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Indian Federalism and Impact of Globalization

“India is a Union of States based on the framework of cooperative federalism. Within the cooperative framework, there is also a requirement to develop competitive strengths for the States so that they can excel at the national level and the global level. Competitiveness helps in ensuring economic and managerial efficiency and to be creative to meet new challenges. These are essential to survive and prosper in a fast-changing world of today. In addition, in order to strengthen democratic processes and institution, we should all truly strive for substantive decentralization”

Dr. A.P.J Abdul Kalam

In economic terms, globalization can be taken as the increased flow of goods, capital, labor and knowledge. A cornerstone of Indian economic reform has been opening up to flows of goods and factors, thus integrating more closely with the global economy. India are a large and poor developing country. After independence in 1947, it pursued economic policies that gave the government a primary role in promoting economic development. India's leaders aspired toward an indigenous version of Soviet-influenced socialism, with government as benevolent guardian.

In 1970s, we managed a nice growth rate of almost 3.5 percent, but with population explosion and failure of industries and PSUs to have competitive market, Indian Economy didn't meet his socialist expectations.

In the 1980s, due to fresh ideological influences, and partly through the observation of faster growth in many East Asian economies, India's economic policymakers at the national level began to seriously attempt some changes to the role of government in the country's economic development, introducing some liberalization in the trade regime, loosening domestic industrial controls, and promoting investment in modern technologies for areas such as telecommunications, IT.

Growth accelerated to 5.8 percent during 1980-90, but this came at the cost of macroeconomic imbalances (fiscal and current account deficits), and with fall of Soviet Union, the situation worsened. In 1991 India faced a severe balance of payments crisis, and this circumstance became the occasion for a substantial advance in the pace and nature of economic reforms that were being attempted. India took “Privatization & Liberalization” policy and this opened the global doors for India.

The reforms of the 1990s gave state governments more freedom to make policies independently, and this has extended the impacts of openness and globalization to the subnational level. In particular, while only the national government can determine import duties, state governments now can affect the incentives of foreign capital to enter their jurisdictions. This was followed by States taking lead in deciding factors which can help them in attracting more and more foreign investment and took charge to improve land and labor laws in their territory.

With the improvement in regional politics and regional political parties taking lead in party politics even at national levels, decentralization was inevitably becoming a part of Indian Federalism. With the implementation of 73rd & 74th Constitutional Amendment Act, Federalism was taking deep roots in villages.

What Globalization brought to the plate was that the role of bureaucracy changed towards the States. The bureaucracy was long known as the tool for federal government to control state government but slowly with competition from foreign firms and privatization of services, the role of bureaucracy became more and more facilitating towards the state. Now, most of the states have dedicated bureaucracy working for the development of state and implementation of state programmes.

The impact of globalization can also be seen in the tax reforms that have been brought about in the Indian States. With India competing with the world and pressures from global organizations increasing, India brought about tax reforms like digitization of tax structure, GST etc. to improve its position in the world trade.

When we talk about tax reforms, we must talk about GST which was brought into effect in 2017. GST Council which is the implementation and decision-making authority has effective representation of states in it, which can be seen from the

share of 2/3rd of votes been given to the states. With states deciding fiscal structure of the national government, the fiscal federalism has strengthened itself more than in any other country in the world.

Global Partnerships and Organizations like UN have also encouraged states to play significant role. In treaties like Paris Climate Treaty, International Solar Alliance etc., States are playing an important role. Many times states are taking divergent viewpoint from their respective National Governments which have been a very new and unique point in the growth of Indian Federalism.

More than that, one example shows the importance Panchayats and Municipal Organizations are playing in Globalized India. Bill & Melinda Foundation provide for education and poverty alleviation programmes in various states. There, they usually collaborate with panchayats and municipalities for the implementation of various schemes and programmes. What it does it is improvement of federal structure at the grassroot levels by providing local government to perform at the global level.

One more peculiar feature in the recent trend of Indian federalism has been the rise of state participation in the creation of foreign policy in India. Foreign policy was mostly seen as a prerogative of central government, but now with increased participation of states into global affairs and several states having their own terms and relationships with various countries, the central government is now taking the states to foreign assignments.

For e.g. West Bengal and its leadership plays a very important role in India-Bangladesh Relationship, Kerala plays very important role in India-UAE relationships.

Local government reform has complicated intergovernmental relations in India, by allowing the center to bypass state governments to some extent, such as by making direct transfers to local governments. In fact, it has been argued that this was the political motivation for such reform. In general, the economic reform process has changed the nature of center-state interactions, and this has been compounded by coalition rule at the center. Issues of fiscal deficits, tax reform, policies toward FDI, infrastructure development and regulation all require some coordination

between the center and the states. In this context, institutions such as the Inter-State Council (ISC) may actually have a greater role to play than earlier.

Fears of Globalization

To the extent that globalization and economic liberalization may increase inequality across the constituent units of India's federation, they could exacerbate political tensions and, in the extreme, threaten the country's unity. Various secessionist movements have certainly existed throughout India's post-colonial history. Hence, we examine the evidence on increasing regional inequality, discuss possible causes and the likely political effects of any such increases, and consider policy responses in the context of an environment of continued globalization. In particular, we examine whether there might be conflicts between the objective of moderating regional inequalities and those of promoting market efficiency and hardening budget constraints.

Many studies have examined the issue of regional inequalities in India, whether they are increasing, and how changes are affected by initial conditions such as the level of infrastructure development. These studies are partly motivated by the fears of some that, as India integrates into the global economy; enclaves that successfully pursue this integration will grow rapidly, leaving the rest of the economy behind.

Therefore, globalization has brought about new dimensions in the Indian federal structure. Gujarat's Summit, Heart of Asia Summit in Amritsar, Odisha & Andhra Pradesh organizing fairs for foreign companies all show that it has led to decentralization of power and strengthening of federalism but on the other hand it has also led to the formation of situation where fears of Catalonia-Spain like problems has also arose in discussions.

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