An Analysis of the Effects of MNCs on India Since Liberalization*

by Matthew Emde

Since 1991, India has experienced a dramatic increase in the presence of multinational corporations (MNCs), and with it, a tremendous expansion in the amount of foreign direct investment (FDI) inflows to the Indian economy. This paper will analyze the effects which this change has had on Indian society. In particular, three questions will be addressed: How and why did this dramatic change occur? What are the costs and benefits to India associated with this change? and What must India do to continue its development? The overall conclusion reached is that the increased presence of MNCs has had a positive impact on India. However, India has not even come close to reaching its potential, and thus, much more change needs to occur.

FACTORS LEADING TO THE LIBERALIZATION OF INDIA'S ECONOMY

While it can be argued that Indian liberalization began before the 1990s, most will agree that it was in 1991 that the Indian government first began in earnest to adopt policies of liberalization. However, the reason for which these policies of liberalization were embraced is not always clear. There were, in fact, three distinct forces which guided India to this watershed moment in its history, two of which were external forces, and one which was an internal force.

The internal factor which directed India toward liberalization was the severe economic situation it was faced with at the time. The central problems were soaring inflation, a rising fiscal deficit, a widening trade deficit, and an enormous foreign debt ("India and Pakistan", 16) In fact, India was "on the verge of defaulting on its foreign loan," but was saved from that humiliation by the IMF(Sharma, 1996, p.109). Now, these economic problems were all rooted in one fundamental problem, namely, inefficiency. India was inefficient because of such things as "inadequate infrastructure, various bottlenecks, mis-allocation of resources, imbalanced regional development, the presence of parallel economy, the urban-rural development gap, and the demand-supply gap"(Siddiqi, 1993, p.190). India's dire economic situation forced its government to accept the fact that major structural changes were needed in India.

One of the external factors was "the success of export-promotion (EP) industrialization along with the failure of import-substitution (IS) industrialization"(Siddiqi, 191-2). EP industrialization is an economic path to development which came to prominence in the '70s and '80s, largely through the

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stunning performance of those countries which embraced such a policy. The greatest success stories were Southeast Asia's newly industrialized countries (NICs), many of which have averaged growth rates of more than 8% a year for the past thirty years ("The Asian Miracle", 1997, p.23). Along with increasing acceptance of EP industrialization came the gradual deterioration of IS industrialization. This began with the fall of the Soviet Union in 1991, which signalled the end of the Soviet Union as a "beacon for centralization",(Howell, 1993, p.37) and quickly resulted in "the global retreat of socialism"(Siddiqi, 192). The impact this had on India was huge. Since 1947, when India gained its independence, Indian government policy had been one of strong socialism (often modelled, in fact, after the USSR), and central to this policy was IS industrialization. Thus, the collapse of the USSR caused India to rethink its well-entrenched socialist policies. The combined evidence of the success of the Asian NICs and the failure of Soviet socialism forced India to reluctantly conclude that EP was better than IS industrialization.

Another external force which was challenging India's tradition of "centralized and inward-directed business policy"(Howell, p.37) is what is termed globalization, that is, the "internationalization of the world economy"("Foreign", 34). It became clear to developing countries (LDCs), such as India that, "with the world economy becoming increasingly interdependent", it was vital that they "devote greater efforts to linking their economies and development strategies to the world economy"("Foreign", 34). Now, at the heart of globalization are the MNCs, which have brought about "global diffusion of production technology and worldwide homogenization of markets". In fact, it can be argued that, "with the worldwide resources at their command", it is the MNCs which "have spawned an integrated international economic system"(Siddiqi, p.190). Consequently, India realized that, in order to link itself with the world economy, it was essential that it first link itself to the driving force behind globalization, namely, the multinationals.

So, it was through its economic problems that India became open to the need for change, and it was through the changing patterns of the global economy that India came to realize what changes needed to be made. Thus, India concluded that liberalization was the solution. As India's finance minister put it, the time had come "to convert India from a regulated and control-bound, inward-looking economy into a market-friendly, outward-looking one"(Sharma, 109). As well as changing its attitude toward EP industrialization, India also changed its attitude toward FDI, as MNCs were now seen as legitimate and effective agents of change for India's economy (Siddiqi, 186). But why did India's attitude toward MNCs change, and why were MNCs considered so crucial for economic development in India? It is these questions to which the essay will now turn.

ARGUMENTS IN SUPPORT OF MNCs IN INDIA

One cause of India's changed attitude toward MNCs was that there had been "a positive change in the perception of the MNCs across the world"(Siddiqi, 186). Key to this was "the rise of Japanese MNCs and other Asian MNCs which did not bring with them the historical baggage of neocolonialism", as well as "the United Nations' involvement in the development of the Code of Conduct for MNCs"(Siddiqi, 192). More important, however, are the sound economic arguments in support of MNCs, many of which can be applied to India's situation. The most basic argument in favour of MNCs is the need for investment. Domestic savings are often inadequate to support the amount of investment that is required for development, and this is true for India ("Foreign", 69). When the economic crisis came to a head in 1991, the central and state governments of India were forced to cut back on their torrid spending, which meant that they had to choose between public investment which is useful for patronage purposes and subsidies which are useful for reelection ("India and Pakistan, 19). Thus, there occurred a shortage of investment, and "this necessarily meant turning to the private sector and foreign investors to take care of investment"("India and Pakistan", 19). In this way, MNCs are seen as a way of filling the gap in savings, by "bringing saving from abroad so that domestic investment can be larger than domestic saving" (Hogendorn, 1996, p.181). Now, the importance of investment in an economy can be explained by considering the aggregate demand function, $Y = C + I + G + (X-M)$, where Y is national income, C is consumption, I is investment, G is government expenditure, and (X-M) is net exports. There is a positive relationship between investment and national income, such that, increases in investment will lead to increases in national income. This relationship is carried further by J.M. Keynes, who saw additional investment as an injection into the economy which would stimulate aggregate demand (AD), causing it to shift outward. Figure 1 illustrates this.
If the economy is not close to full capacity, as in India's case, the outward shift in AD leads to greater output produced, with little or no rise on inflation.

Connected to this idea of MNCs as a source on investment is a standard economic argument for FDI, which proves that "adding to capital where capital is scarce" will likely benefit the LDC as well as the investor (Hogendorn, 182-3). Figure 2 explains this.

Now, the foreign investors supply K'K of capital to the LDC, which the domestic investors were unable to supply before. This extra investment in the economy leads to an increased need for labour, which results in a rise in wages paid to labour, equal to ECG. Notice also that GCDH of income is transferred from the domestic capitalists to the labourers, implying a move toward income equality. Thus, there are two principal benefits of FDI for an LDC such as India: increased aggregate income, and income equality.

The second major argument for FDI is concerned with technology transfer. Economic growth in DCs is "increasingly dependent on new technologies", and most LDC's "are in danger of falling even further behind" unless they can gain access to this new technology and learn how to apply it ("Foreign", 34). But where can LDCs get the

FIGURE 1

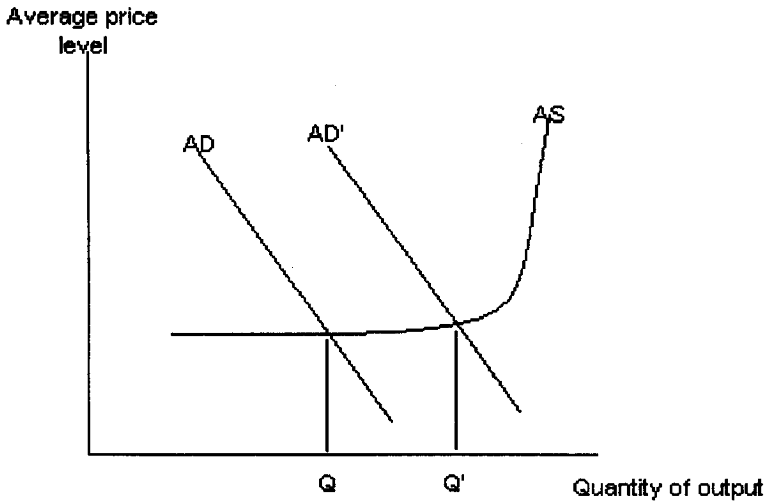
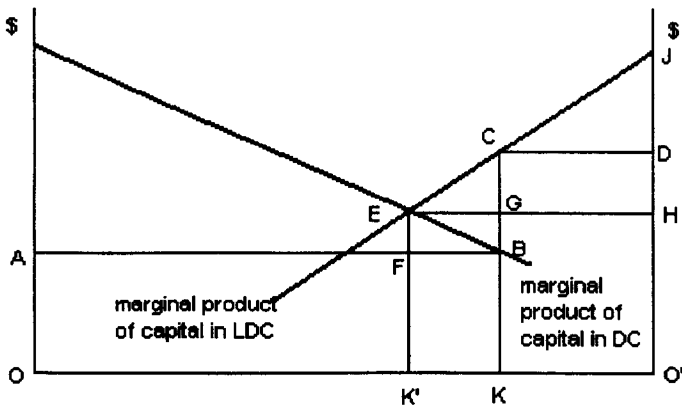


FIGURE 2

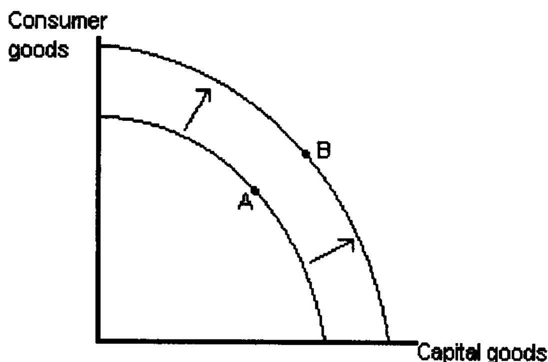


new technology from? Again the answer lies in FDI. In fact, MNCs have "been prominent in the development and dissemination of new technologies in both the nature of products and methods of production" ("Foreign", 34). Along with new technology, MNCs bring the skills which LDCs learn to duplicate, such as "managerial ability, organizational competence," and the capacity to avoid inefficiencies (Hogendorn, 180). However, the ability of an LDC to absorb new technology depends considerably on the level of education and skills of their labour force, and "the existence of institutions . . . capable of providing the training needed"("Foreign", 39). India's labour force is one of the most highly trained and skilled of all LDCs, and therefore, India is able to effectively absorb new technologies and benefit from FDI in this way.

The next major argument in favour of MNCs is the close connection between FDI and exports. First, the benefits of exporting, with reference to India, will be considered, and then the connection between MNCs and exports will be explained. There are many economic theories which support the growth of exports, and one of the oldest and most renowned theories is Adam Smith's theory of gains from trade (Smith, 1994, p.475). Smith argues that the narrowness of domestic markets does not permit a high degree of specialization, which serves to limit production possibilities. However, trade opens a country's economy to a more extensive market, which leads to a greater division of labour, increased efficiency, and therefore a rise in production. Now, India's domestic market is anything but narrow, so it can be argued that India's labour is sufficiently specialized. However, relative to the world market, India's market is small, and thus, greater specialization is possible. The evidence of this is the chronic inefficiency of India's economy, which has been discussed. Thus, it can be argued that, in India's case an increasing focus on export production would lead to greater efficiency and increased GNP as a result. Now, as LDCs, such as India, have come to see the advantages of placing a "greater emphasis on exports as part of their development strategies", they have "looked to transnational corporations" to aid them in doing so. But why is this so? The reason lies in the unique advantages which MNCs have to offer, such as "management skills, technology and linkages with world markets"("Foreign", 36). In fact, MNCs "can often export more easily from the LDCs because of their distribution and marketing networks" (Hogendorn, 181). Thus, through MNCs, LDCs gain better access to external markets, which increases their efficiency and therefore makes them more competitive internationally. Now, in 1991, India was aware that it had the potential to become an important centre of international economic activity, as it is located "at the crossroads between Asia, the Middle East and Europe"(Sharma, 110). Thus, it was clear for India that a policy of EP was needed, and IS was to be discarded.

The effects of the last two arguments, technology transfer and EP industrialization, can be illustrated by a production possibility curve (PPC) in Figure 3.

FIGURE 3



Thus, through the increased efficiency technology brings, as well as the increased efficiency exporting brings through greater specialization, the productivity of India's existing resources increases, and therefore, its production possibilities expand.

The final argument in support of MNCs compares foreign investment to borrowing. The simple fact is "it is cheaper to service FDI than borrowing"("Foreign, 36). "Even when profit is repatriated . . . no outflow will occur unless a profit is actually earned" by the MNCs, whereas with debt servicing, "the outflow of interest and repayment of principal will occur in good times or bad" (Hogendorn, 180). As well, even if profits are made by MNCs, they may not all be repatriated, as some of the profits may be reinvested, and some may be used in buying local inputs (Hogendorn, 180). Another advantage of FDI over borrowing is that, with FDI, the host counties "are less vulnerable to economic shocks", (Hogendorn, 180) and the debt crisis of the 1980s attests to this fact.

THE BENEFITS OF INDIAN LIBERALIZATION TO MNCs

The new economic policy adopted by India in 1991 had three central features: opening the economy to global markets, "reducing import tariffs and state intervention in domestic policy decisions", and stabilizing the economy through structural reforms (Roychowdhury, 1988, p.362). In practice what occurred was that the rupee was devalued and made convertible for trade, industrial licensing was almost entirely removed, import tariffs were cut substantially, import-licensing was eliminated, and public sector monopolies in power, port, road, telecom and aviation were abolished (Roychowdhury, 360). These policies were not directly aimed at increasing India's

attractiveness to MNCs, but were intended to pull India out of its economic pit. However, just the fact that India had thrown off its socialist strait-jacket and was attempting to bring about market-friendly reforms was a major encouragement to foreign investors, who understood India's enormous potential, but had been repelled by its isolationist policies.

There were, nonetheless, significant efforts made to increase FDI to India. For example, India "reduced restrictions on equity, revised investment licensing controls, . . . raised limits on repatriation", altered import procedures and tariffs in favour of MNCs, and modified labour laws "to make the business environment more appealing" (Howell, 37). As well, "with the exception of a small list of 'strategic industries', all sectors previously reserved for public enterprises are now open to private investment" (Sharma, 109). But what impact did these liberalization policies have on MNCs?

The effect was that FDI increased significantly. In 1990, FDI inflows into India totalled US $70 million ("Foreign", 64). From 1991 on, FDI began to grow substantially, so that by 1996 the total was $2 billion, (Kripalani, 1997, p.58) and in 1997, $2.5 billion (Kasbecker, 1997, p.40). In fact, it has been calculated that from 1991 to May 1998, India has accumulated $56.6 billion in FDI contracts (much of which has yet to actually flow into India) (Mitra, 1998, p.30). Thus, it is evident that the presence of MNCs has increased dramatically in India since liberalization. It must be noted here that, while FDI "is usually taken to be the most important measure of the growth" of MNCs, multinationals "also expand through the use of non-equity arrangements, such as subcontracting, franchising, joint ventures, research consortiums and technology transfer agreements" ("Foreign", 36). However, accurate data is not readily available for these indicators; therefore, the focus of multinational activity is often limited to the level of FDI.

THE ECONOMIC BENEFITS OF LIBERALIZATION TO INDIA

The effects of liberalization on India's economy have been overwhelmingly positive, and the statistics confirm this. Due to the crisis of 1991, the growth rate that year was only 1.2% (Sharma, 108). Three years later, a growth rate of 5.5% was reached, (Sharma, 108) and then the economy took off in 1995 and 1996, achieving growth of 7.1% and 7.5% respectively (Roychowdhury, 360 & Sidhva, 1998, 59). In fact, since 1994, the Indian economy has grown at an average of 7% per year, (Roychowdhury, 361) placing India among the world's leaders in economic growth. However, because of India's high population growth rate it is necessary to consider the GNP per capita figures. In 1991, real GNP per capita, adjusted for purchasing power, was $1,150 (Hogendorn, cover). In 1997, it had grown to $1,385, ("India and Pakistan", 18) and by the end of 1998 it is projected to be $1,500 (Sidhva, 59). Thus, India's high growth has been large enough not only to balance the population growth

rate, but also to increase the standard of living. Some other noteworthy statistics from (http://www.indiaworld.co.in) are the decline of India's death rate, from 10.1 per 1000 in 1991, to 9.0 per 1000 in 1994, and the increase in life expectancy, from 55.9 in 1990, to 63.5 in 1995.

The question which remains, is to what degree can the improvements in India's economic situation can be attributed to the MNCs? The benefits and advantages which MNCs bring to host countries have already been discussed, and it was argued that MNCs could have a significant impact on India's economy. Thus, it can be presumed that MNCs played a vital role in the economic development India has experienced over the past several years. However, rather than speculating on how much of India's progress can be credited to the multinationals, the essay will turn instead to the tangible and direct benefits which India has gained through MNCs.

DIRECT BENEFITS TO INDIA OF THE INCREASING PRESENCE OF MNCs

An emerging trend of increased multinational presence in India is that "about 2,000 Indians leave India annually to take up middle and senior management jobs elsewhere in Asia" (Saywell, 1997, p.57). As MNCs expand operations all over Asia, they eventually experience shortages of qualified people to fill managerial positions, and India's business schools have come to be seen as a good source of managerial skill (Saywell, 57). The reason for this is India's good education system, its above average English-language skills, and its business students, who "are quite entrpreneurial in their outlook" (Saywell, 57). The positive effects this has on India include increased incomes for those Indians which take these managerial positions, and increased incomes for Indians in general, as much of the income would be brought back into India as repatriated earnings and would trickle down through the economy.

Another emerging trend resulting from rising FDI is that instead of India's federal government "inviting foreign investment and then allocating inflows to the states, the initiative now lies with the states themselves", and as a result, "attracting foreign capital has become top priority on every state government's agenda" (Mitra, 30). The result is that India's states are now competing with each other for FDI, and among the few progressive states, this has led to a battle of incentives and the abolishment of many bureaucratic delays (Mitra, 30). Now, the benefits of this are not just the increased level of FDI which can be expected to result from these changes in state policies toward MNCs. As well, "state governments are free to identify the industries in which they want private investment", although they must stay within the national objectives (Mitra, 30). Thus, FDI is more effectively allocated, as state governments understand better than the federal government where the FDI should be directed so that the benefits to the people of that state are maximised.

Another benefit concerns India's growing middle class. Estimates of the size of the middle class are wide ranging, but even modest estimates such as 200,000,000

(Howell, 37) still indicate that over 20% of India's population can afford "durable and semi-durable goods", ("Foreign", 64) such as household appliances and cars. The role here for MNCs is obvious: to supply India with the international brand name consumer goods it wants (Kulkarni, 1993, p.46). The central economic benefit of this is that Indian consumption is now able to expand, rather than being limited as it was when only domestic producers were supplying consumer goods, and this implies that Indian consumers gain utility, or satisfaction.

Connected to this is the fact that many MNCs rely on India as a source of inputs (Timberg, 1998, p.130). India has a "huge reservoir of trained, skilled and relatively inexpensive" ("Foreign", 64) labour, such as "low-cost engineering talent", ("Indian is not Mexico", 160) as well as an even larger supply of unskilled workers. In addition to supplying labour, India also provides MNCs with other inputs to production, such as intermediate manufactures. In fact, Japanese MNCs in India rely on local sourcing for 77% of their inputs, as compared to 50% in China (Anand, 1997, p.54). Thus, MNCs are effective in stimulating India's domestic production, which often leads to greater competition, increased efficiency, and hence, a rise in production. An example of an MNC which benefits India in this way is MacDonald's ("Food for Politics", p.72). Since entering the Indian market in 1996, this franchise has made a point of "projecting itself as a local enterprise", in that it relies entirely on local sources for its ingredients, and control of management is equally split between foreigners and Indians.

MNCs have also played a crucial role in helping to supply India's ever increasing demand for infrastructure. Electricity is one of these critical sectors, as India's demand for power is simply massive (Schuman, 1995, p.162). Since India's government opened this sector to private investment, 41 contracts have been awarded, the most notable of which is the enormous $2.8 billion, 2,015-megawatt plant by Enron, which began construction in 1997 (Schuman, 163). Despite these advances, the Indian government estimates that it will require $170 billion in investment over the next 15 years, in order to meet its demand for power, ("Still loved", 35) most of which is expected to be FDI. Another sector in which FDI has helped to fill the investment gap is telecommunications. In the next decade, India expects "foreign investors . . . to provide it with $50 billion", and approvals for FDI "in cellular phones alone total $5 billion" ("Food for Politics", 72). Thus, MNCs have played, and will continue to play a pivotal role in India in terms of infrastructure development.

CRITICISMS OF MNCs IN INDIA, AND ECONOMIC COUNTER-ARGUMENTS

There are those who argue, however, that MNCs have brought significant disadvantages to India. While such views may not be based on reality, they are nonetheless a strong force opposing the expansion of FDI in India. The first criticism

which is usually made is that MNCs bring inappropriate products to India. Here, the argument is usually made that non-durable products, such as foodstuffs, are better left to the domestic market, which is more in touch with Indian tastes and needs. As a result, some MNCs, such as Pepsico, Kentucky Fried Chicken, Pizza Hut and MacDonald's, have experienced opposition over the years (Seabrook, 1995, p.24). As well, the argument is made that Western brand names frequently mask products which are inferior imitations, and unknowing Indian consumers waste their money, sincerely believing that these goods can make them happy or beautiful (Kulkarni, 46). Now, the common economic argument which counters these two views is that consumers are free to make choices; consumers are, in fact, all-powerful, and what they do not want to buy will not be produced. Thus, the MNCs argue, they are meeting a demand which the Indian domestic market cannot provide, and are therefore helping to raise the utility of Indian consumers.

Connected to the power of brand names in India is the criticism that MNCs often crowd out India's domestic industries. It is true that brand name goods are more popular in India, and in fact, "the top three brands in 17 categories of consumer products hold a market share of more than 50%" (Taylor, 1995, p.30). The general tendency for MNCs to adopt non-price methods of competition, which domestic firms are often unable to afford, raises barriers to entry for new firms, and the result is that monopolistic or oligopolistic market structures often exist. The negative effect which this has on consumers is that prices will tend to be higher than normal, and the MNCs reap the benefits in terms of greater profits repatriated. To counter this, some argue that it is good for the Indian economy to weed out those inefficient producers which have been protected from competition for too long, as this will lead, in the long-run, to increased productivity and lower prices for consumers.

Another criticism of MNCs in India concerns child labour. According to the International Labor Organization, "at least 100 million children are at work in factories and fields around the world", and India alone has about 55 million of these (Taylor, 30). This criticism, however, does not take into account the fact that, in most of India's cases, the children are only working because their families depend on them for survival. Also, schooling is not an option for many Indian children, as education in many Indian states remains limited (Taylor, 30). Another criticism is that Indian workers are often exploited and paid low wages by MNCs. This argument, however, is not backed up by evidence. In fact, the statistics show that workers in MNCs facilities earn around four times India's minimum wage (Anand, 54).

THE LIMITS OF FDI IN INDIA, AND NECESSARY RESPONSES FOR INDIA

Despite all the evidence which supports the view that MNCs have brought significant benefits to India, there are, however, two problems associated with FDI in India: the limited effectiveness of FDI in India, and the limited growth of FDI in India.

The limited effectiveness of FDI in India rests with the fact that MNCs in India are less export-orientated than in other countries. For example, with Japanese MNCs in India, the majority of products are sold domestically, whereas in China, the majority of goods are produced for export ("Foreign", 71). The main reason for this is that India's vast and growing domestic market has been the focus of MNCs. Also, because domestic industries were "protected from internal and external competition" before liberalization, once the market opened, these domestic industries were no match for the MNCs. As a result, MNCs often achieve monopolistic profits, and therefore, have no incentive to compete on the global markets (Sharma, 110). In terms of India's development, this implies that MNCs are not effectively accomplishing one of the major expectations of FDI in India, which is to integrate India in the global economy. In order to counter this trend, India needs to "provide more incentives for export-oriented foreign investors" (Sender, 1996, p.60).

The next major limitation of FDI in India is that there is simply not enough of it. FDI in India has grown substantially in recent years, but when compared to other countries, India's amount is tiny. The best comparison is India to China. In 1996, India's FDI inflows totalled $2 billion, while China's totalled $37 billion ("Foreign", 37). When you consider the possibility that India's population could surpass China's in the next decade, it is obvious that India needs as much, if not more, FDI inflows than China in order to develop. But India has many unique attractions for MNCs, so why is this true? One reason lies in the amount of competition India faces for FDI. With the economic integration of Europe soon to occur, this "has already attracted substantial increases in" FDI into the member countries, which necessarily means a decline in the FDI available to India ("Foreign", 38). A second source of competition to India in FDI is the countries of Eastern Europe and the former Soviet Union, many of which have opened up to foreigners and are actively seeking foreign investment (Thornton, 1996, p.68).

Another reason for the limited growth of FDI in India is that fewer incentives are offered by India to MNCs relative to other countries, such as China. It is well known that the success of many of the Southeast Asian economies can be directly linked to this factor of incentives, yet, in comparison to these countries, "India's government still offers far fewer incentives" to MNCs (Sender, 60). For example, at a World Economic Forum meeting in Hong Kong in 1996, "other countries offered everything from tax incentives to government access to sweeten the business climate (the Chinese even touted new golf courses)", but India was "at times indifferent, at others combative" (Sender, 1997, p.123).

Even more damaging than this lack of incentives, however, are the several disincentives which MNCs associate with investment in India. The first of these, which MNCs face, is getting approval from India's Foreign Investment Promotion Board, which is a "tortuous process that often as not ends in rejection" (Sender, 1996, p.61).

However, if a MNC is able to get approval, the next problem it faces are the delays of the Indian bureaucracy. This is most evident in infrastructure. In 1992, the government approved seven "high priority projects", and to date, "only one . . . is up and running" ("Reforms", 93). In telecommunications, deregulation programmes have been "mired in a sea of red tape" since 1996 (Sender, 61). In fact, "on many issues . . . progress has been slow to non-existent", as "domestic opposition and bureaucratic inertia forbid" such necessary reforms as privatization ("Food", 72). These considerable barriers to entry for MNCs often discourage them from even attempting to begin the process.

Connected to these delays and slow downs is the problem of Indian politics, as India's coalition governments, sometimes with 13 parties, are inherently weak, and are often at odds over the importance of FDI. ("Food", 72) "Foreign investors want clean guidelines", but politically it is "more efficient to keep the rules vague" (Timberg, 125). This leads to a lack of clear policy on FDI, which further discourages MNCs. In addition to political instability, there often exist government policies and regulations which MNCs find particularly distasteful. For instance, India's average tariff is over 20%, which is above the Southeast Asian average (Timberg, 125). Another constraint which MNCs face is that "labour laws make it difficult to dismiss workers or close plants", an obstacle known as the 'exit' problem (Thornton, 69). Other regulations hinder MNCs from achieving economies of scale, as MNCs cannot "sell similar products from the same facility to both domestic and overseas markets" (Sender, 1996, p.62). Another hindrance is what is called the 'license raj', which refers to the 130 forms a manager must sign in order to export (Roychowdhury, 361).

To counter these problems which limit FDI inflows, India must do three things. First, it must increase its incentives to MNCs. Second, it must begin a new phase of structural reforms, ("Political v Fiscal Balance", 32) in order to liberalize the economy even more and remove many of the disincentives to MNCs. Third, and most difficult, India must clean up government, getting rid of corruption and bureaucratic restrictions, which causes so much waste ("India and Pakistan", 17). In accomplishing these three things, India would go a long way in convincing MNCs that it has genuinely adopted a policy of liberalization, and that it sincerely desires more FDI.

CONCLUSION

India has taken significant steps toward development, yet serious problems remain, the most striking of which is that 320 million Indians "remain below the poverty line, almost as many as India's entire population was in 1947"("India and Pakistan", 17). Thus, the benefits of liberalization and increased FDI have not positively affected a large portion of India's population. What must be done, then, in order to "visibly transform the lives of not just a minority, but of the mass of people" ("India's next 50", 11)? The first thing which needs to be done is that India "will have to stop using its own dreary performance as a benchmark and begin comparing itself

with its Southeast Asian neighbours" (Sender, 61). Second, India "will have to convince foreigners that it's serious about liberalization and won't abandon reforms at the first sign of local resistance"(Sender, 61).[1] The simple fact is that, for India's potential to be realized, economic liberalization must continue. There is simply no other way.

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