GLOBAL ECONOMIC CRISIS AND INDIAN ECONOMY

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ABSTRACT

Recession means when the price level, investment level and the profit level decrease which leads to less employment and less GDP etc. The said recession mainly attributed to the financial crisis which took place in the advanced economies-especially USA in July, 2007. The effect of the recession was global and the global GDP contracted about more than one and a half percent. The main effect of recession was seen on the developed economies while the developing economies growth rate declined but remained positive.

The present paper explains the effect of recession on the Indian Economy. Because of joining the globalization process initiated mainly by the rich imperialistic countries, Indian economy became more dependent on these rich countries. As of this proximity , Indian Economy has to bear the consequences of recession occurring in these rich countries. The GDP growth rate was affected by this recession and also the growth rate of manufacturing came down to 2.4% which was 11.85 earlier. Even the Foreign Direct Investment also suffered. The present paper highlights the negative effects of recession on the Indian Economy. The recession in the rich countries affected negatively the production, external trades, profits, capital formation and employment in Indian Economy.

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The occurrence of business cycles is an important feature of rich/matured capitalist economies. The present recession has been mainly attributed to the financial crisis that started taking place in the Developed Economies mainly in United States in July, 2007. With the passage of time in the Capitalist Economies , competition is replaced by large monopolies/ oligopolies that use ultra-modern technology which replaces labor leading to their low income and decreased demand in the market. But on the other hand, these monopolies continue to do anarchic production and hence face over production i.e. recession is initiated.

Observing its severity a senator named , Dod said before the U.S.Senate " that we are literally days away from complete meltdown of our financial system, with all the implications here and globally " (A.M.R., December, 2008). The present recession started taking place in July 2007 with the collapse of Bear Stearns & hedge funds that speculated mainly in mortgaged-backed securities indicating the major credit crunch. It was only after the Lehmen Brothers" Finance Company collapsed i.e. on October 15, 2008 that set on the banking crisis, the government promised the amount of package to $2.25 trillion.

The global GDP was expected to contract by about more than one and a half per cent in 2009 (World Bank's Global Economic Report (G.E.P), 2009. With this imperialist recession, global GDP was projected to shrink for the first time since World War II approximately between 0.5 to 1.00 per cent (march 2009, IMF). The WTO had also forecast that the global trade volume will shrink by 9.0 per cent in 2009 (Quoted in RBI Bulletin, 2009).

The growth rate of global output has been given in Table-1. Actually the growth rate of global output has been decreasing for the last three years which led to the present recession. The total world output which was 5.2 per cent in 2007 decreased to -1.3 per cent in 2009. During this period the growth rate of production in the developed countries shrank from 2.7 per cent to -3.8 per cent.

Besides this, European economies had also suffered from this growth rate from 2.7 per cent to -4.2 per cent. Similarly, America faced a decline from 2.0 percent to -2.8 per cent. More over , the highest decline during the given time in this context was suffered by Japan from 2.4 per cent to -6.9 per cent. But the developing countries performed well, though recorded a decline in their output which was less than that of the Developed Economies as their growth rate declined from

8.3 per cent to 1.6 per cent, i.e., remained positive even after decline. Similar was the case of Africa, developing Asia and the Middle East.

Table-2 depicts the global per capita income between 2007 and 2009, it is observed that the growth rate in Developed Economies declined from 2.0 per cent to -4.4 per cent whereas this growth rate of the developing economies has also shrunk from 7.1 per cent to -4.4 per cent.

So far, the growth rate of global trade is concerned (Table-3) the world trade volume, became unprecedentedly negative from 3.8 per cent in 2007 to -2.5 per cent in 2009. Similarly, the growth rate of Developed Economies had spectacular nose dive from 2.0 per cent to -4.4 per cent. While the rate of Developing Economies also declined from 7.1 per cent to -4.4 per cent during the given time.

As the imperialist economies continue to grow with the passage of time, their growth rate of real GDP declines. For example in the context of USA , the growth rate of real GDP which was 4.4 per cent during 1960's continued to decline to 2.6 per cent during 2000-07 as has been shown in Table-4. This is the fate of imperialistic rich economies due to their non-antagonistic contradictions.

The present recession is the largest one during the past 60 years (RBI, Bulletin, 2009). The global GDP was expected to shrink by 1.7 per in 2009 and would be the first ever so much decrease in the global output (W.B., GEP, 2009). Regarding the global trade, WTO forecast a decline of 9.0 per cent in the year 2009 (H.T., May 21,2009).

It is because of joining the globalization process initiated mainly by the rich imperialist countries, Indian economy came more close to these rich countries. Because of this closeness, Indian Economy has to bear the brunt of the recession occurred in the rich countries. The impact of this recession started realizing with the failure in post-Lehmen finance company in the third quarter of 2008-2009.

The impact of the recession on the growth of global trade has been shown in Table-5. It is clear from the table that the growth rate of total world trade which was 7.2 per cent in 2007 had declined to -11.0 in 2009. Similarly, the growth rate of exports from developed economies has also decreased from 6.1 per cent to gloomy rate of -13.5 per cent and that of developing countries, this rate had shrunk from 9.5 per cent to -6.4 per cent. So far imports are concerned this growth rate surprisingly turned to be negative, i.e. -12.1 per cent from 4.7 per cent during the given time in the case of developed economies. Similarly, the developing economies observed a very depressive growth rate of -8.8 per cent in 2009 from 14.0 in 2007. It shows that because of the recession not only growth rate of total global trade declined but also in both the developed and developing economies in the context of exports as well as imports during the given period.

The slump in exports of India came by 33 per cent in March 2009 due to the recession in USA and Europe which consumed about 35 per cent of India's exports (E.T. Bureau, May 1, 2009). This recession affected negatively some important sectors in case of exports e.g.. the exports of polished diamonds decreased by about 8.24 per cent in 2008-09 compared to the previous year (E.T. 25 May, 2009). A survey of 125 companies by commerce department in New Delhi has revealed that Indian companies lost export on goods worth Rs. 1792 crores during August-October. Besides some other sectors like cement, ACC ltd. had to make price reduction of 4 per cent (TOI 2008).

India's exports also declined for the seventh consecutive in April 2009, amounting to a fall of 33 per cent. In the same way, imports also came down by 35 per cent. This narrowed the trade deficit, but the export targets for 2008-09 came to much less than even the revised scaling down done by the Commerce Ministry (H.T.,2009).

Other measures in the offering included easy access to the credit market for exporters, textile manufacturers and farmers collectively to a sum of Rs. 9,000/- crore of the total outlay , a Rs.4000/- crore line of credit was to be extended to the National Housing Bank a/c and a similar allocation to the Exim Bank.

The GDP growth rate (1999-2000 prices) of India is shown in Table-6. It declined to 6.7 per cent in 2008-09 as compared to 9.7 percent during 2006-2007. The growth rate of manufacturing sector has surprisingly come down to 2.4 percent from 11.8 percent during the given period. Similarly, the growth in agriculture, forestry has also declined from 4.0 percent to 1.6 percent. All the remaining sectors experienced the same trend of decline except one i.e. community, social and personal services. In India, the agriculture sector on which the largest proportion of the population depends directly /indirectly, had also suffered from the capitalist relations (thereby its recession) as the exports of agriculture products decreased, and to keep inflation at low levels, the Government of India did not make appropriate increase in the MSP'S of major crops, e.g. wheat, rice etc., under the regulated marketing system. As Lenin said, capitalism requires the ‘dwasi’, ‘parcellised’ pseudo farms so that without high expense it can always have a mass of cheap labour at its disposal.

Besides this, the growth rate of investment in case of trade declined from 41.7 percent in 2006-07 to just 1.2 percent in 2007-2008 (Economic Survey, 2008-09). Similarly, the growth rate in case of unregistered units in manufacturing sector shrank from 21.9 percent to only 2.9 percent during the mentioned period. Besides the growth rate of production of capital goods came down badly to 1.0 percent in 2007-08).

The growth rate of Gross Domestic Capital formation (GDCF) in India, turned to positive between 2006-2007 and 2007-08 but shrunk to negative between 2007-08 and 2008-09, the year that shows atual impact of recession. Almost, similar declining growth was found in the context of Net Domestic Capital Formation (NDCF), during the same period as is clear from Table-7.

The “World Trade acted as a transmission mechanism expanding economic distress even to those countries that had relatively healthy financial systems” (WSJ, 2009). In case of India both exports and imports followed global trade flows. During the period of severe crisis, the average decline in exports and imports had been around 20 percent in the first phase that constitutes the period of October 2008 to September 2009 and 28 percent in the second period of December 2008 to September 2009.

The information given in Table-8 reveals that the balance of trade during all the two years turned out to be negative i.e. Rs.-356448.2 crore in 2007-2008 and Rs. -533680.5 crore in 2008-2009. Thus, it clearly shows that balance of trade of India not only remained negative but with an annual increasing rate during the period which implies negative effect of the imperialistic recession on India’s trade balance.

Regarding the fiscal deficit of Indian economy Table-9 shows that fiscal deficit (as percent of GDP) of the centre government increased from 2.56 percent of GDP in 2007-08 to 6.7 percent in 2009-10 and in case of states, this percentage increased from 1.53 to 3.4 percent during given period of three years. If we go by the combined figures both of the centre and the states, the data reveal that the deficit increased from 4.12 percent to 10.00 percent during the given period. Moreover, the wholesale Price Index (WPI) had also increased from 4.70 percent to 10.20 percent during given period as the table shows. All this implies that the recession comes to be a major factor responsible in increasing the fiscal deficit of India.

The relative position of selected countries in the context o debt, fiscal deficit and consumer price inflation has been depicted in Table-10 in 2009. It is clear that the gross debt of the government of India has been found the highest (77 percent) whereas China had this percentage at the lowest (18.6) percent. Similarly, India's position came to be at the top with the 10.1 percent in case of fiscal deficit and Indonesia had the lowest one with 1.6 percent. Besides, India also experienced the highest consumer price inflation i.e. 11.4 percent and the lowest rank enjoyed by China with -0.8 percent, in 2009. This showed that India had suffered more than the given countries on all the three selected indicators. This seems that it is due to the closeness/ more dependency of the Indian economy with the recession prone/spreading imperialist countries.

Besides this, some companies have recorded a declining profits, e.g. Hindustan Motors suffered a net loss of Rs. 25.28 crore for the fourth quarter ended in March 31, 2009 as compared to net profit of Rs.10.95 crore in the previous corresponding quarter (E.T., 14 May, 2009). Another company, Indian Oil Corporation showed net profit of Rs.2949.55 crore during the year ending March 31,2009 which was 5.8 percent lower than the previous year. This company earned net profit of $3.69 per barrel, where as the profit margin was $9.02 per barrel in the previous year (E.T., May 30, 2009). Similarly, the Tata Motors Company had experienced a fall of 50.65 percent in net profit in February 2009 as compared to the previous fiscal year of 2008-09. (E.T., February 28, 2009).

The manufacturing sectors, especially the automobile industry, has also sustained a severe hit. As a result, the Global Rating Agency, Standard and Poor's (S&P) had downgraded Tata Motors rating for the foreign markets. The company witnessed a 30 percent drops in sales in India compared to last year.

The slow down or shut down of many business concerns/activities resulted in the loss of about 6,00,000 jobs which further increased unemployment in the Indian economy indicating more decline in demand for goods and services in the economy. The survey of 125 companies (by Commerce department in New Delhi), found that 65,000 workers lost their jobs because of the lay off by exporting companies due to their decline in exports worth Rs.1792 crore (DGFT). The government urged the business firms to retain the employees in the jobs. Some firms tried in one way or the other, e.g. WIPRO started two programs: one where an employee can work for ten days in a month and get fifty percent of his salary; the other where an employee can take 12 to 18 months sabbatical leave and get 25 percent of his salary.

The manufacturing sector has been calling for an action in cohesiveness to the necessary impact. In the mean time it had impacted the entire spectrum of the automobile industry. Dunlop India Ltd., for instance, asked all 1171 permanent employees of its Sahagunj unit and 917 workers at Ambattur (West Bengal) , not to report to work for an indefinite period. What was peculiar about this management move was that it was an “informal directive” with neither a suspension of work nor a ‘lay off’ that could have mandated the company to pay the basic salary and a portion of DA allowance. The Dunlop management agreed to pay each employee monthly allowance to support their families.

Along with this, some other sectors related to the real estate market had also suffered with property prices nose diving by 10-15 percent in addition to various incentives that were being given. In the same way, the tourism sector also suffered negative trend. Hotels international booking got cancelled by 25-30 percent. The hotel occupancy level and room tariffs declined by 20 to 50 percent respectively. This sector had already been demanding a substantial cut in luxury tax slabs.

To get out of this situation in the aftermath of economic recession in 2008, the government of India had unveiled a Rs.300,000 crore package to pump up the economy with specific measures for various sectors.

CONCLUSION

It can be concluded that the recession in rich imperialist countries, affected negatively, the production, external trade, profits, capital, capital formation and employment in the Indian economy. But in my opinion, this situation had arisen fundamentally due to the over-dependence of Indian economy on the rich countries. It is suggested that developing economies should organize themselves in such a way that their over-dependence may decrease which is required for economic development of these countries.

Table – 1

Growth Rate of Global Output

(Annual percent)

	2007	2008	2009
World Total	**5.2**	**3.2**	**-1.3**
Developed Countries	**2.7**	**0.9**	**-3.8**
United States of America	**2.0**	**1.1**	**-2.8**
Euro Countries	**2.7**	**0.9**	**-4.2**
Japan	**2.4**	**- 0.6**	**-6.2**
Other Developed Countries	**4.0**	**1.2**	**-3.9**
Developing Countries	**8.3**	**6.1**	**+1.6**
Africa	**6.2**	**5.2**	**+2.0**
Central and Eastern Europe	**5.4**	**2.9**	**-3.7**
CISS (ex- USSR)	**8.6**	**5.1**	**-5.1**
Developing Asia	**10.6**	**7.7**	**+4.8**
Middle East	**6.3**	**5.9**	**+2.5**
Western Hemisphere	**5.7**	**4.2**	**-1.5**

Source: Global Economic Expectations Report, IMF, April 2009.

Table – 2

Growth Rate of Global Per Capita Income

(Annual Percent)

	2007	2008	2009
Developed Economies	**2.0**	**0.3**	**- 4.4**
Developing Economies	**7.1**	**0.3**	**- 4.4**
World Output (at current prices)	**3.8**	**2.1**	**- 2.5**

Table – 3

Growth Rate of Global Trade

S.No.	Items	2007	2008	2009
1	Developed Economies	2.0	0.3	-4.4
2	Developing Economies	7.1	0.3	-4.4
3	World Output (at current prices)	3.8	2.1	-2.5

Source: Global Economic Expectations Report , IMF , April 2009

Table – 4

Growth in Real GDP (1960-2007) in U.S.A Economy

(Annual Percentage)

Year	Average
1960s	4.4
1970s	3.3
1980s	3.1
1990s	3.1
2000-2007	2.6

Source : National Income and Products Accounts ; Quoted in Analytical Monthly Review , Vol. 6, December 2008, Kharagpur , W.B.India.

Table-5

Growth Rate of Global Trade

(Annual Percentage)

	2007	2008	2009
Total World Trade	7.2	3.3	-11.0
Exports			
Developed Economies	6.1	1.8	-13.5

Developing Economies	**9.5**	**6.0**	**-6.4**
Imports			
Developed Economies	**4.7**	**0.4**	**-12.1**
Developing Economies	**14.0**	**10.9**	**- 8.8**

Source: Global Economic Expectations Report, IMF, April 2009.

Table – 6

Growth Rate of India's GDP at Factor Cost

(At 1999-2000 Constant Prices)

(In Percentage)

	2007	2008	2009
Agriculture, Forestry and Fishing	**4.0**	**4.9**	**1.6**
Mining and Quarrying	**8.8**	**3.3**	**3.6**
Manufacturing	**11.8**	**8.2**	**2.4**
Electricity Gas and Power Supply	**5.3**	**5.3**	**3.4**
Construction	**11.8**	**10.1**	**7.2**
Trade, Hotels and Restaurants	**10.4**	**10.1**	*******
Transport, Storage and Communication	**16.3**	**15.5**	*******
Financing, Insurance, Real Estate and Business Services	**13.8**	**11.7**	**7.8**
Community, Social and Personal Services	**5.7**	**6.8**	**13.1**

Total GDP at Factor Cost	**9.7**	**9.0**	**6.7**

Source : C.S.O., Quoted from Economic Survey, 2008-09.'***' Trade, Hotels and Restaurants, Transport and Communications (together) grew at 9 percent in 2008-2009.

Table- 7

Growth of GDFC and NDFC in India

(Rs. Crores)

Year	*GDFC	**NDFC at Constant Prices
2007-08	**1622226** **#(16.85)**	**1195810** **(19.52)**
2008-09	**1557757** **(-3.97)**	**1091775** **(-8.69)**

Source: Central Statistical Organization, quoted in Handbook of Statistics of Indian Economy, Reserve Bank of India, 2009-10

*GDFC : Gross Domestic Capital Formation

**NDCF : Net Domestic Capital Formation

Figures in parentheses show the per annum growth rate

Table-8

India's Foreign Trade

(Rs. Crores)

Year	Exports	Imports	Trade Balance
2007-08	**655863.5** **#(14.76)**	**1012311.7** **(20.44)**	**-356448.2** **(32.64)**
2008-09	**840755.1** **(28.19)**	**1374435.6** **(35.77)**	**-533680.5** **(49.72)**

Source: Directorate General of Commercial Intelligence and statistics Quoted in Handbook of Statistics of Indian Economy, Reserve Bank of India, 2009-10.

 # Figures in parentheses show the per annum growth rate

Table-9

Fiscal Deficit of India

(Percentage)

Year	Fiscal Deficit			WPI	GDP at
	Centre	States	Combined	Inflation	Factor Cost
2007-08	2.56	1.53	4.12	4.70	9.70
2008-09	6.05	2.63	8.50	8.30	9.20
2009-10	6.70	3.40	10.00	10.20	6.70

Source: Handbook of Statistics of Indian Economy, Reserve Bank of India, 2009-10. Quoted in Economic and Political weekly, November 20-26, 2010, Vol. XLIV No. 47

Table – 10

Debt and Deficit Indicators of Select Countries, 2009

(Percentage of GDP)

Year	General Government Gross Debt	Fiscal Deficit	Consumer Price Inflation(2009)
India	77.7	10.1	11.4
China	18.6	3.0	-0.8
Indonesia	28.6	1.6	2.6
Malaysia	55.4	5.5	-2.0

Source: IMF, WEO, October 2010 and IMF Staff Calculations Economist dated November, 2010. Quoted in Economic and Political Weekly, November 20-26, 2010, Vol. XLV No. 47

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