sustainability is not limited to the environment: in fact, many developing countries have grown and then have stopped, because the structural foundations were equipped with braking systems.

To sum up, the biggest question that India will have to solve in the short period is to transform its institutions from “extractive” to “inclusive”<sup>294</sup>: this would enable India to develop an important aspect of the sustainable development, social equity, that is as important as the economic and environmental aspects. Despite the democratic choice, in India equal opportunities are not guaranteed for the entire population, who face high risks of unemployment and exclusion from the various sectors and activities.

The only way out for India to secure sustainable growth and development is to guarantee a high quality of life for its population, allowing it to access resources through an equitable distribution of income, “without preventing the future generations to use the ecosystem and its resources”<sup>295</sup>.

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<sup>292</sup> Jean-Joseph Boillot, *L'economia dell'India* (Bologna: Il Mulino, 2007), 131.

<sup>293</sup> Michael Spence, *La convergenza inevitabile* (Bari: Laterza, 2012), 346.

<sup>294</sup> Daron Acemoglu and James A. Robinson, *Why nations fail* (New York: Crown Business, 2012), 74.

<sup>295</sup> Alberto Vanolo, *Geografia economica del sistema-mondo* (Novara: De Agostini, 2010), 63.

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