Parahyangan Catholic University

Faculty of Social and Political Sciences

Department of International Relations

Accredited A

SK BAN –PT NO: 451/SK/BAN-PT/Akred/S/XI/2014

The Cause of Increasing Economic Inequality in India after the 1991 Economic Reform

Thesis

By:

Felicia Evelyn Salim

2015330114

Bandung

2019

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Title : The Cause of Increasing Economic Inequality in India after the 1991 Economic Reforms

Had been examined in Final Examination
On Monday, July 22, 2019
And thereby declared **GRADUATED**

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Bandung, August 05, 2019

Felicia Evelyn Salim

2015330114

ABSTRACT

Name : Felicia Evelyn Salim
Student ID : 2015330114
Title : The Causes of Increasing Economic Inequality in India after the 1991 Economic Reforms

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This research seeks to find the cause of increasing economic inequality in India after the 1991 Economic Reforms. As twenty-eight-year time span to track the progress after the Reforms is way too long, this research focus only on inequality that happened during the last decade, beginning in 2009. The research question of this research is '*What causes the increase of economic inequality in India after the 1991 Economic Reforms?'*. Using Constructivism theory to base the analysis, the research analyses the change of India's economic orientation due to change of interest and relations between India and the West, as well as the implication to India's economic condition. Constructivists believe that state relations are influenced by meanings given to that relation and that meaning determine state actions towards one another, which create international structure. Further, international structure shapes state identity and interest, where one state could try to imitate the other successful state to achieve their interest. This imitation is marked by the 1991 Economic Reform. This research uses qualitative method and utilizes data obtained from literature, reports, official documents, and digital sources. This research shows that international structure managed to change India's economic and that change brought several repercussions. After the implementation of the Reforms, India has experienced an unprecedented all-time high economic inequality, which makes a lot of individuals question the effectivity of the Reforms. Such phenomenon happened because by the time the Indian Government implemented the Reforms, it ended the long-time farmer subsidy, opened India's market for FDI but unfortunately it biased towards service sectors only, allowed heavy privatization, and cut the budget for basic social welfare provision which resulted in the widening gap of income.

Keywords: India, 1991 Economic Reforms, Economic Inequality, Liberalization, Privatization

ABSTRAK

Nama : Felicia Evelyn Salim
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Judul : The Causes of Increasing Economic Inequality in India after the 1991 Economic Reforms

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Penelitian ini mencoba mencari penyebab meningkatnya kesenjangan ekonomi di India setelah Reformasi Ekonomi di tahun 1991. Mengingat rentang waktu 28 tahun ialah masa yang terlalu panjang, penelitian ini akan berfokus pada tingkat kesenjangan ekonomi di India selama sepuluh tahun belakangan, dimulai pada tahun 2009. Pertanyaan dari penelitian ini ialah 'What causes the increase of economic inequality in India after the 1991 Economic Reforms?'. *Menggunakan teori konstruktivisme sebagai landasan analisis, penelitian ini menganalisa perubahan orientasi ekonomi India dikarenakan adanya perubahan kepentingan dan hubungan antara India dengan negara Barat, serta implikasi dari perubahan tersebut terhadap perekonomian India. Para konstruktivis percaya bahwa hubungan antar negara dipengaruhi oleh makna yang diberikan pada hubungan tersebut, dan bahwa makna menentukan aksi suatu negara terhadap negara yang lain, yang pada akhirnya menciptakan sebuah struktur internasional. Lebih lanjut, struktur internasional akan membentuk identitas dan kepentingan negara, dimana suatu negara dapat mencoba untuk mengimitasi negara berhasil lainnya untuk memperoleh hasil yang serupa. Imitasi ini ditandai dengan implementasi reformasi ekonomi di India pada tahun 1991. Penelitian ini menggunakan metode kualitatif dan memanfaatkan data yang didapat dari sumber literatur, laporan resmi, dokumen resmi, dan sumber digital. Penelitian ini menunjukkan bahwa berubahnya arah dan orientasi ekonomi India memiliki beberapa dampak. Setelah implementasi reformasi ekonomi, India mengalami peningkatan kesenjangan ekonomi secara drastis yang tidak pernah terjadi sebelumnya, membuat beberapa individual mempertanyakan efektivitas reformasi ekonomi tersebut. Kesenjangan ekonomi yang meningkat dapat terjadi karena ketika Pemerintah India mengimplementasikan kebijakan- kebijakan pada saat masa reformasi ekonomi, langkah tersebut membuat subsidi bagi petani di India dikurangi, terbukanya pasar India terhadap investasi asing yang timpang terhadap pekerja dari sektor servis, diijinkannya privatisasi, dan pemotongan anggaran untuk layanan dasar publik yang membuat kesenjangan ekonomi semakin besar.*

Kata kunci: India, Reformasi Ekonomi 1991, Kesenjangan Ekonomi, Liberalisasi, Privatisasi

PREFACE

Only by His grace and guidance, the author is able to finish this research, titled "The Causes of India's Increasing Economic Inequality after the 1991 Economic Reforms" as one of the prerequisite to finish her study in Department of International Relations, Faculty of Social and Political Science, Parahyangan Catholic University. This research seeks to find the reasons why the level of economic inequality in India is increasing and that increase happens only after the 1991 Economic Reforms. It is also hoped that this research could bring more insight on the study of South Asia in international relations.

This thesis is still far from perfection and can always be improved. Thus, the author is open for feedbacks and constructive criticism from all readers. The author would be glad if this thesis is used for reference or further research accordingly.

ACKNOWLEDGEMENTS

This thesis marks the completion of the author's study in Parahyangan Catholic University. Throughout her four years of study, the author had encountered tons of people who had contributed to her development, cheered and laughed by her side in times of joy, and stayed as well as giving continuous mental support in times of sorrow. The author would like to give her deepest gratitude and appreciation to:

1. The God Almighty, who has blessed the author abundantly. Only by His blessings and guidance that the author managed to finish her study and this research.
2. The author's family: Katerina Sue Lie and Paulus Sindy Salim, for all the love and patience they have showered the author with; as well as the author's siblings Fransisca Isabella Salim, Yohanes Utama Salim, and Stevanus Reynaldi Salim for all their humors, attentions, concerns, and presence which the author often takes for granted.
3. Stanislaus Risadi Apresian S.IP., M.A., for his guidance and constructive criticism through the entire time of drafting and preparation of this thesis. Without his input, the author will not be able to finish this thesis. The author wishes him nothing but the best for his doctorate study in the UK.
4. Jessica Martha, S.IP., M. I.Pol., who believed in the author to be the coordinator of Matter and Research Bureau in Diplomacy in Practice 2017 and for the opportunity and guidance when the author was her research assistant.

5. Axel Oktarino Candra, Jane Marela Revevalin, and I Made Arisanto Jonathan Adiwisaka, for all their tough yet mind-blowing constructive criticism, for all case-buildings and intensive trainings prior to the author's departure to Kuala Lumpur, Cape Town, and Hanoi, which made the author who she is today, for all the laugh, bawls, inside jokes, gossips, and late-night food hunting, and basically just thank you for being the author's teammate and the best coaches the author could ask for.
6. Jeanne Sanjaya Awaluddin, Nicholas Zherenovski, Devris Wijaya, Revian Nathanael Wirabuana, Tertia Aurelie, Ria Ellysa, Moudy Alfiana, and Michael Putra, the author's coaches and seniors in Parahyangan English Debating Society who have guided, trained, and empowered the author's mind through continuous difficult motions and matter loading, for all the laugh and insensitive equity-violating jokes, for all competitions spent together, and for all life advices given to the author.
7. Aditya Bayu Perdana, Annisa Devi Rifandiani, Cheryl Michelin Pangestu, Clara Evangeline Utamalie, Elisabeth Tania, Jonathan Prasetyo, Joshua Adrian, Kezia Liana, Marcelino Raditya, Matthew Adith, Reynard Johansen Sitepu, Serafin Pauline, Shania Surya Nataliputra, Veronica Cindy Irawan and Yuana Yesika, members of Parahyangan English Debate Society, a community and family where the author develops and sharpens her critical thinking. Thank you for all helps and assistance during the author's tenure as President. It was an honour to serve along with you all.

8. Bernardus Nando, Chateline Agustina, Eleonora Ancilla, Esy Gracia, Isabella Revina Wibowo, Muhammad Ficky Ernas, and Sabina Citra, the delegation of People's Republic of China in Diplomacy in Practice 2018, as well as Kefas Henry Mulyana, for the times shared together, for their hard work, cooperation, and excellent work ethics that make Diplomacy in Practice bearable.
9. All student organizations in Parahyangan Catholic University where the author was involved, a place where the author learned the value of teamwork and togetherness.
10. Other friends, relatives, colleagues, and acquaintances that the author cannot mention one by one. May we cross path for another reason in the future.

Bandung, July 2019

Felicia Evelyn Salim

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CHAPTER I

INTRODUCTION

I.1 Research Background

After obtaining its independence from the British in 1947 and experiencing the partition of its nation into two states, India began to shift its focus to improve the lives of its people and foster economic development. India was a staunch defender of socialist economic before the 1990s, but due to poor performance while implementing the system that resulted in an economic crisis, it changed its direction to a market-oriented economy afterward. The change was proven to give India an astounding economic boost, with continuously massive GDP growth until the next decade. However, the glorified economic reforms turned out to be possessive of its own adverse economic imprint for Indian societies, with the most prominent is rising income inequality.

The story began when India attained its independence. The first Prime Minister, Jawaharlal Nehru, was a loyal defender of socialism who disdained capitalism. Nehru and his cabinet improved India through state-sponsored industrialization and keeping the economy away from global engagement, where he implemented pro-poor and pro-worker policies, such as eradication of tax for Indian farmers, endowment of minimum wage and benefits for blue-collar workers, high progressive tax for the wealthy, nationalization of heavy industries, and construction of public facilities such as hospitals, schools, and social service centres.[1] These policies continued after Nehru's death in 1964. Nehru's successor, Indira Gandhi, prolonged these policies and implemented an even higher progressive tax system. In the early 1970s, the top marginal income tax reached an all-time high at 97.5%. Although Indian officials considered the policies as successful, stagnation started to ravel. By implementing such policies, India utilized roughly all of its foreign exchange reserves.[2] The situation got worse with the collapse of Soviet Union, which was India's major trading partner and one of India's main sources of income, and also with the Gulf War that caused a spike in oil prices, hurting India's industry. Entering the 1990s, India suffered a balance of payment crisis, calling for IMF assistance. Financial support was given under the condition of structural reforms which push for deregulation and liberalization agenda.[3]

Answering the call, in 1991, Prime Minister Narasimha Rao, along with the then Finance Minister Manmohan Singh, delivered sets of economic reforms that significantly changed the direction of the country's economy. The first set of economic reforms (1992- 1997) emphasized the promotion of private sector at the heart of economic policies via denationalization, disinvestment of the public sector, and deregulation (delicensing of public companies and industries). The reforms were prolonged until 2004 even when India was under the leadership of the conservative Prime Minister Atal Bihari Vajpayee.[4] The 1991 Economic Reforms

[1] Gehring, Keith, *Economic Growth and Income Inequality in India,* 2006, p.5.
[2] Ahluwalia, Montek S., *Economic Reforms in India since 1991: Has Gradualism Worked?* The Journal of Economic Perspectives, Vol.16, No.3, 2002, p.1.
[3] Chancel, Lucas and Piketty, Thomas, *Indian Income Inequality 1922- 2015: From British Raj to Billionaire Raj,* World Working Paper Series, Vol.11, 2017, p.4-5.
[4] *ibid*

then becomes the basis of future Indian economic policy, even though somewhere along the line it gets adjusted according to the incumbent prime minister.

The result turned to be satisfactory, India's economy enjoyed solid growth between 5% and 8% annually, solidifying India's position in the global economy.[5] Not only GDP but real per adult national income also significantly increased. It was 0.7% in the 1970s, 2.5% in the 1980s, and 2.0% in the 1990s, and 4.7% in the 2000s after the reform. Regardless, this new progress doesn't come for free. It ended government fixation of petrol, sugar, or fertilizer prices and led to further privatizations (in the agricultural sector in particular) which endangered the Indian farmers, one the biggest contributor to Indian's occupation.[6]

Liberalization policies indeed have myriad benefits that successfully lift millions of Indians out of poverty and give a substantial reduction in poverty rates. However, how the Indian economy fared in terms of inequality as a result of economic liberalization starts to emerge and has been arguably less discussed compared to tons of its benefit. Some evidence suggests a rise in economic inequality after the turn of the century. According to data collected by Lucas Chancel and Thomas Piketty in 2015, there are significant differences between income distribution of the top 10%, middle 40%, and the bottom 50% before and after the economic reforms. The result before the reforms (1982-1983 period) was: the top 1% acquired only 6.2% of wealth, the top 10% acquired 33% of wealth, the middle 40% acquired 43% of wealth, and the bottom 50% captured 22% of wealth.

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[5] *GDP growth (annual percentage),* World Bank, accessed September 17, 2018, https://data.worldbank.org/indicator/NY.GDP.MKTP.KD.ZG?end=2017&start=1961&view=chart

[6] Chancel, Lucas and Piketty, Thomas, *Indian Income Inequality 1922- 2015: From British Raj to Billionaire Raj,* World Working Paper Series, Vol.11, 2017, p.4-5.

But the result was fully reversed after the reform, where the top 10% acquired the 56.1% of wealth, the middle acquired the 29.2% of wealth, and the bottom 50% acquired only 14.7% of total wealth in India.[7] Other data sources, such as Forbes' Indian Rich lists, suggests a tremendous increase in the wealth of the richest Indians after 2000. The wealth of the richest Indians amounted less than 2% of national income prior to the 1990s, but increased substantially throughout the 2000s, reaching 10% in 2015 and with a peak of 27% before the 2008-9 financial crisis.[8] It can be seen that decades after the policy implementation, level of economic inequality rise at a very fast pace.

Abovementioned data shows that there must be a red threat that relates the economic reform and the sharp rise of economic inequality. Before the reform, the wealth distribution was more equal but after the reform took place, the level of the inequality was skyrocketing. Thus, it is worth analysing and questioning does the reform really change India's economic structure and later causes economic repercussions even long after its implementation. Does the accelerating income gap is really the result of policies gone wrong? This thesis tends to answer that question.

I.2 Problem Identification

I.2.1 Problem of Research

One of the most prominent aims for India to conduct the reform is to fulfil the conditions given by the International Monetary Fund and to improve its economic

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[7] *Ibid,* p.36
[8] *Ibid,* p.7

condition. It is clear that economy plays an important aspect in any discourse about India, aside from politics, security, and diplomacy. Moreover, economic condition is often the aspect through which improvement can be visibly measured. As the economic reforms are expected to help India recover its economy, the impact of the reforms to India's economy needs to be re-evaluated.

Decades after the reforms had been implemented, India experiences tremendous economic growth. Its GDP increased by six-fold, tons of its citizens made it to the billionaire list, and more multinational corporations headquartered its companies in India. However, regardless of all blinks and the glamorous life of the rich, India remains as the poorest country in the world. Its development has been unequal where the affluent citizens pile up all the money while the poor live in below-standard life quality. Lack of access to nutritional food, education, and proper jobs seem like a common thing for the poor. It can be said that economic reforms are not all about bringing prosperity, but also about causing grievances to the poor. Thus, to find out why inequality happened, this research does not focus on the good impacts but on the negative implication of the economic reforms towards the life of the Indian citizens.

I.2.2 Scope of Research

The research focuses on year 2009-2018, the years where India enjoys tremendous economic growth while also experiences an increasing level of income inequality. The author concedes economic reforms may bring rapid economic growth, but those rapid development comes with a price and causes side effect, which is economic inequality. With reforms that began in 1991 and the policy sets were continuously used, a gradual increase of GDP alongside income inequality had become inevitable.

The author focuses her research on the year 2009- 2018 because of two reasons. Reason number one, the year 2009 is the year where Manmohan Singh (the then India's Finance Minister in 1991 who along with Narasimha Rao implemented the reforms) continued his tenure as the Prime Minister of India. Thus, as one of the initiators of liberalization in India, he continued the implementation of market-oriented policies as well. Reason number two, 2014 is the year where Narendra Modi got elected as India's new Prime Minister, but his economic policies are also a market-oriented one. The choosing of these two different individuals in two different terms does not intend to compare their performance as prime minister, but rather to show that if the policies orientation is still the same, then the expected outcome will be the same as well. Thus, the author wants to find out whether the 1991 Economic Reforms are really the root cause of the increasing economic inequality in India.

Due to time and space limitation, it is impossible if the author discusses both the positive and negative impacts of the economic reforms. Thus, the author will focus its research on the negative impacts, which is economic inequality and later the author will elaborate on the condition before and after the economic reforms to signify the difference.

I.2.3 Research Question

The question the author intends to answer is "*What causes the increase of economic inequality in India after the 1991 Economic Reforms?*. The measurement of economic inequality is based on the Gini coefficient, national income shares captured by each income group, and amount of money spent for food and education per income group. Using those parameters, later in Chapter III of this research it will be showed that indeed there is economic inequality happened within India.

I.3 Purpose and Significance of Research

The objective of this research is to find the relation and the impact of India's economic reform on the widening economic inequality faced by Indian society. The author will compare India's income inequality level prior to and after the economic reforms to ground her analysis. This research can also be used for further studies on India's economy and any development studies, liberalism-related economic policy and its implication, as well as for the evaluation of India's economic policy. This research is also to be used to emphasize the negative consequences of some economic policies, so in the future, the same negative precedence will not be repeated any further. It is also hoped that this research could enlighten other scholars, specifically the undergraduate students of International Relations to pursue more academic research on the region of South Asia, especially India.

1.4 Literature Review

To help the author assess and understand the 1991 Economic Reforms and its impacts on income inequality in India, the author uses four journals. The first is *Twenty-Five Years of Indian Economic Reform* by Swaminathan S.A.Aiyar. The second is *Poverty Alleviation and Economic Reforms in India* by Eckhard Siggel. The third is *Analysing India's Democratic Combination of Growth and Poverty Reduction* by Timothy Hotze and A.F. Morales Pita. And last but not least, *Regional Estimates of Poverty and Inequality in India 1993- 2012* by Rajesh K. Chauhan, Sanjay K. Mohanty, S.V. Subramanian, Jajati K. Parida, and Balakrushna Padhi.

In the first journal, *Twenty-Five Years of Indian Economic Reform,* the author tries to highlight India's successes over the past 25 years ever since the conduct of the reform. Prior to 1991, with its inward-looking economic, India was nobody in the world political stages and equated as an aid recipient. But today, India has become an important global player. It is the world's third largest GDP, a potential new member of the UN Security Council, a nuclear weapon state, and home to hundreds of billionaires and multi-billion dollars start-ups.[9]

To prove his point, Aiyar uses several indicators. The first is GDP growth percentage. Every decade, India experiences an increase in its GDP, with the highest was approximately 8% during 2003- 2015, making India no longer an aid receiver and had turned into a bountiful financier instead. Part of that increase is also the contribution of India's middle class, a new class that emerges as a result of

[9] Swaminathan S. A. Aiyar, "Twenty-Five Years of Indian Economic Reform", Policy Analysis, No. 803, (Cato Institute: 2016)

the reform and lift millions of Indians out of poverty. In the 1990s, Indians lived with poverty reached 403 millions individuals but dropped significantly to 269 millions in 2012. Trade is also affected, reaching 49% percent of its GDP proportion and push more industries in India to export its production as a result of the situation.[10]

The growth also translates into the development of its people. Rate of hunger is decreasing and followed by India's enhancement in education, research, and development. India emerged as a global hub for R&D, with lots of top tier companies located its research centres in India, especially in Bengaluru. Its human resources are also as brilliant, with many young and competent engineers and scientists ready to become the new moving force. According to Aiyar, all these breakthrough, combined with the economic reform, delivers the result that will bring India into a prospective future.[11]

In the second journal, Poverty Alleviation and Economic Reforms in India, the article tries to answer the question whether the economic reforms in the 1990s have accelerated or delayed poverty reduction in India, or possibly contributed even more to the increased poverty. The mechanism to answer that question is by using state-level computation of Human Development Index. The result shows there is a slow-down in poverty reduction in the post-reform period along with increased poverty level.

[10] Ibid
[11] Ibid

The article begins with varied findings of the result of the success of poverty reduction in India. Some researchers such as A.S. Bhalla, Deepak Lal, I Natarajan, Rakesh Mohan, and Arun Prakash Kulshreshtha agreed that poverty has reduced sharply in the 1990s and afterward, with a reduction of nearly 50%. However, other researchers such as Abhijit Set and Himanshu believes that the number of the poverty reduction was not that significant since Indian officials sometimes exaggerating the consumption expenditure so it does not portray the real condition. That is why the article tries to find a different approach for poverty assessment, which is by using the Human Development Index and state-level data provided by the Planning Commission of India.[12]

The findings in the journal show the poverty reduction is slowing down after the 1991 Economic Reforms. This is because economic reforms especially stabilisation policies and trade liberalisation are wiping out non-competitive industries, implying to job losses of redundant labours. Restructuring and new investment indeed lead to economic growth, but the immediate gains are typically reaped by entrepreneurs and it would take a long time for the poor to also benefit from the new opportunities. As a result, inequality and poverty reduction do not perform as much as expected, making the empowerment of under-employed and lowest income earners have to struggle harder.[13]

In the third journal, Analysing India's Democratic Combination of Growth and Poverty Reduction by Timothy Hotze and A.F. Morales Pita, it discusses the rapid

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[12] Eckhard Siggel, "Poverty Alleviation and Economic Reforms in India", Progress in Development Studies 10, Volume 3, (Sage Publications: 2010), p.247- 259
[13] Ibid

growth India experienced since the reform in 1991 and India's effort to reduce poverty that is met with dwindling results to achieve inclusive growth. Poverty elimination is a stated policy goal of the government since independence, but India's government had mixed success with reducing the poverty rate and close the income inequality gap. The Indian Government claims the reform managed to pull millions out of poverty, but the statistic shows the contrary.[14]

Such matter happened since there is an uneven flow of foreign investment among India's states. Statistics showed only 5 largest recipient states receiving the bulk, with a more coastal, more industrialized, and more urbanized states received the biggest chunk. Urban areas of wealthy states like Assam or Himachal Pradesh receive more expenditure and resembled wealthier countries like Turkey, while poor states like Orissa resembled the income only to the Democratic Republic of Congo. It shows that even the foreign investment flowing to India is not uniform and perpetuates the income inequality there.[15]

The fourth journal, Regional Estimates of Poverty and Inequality in India 1993-2012, the article proves that economic inequality indeed has increased within and between regions of India even though poverty has declined. The Gini index, the rich-poor ratio, and the regression analyses are used to understand the level of economic inequality in India and all measurement results show that the level of inequality between India's region is not declining. The way the authors assess it is

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[14] Timothe Hotze and Morales Pita, "*Analyzing India's Democratic Combination of Growth and Poverty Reduction",* Journal of Business and Educational Leadership, Volume 4, No.1, 2013, p.12- 21.
[15] Ibid

by comparing India's 29 states and 7 union territories' total population, income per capita, Gini index, and poor- rich ratio.[16]

The results indicate a significant reduction of poverty in regions of India, but the poverty reduction itself is differ from one states to another. States like Orissa and Chhattisgarh continued to have a high level of poverty while states like Maharashtra, Karnataka, and Tamil Nadu performed well in reducing the poverty level. Based on that, it can be concluded that even the poverty reduction itself is not equal and it contributes to further inequality since the reduction is not the same between Indian states and it is not accompanied with inequality reduction. The authors find that inequality is more rampant in the developed region and low in the under-developed region.[17]

In a nutshell, all four journals discuss the repercussion of the economic reforms. However, each journal takes a different approach in emphasizing the result, with one journal focusing on the positive impacts while the other three highlighting the adverse consequences. Regardless of what side, all scholars have legit arguments and sufficient data to prove each argument. One similarity that the author recognizes is every journal author's use of the Gini Index as a measurement tool to determine the inequality level. This makes the author concludes that the Gini Index is the most universal and appropriate index to measure the inequality level, making it suitable to be utilized as a parameter in this thesis. Aside from that, the author also notices that the way the journals presented the proof of economic

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[16] Rajesh K. Chauhan et al., "*Regional Estimates of Poverty and Inequality in India 1993- 2012",* Springer Science+ Business Media, 2016, p. 1249- 1296
[17] Ibid, page 1269

inequality is by providing income data of states and union territories in India and then conclude the result from the uneven income distribution. Therefore, to differentiate this thesis from the already available journals and writings, this thesis will not present a conclusion based on regions varied income, but by class and occupation income difference.

Personally, the author believes that the economic reform brings several good impacts to the Indian economy, proven by the boost in India's GDP and an increasing number of Indian billionaires and middle class. However, income inequality seems inevitable and part of Indians remains one of the poorest society in the world. With its size and new money, India is consistently placed among the most unequal country in the world, ranks higher only to South Africa, disaster-ripped Haiti, and several war-torn countries in Africa. Thus, this thesis intends to find the explanation of why the so glorified economic reform fails some part of its society and do not bring inclusive prosperity as what the Government expected. To help the author, constructivism will be utilized to explain the phenomenon.

I.5 Theoretical Framework

Economic inequality is a repercussion that indicates there is a shift either in economic structures or economic policies. It is then important to know why the change of this direction occurs. To understand the nature of this change, the author will base her analysis on the theory of constructivism.

Constructivism as a Theory

The existence of constructivism could be traced back to as early as the 18th century when Italian philosopher Giambattista Vico mentioned the earliest definition of constructivism; that the natural world is made by God, but the historical world is made by Man (Pompa 1982: 26). Based on this writing, we can conclude that history and human affairs (includes the political) such as states are artificial creations created by men and women, and if they want to they can change and develop it in new ways, making it flexible. The world we are living in is composed of the material aspect and also the social one. Beside the materialist state, there also exist the social world in which human interacts. This is fundamentally different from the natural world of physical phenomena (material) and cannot be described in a way we describe physical phenomena, thus, understanding and assignment of meaning about any mankind interaction becomes essential in the social world itself.[18]

The focus of constructivism in international relations lies on human awareness or consciousness in world affairs, that the most important aspect of international relations is not only material but also social. The social world is not something given that exists independently out of thoughts and ideas of people involved in it; but the men and women inside it constructed them, composing it with thoughts, beliefs, ideas, concepts, languages, discourses, signs, signals, and understandings among human beings. The social world is an intersubjective domain; it is

[18] Introduction to International Relations, https://e-edu.nbu.bg/pluginfile.php/147644/mod_resource/content/0/jackson_sorensen_Intro_in_IR_chap06.pdf, p. 164

meaningful to people who made and live in it, who understand it precisely since they made them. A physical element may exist but it is not the primary aspect since physical assets will have no meaning without the shared intellectual component and will only be mere things in themselves. For instance, in a vacuum, a nuclear weapon is only a nuclear weapon in its nature. But if we add the context of the United States, the Great Britain, and North Korea, 500 British nuclear weapons are less threatening to the United States compare to 5 North Korean nuclear weapons since the United States perceived Great Britain as its ally that will not use its weapons against them, while North Korea might probably will. So, in order to understand an international relations phenomenon fully, one should not consider only the material things, but also the ideational and social meanings behind it. The ideational element has different kinds, but four of the most major types includes ideologies/ shared belief systems, normative beliefs, cause-effect beliefs, and policy prescriptions.[19]

At this point, it is clear that constructivism puts its emphasis on meaning. Alexander Wendt (1992, 396-7) states that 'a fundamental principle of constructivist social theory is that people act toward objects, including other actors, on the basis of the meaning that the objects have for them.' Every pattern, cause-and-effect relationships, and even states actions depend on webs of meaning and practices that constitute them. These meanings might be relatively stable, but they are never fixed and prone to change as ideas and practices are constantly evolving since states will always have ongoing interactions between two states (or more) and

[19] ibid, p.165- 166

their social context.[20] Because of that interactions, these ideas and meanings that shape international politics are more than just the beliefs of individuals, but it is also shared among people (intersubjective) and institutionalized in the international political arena such as in the government procedures, educational systems, and rhetoric of statecraft. In other words, both the international structure and the actor are influencing each other. It is also very possible that if there are any changes in meanings, changes in state relations could become possible as well.[21]

He further adds that international structure shapes state's identity and interest. Identity is an attribute that state associated themselves with considering the perspective of others towards them. This identity then determines how state sees themselves and what they want. This identity later manifests into state's interest, which later translates into actions that develop into state's behaviour. Wendt stated that at least there are two models of identity formation: imitation and social learning.[22]

In imitation, state would follow another state that they consider successful, be it in material (resources, wealth, and power) or status (prestige, respect from others). Thus, state would do anything and imitate the behaviour of other successful states to achieve the same level of wealth or prestigious status. As for social learning, state would learn and internalize its identities and interest as response to

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[20] Ian Hurd*, The Oxford Handbook of International Relations",* Chapter 17, Oxford University Press, Oxford, 2008, p.300

[21] Ibid, p.303

[22] Alexander Wendt, "Collective Identity Formation and the International State", *American Political Science Review, Vol.88* (Ohio: American Political Science Association, 1994), p. 385-398

others. This means that states need to continuously learn and internalize their identities as they interact with others.[23]

Nicholas Onuf, a renowned German constructivist, further adds that people make society, and society makes people. This is a continuous, two-way process and to understand that interaction we should start in the middle between people and society, by introducing a third element, *rules.* A rule is a statement that tells people what they should or should not do, where the 'should' tells us to match our conducts to the standard/ meanings that society had agreed upon before. If one fails to do what the rule tells, one can expect consequences that will bring into effect. It means that rules give agents/ actors choice: to follow it or not to follow it. Thus, rules can be regulative: it tells the actor about what can or cannot be done according to its consequences.

But, every society has rules telling agents which goals are the appropriate one to pursue and since agents act to achieve goals, agents must have followed the options that are deemed appropriate within that societal structure. The goal becomes important for the agents because it reflects the people's needs and wishes in light of their material circumstances.[24] Hence, what Onuf tried to say is that agents and structures are interconnected and influenced one another: every state's action is determined by the constructed rules shared by agents in the international political arena due to the goal that the agent has in mind.

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[23] Ibid
[24] Nicholas Onuf, Vendulka Kubalkova, Paul Kowert, 'Constructivism: A User's Manual', *International Relations in a Constructed World,* New York: Routledge, p.60

However, sometimes, agents make choices that have consequences (for themselves or others) that they had not anticipated before. This could happen in a more complex world and if the agents do not care very much about the choice they had made: they know the result might not be as expected, but they still choose to do it anyway. If agents decide that these consequences are bad for them, they will act accordingly by changing them, perhaps resulting in another unforeseen consequence. Regardless, agents will act accordingly to adjust so they can continue pursuing their interests.[25]

Martha Finnemore in her 1996 book *National Interests in International Society* also stressed the same thing: that rules created norms in international society and it affects state identities and interest, which translates into state behaviour. She added that these norms are transmitted to states through international organizations; they shape national policies by teaching states what national interest supposed to look like. Later, the norms promoted by international organizations can influence national guidelines by pushing states to adopt these norms in their national policies. She completed her analysis with three case studies.[26]

The first case is when the United Nations Educational, Scientific, and Cultural Organization (UNESCO) taught states to develop science bureaucracies that previously was non-existent in many countries prior to the mid-1950s. UNESCO propagated the idea that a country should have a science policy bureaucracy in order

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[25] Ibid, p.61- 64

[26] Introduction to International Relations, https://e-edu.nbu.bg/pluginfile.php/147644/mod_resource/content/0/jackson_sorensen_Intro_in_IR_chap06.pdf, p. 170

to be a modern, civilized state. The result was astonishing, with a mere 14 countries set up the policy in 1955 to nearly 90 countries in 1975. The second case is about International Committee of the Red Cross (ICRC)'s success in promoting humanitarian norms in warfare, that the rights of unconstrained use of force during times of war should be abandoned for states to be categorized as civilized. The third case is the World Bank push for the third world states that poverty alleviation should be the central norm of economic policy rather than production increase to trigger economic growth in developing countries. The president, Robert McNamara, believed that the Bank should actively promote poverty alleviation in developing countries.[27]

Economic Inequality and Its Origins

According to the United Nations, inequality is the state of not being equal, in terms of status, rights, and opportunities. It focuses on variations of living standards across a whole population. Regarding economic inequality, the discussion about it usually boils down to two views: inequality of outcomes and inequality of opportunities. Inequality of outcomes happens when individuals or groups do not possess the same level of material wealth or overall living economic conditions. The living economic conditions here can be measured through income or wealth, education, health, and nutrition. However, the way the economists measure inequality has typically been income or consumption, putting distributional matters aside. Meanwhile, inequality of opportunities relies its explanations not on means

[27] Ibid

of living, but the actual opportunities of living that give people the freedom to pursue a life of their own choosing. This includes someone's freedom from discrimination, prejudice, and marginalization to achieve the highest quality-living as possible.[28]

The cause of economic inequality may be vary. But one of the most common reasons is fiscal stabilization. It is so common for a state that receives bailout from any major international financial institutions to do some adjustments as a prerequisite for the fresh money. One of the most popular measures to curb the budget deficit is financial stabilization. Stabilization refers to a shift in monetary policies that focus solely on preventing and limiting inflation and balancing budgets rather than focusing on lowering unemployment. These fiscal policies are directed at reducing taxes for business and the rich while eliminating social programs. The logic behind this is a reduction of tax could allure business to enter a country, creating job vacancies. But since the tax is now not as much as it was before, state is forced to cut expenses, with the biggest contributor to state bills are usually the social welfare programs. Thus, the best way to deal with that tax income loss is by reducing the country spending in social programs.[29]

Aside from financial stabilization, market liberalization usually also comes along with it. However, market liberalization could also rise inequality due to two reasons. The first is because the benefits of capital accounted liberalization depends on the quality of the financial institutions. If the financial institutions are weak and

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[28] "Concepts of Inequality, Development Issues No.1", United Nations Development Strategy and Policy Analysis Unit, Department of Economic and Social Affairs, October 2015.
[29] David M. Kotz and Terrence McDonough, *Global Neoliberalism and The Contemporary Structure of Accumulation,* 2008, p.4

the access to credit is not inclusive, liberalization might exacerbate inequality by increasing the bias in financial access in favour of the privileged. The second reason is that the capital account as result of liberalization that is not well managed or nor well sequenced, it increases the likelihood of financial crises and financial crises tend to hurt the poor more compared to the privileged.[30]

Aside from that, trade liberalization emphasizes market openness, which highlights the importance of foreign direct investment inflow and state exports. One of the specialties that are promising high rise is exports of high technology products such as aerospace, chemicals, pharmaceuticals, scientific instruments, machinery, data processing, office equipment, and service sectors such as information technology, finance, insurance, and banking. However, to enjoy the maximum wage increase offered by those sectors, high-skill and educated labours is a prerequisite. In the short term, GDP gets biased in favour of services and skill-intensive manufacturing, where the demand for skilled labour increases more than the unskilled workers, with obvious implications for wage inequality.[31]

Trade liberalization affects the price of outputs and also determine the aggregate state variables of wages and capital demand, which related to one another. Lower trade barrier leads to a change in demand and supply, which cause a change in relative wages and capital allocation in each sector, causing household's income and demand for each good to change. Changes in wages, household will switch to the sector in which they earn the highest income. The switch is costly and

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[30] Davide Furceri, "*Does Opening Financial Markets Lead to More Inequality?",* accessed September 1, 2018, https://www.weforum.org/agenda/2015/11/does-opening-financial-markets-lead-to-more-inequality/

[31] Rajat Acharyya, *Trade Liberalization, Poverty, and Income Inequality in India,* 2006, p.3-4

must be financed by asset holdings; hence, wealth distribution is changed as well. The sector choices by households also change labour supply, thus wages, capital allocation, and prices are further changed and creating a feedback mechanism that can cause even more dramatic changes in the distribution of wealth.[32]

Not only that, for the sake of efficiency, privatization is encouraged. However, privatization is structured to shift financial burden away from government budgets into end users, allowing contractors to collect some, and in some cases all, money from the people utilizing the service. The user fee structure disproportionately affects the poor individuals and families since they have the most trouble shouldering the fees. Not only these services disproportionately burdening the poor, private companies with maximizing revenues and profits nature will always try to collect fees directly from these individuals, or otherwise, the poor could not access the services, making detrimental and life-threatening impacts on the individuals and families faced by the poor- since now they must participate and comply with the terms of these services.[33]

The Parameter to Measure Inequality

To measure inequality that happened in India, the author uses global indicator framework developed by Inter-Agency and Expert Group on SDG Indicators (IAEG-SDGs). The reason as to why the author chooses to do so is because these indicators had been agreed to at the 47th session of the UN Statistical Commission held in March 2016 as a practical starting point for member states to reduce

[32] Kanit Kuevibulvanich, *Trade Liberalization and Wealth Inequality,* 2016, p.4
[33] In the Public Interest, *How Privatization Increases Inequality,* 2016.

inequality and other deprivations.[34] These indicators are including but not limited to: total percentage of household income; level of prevalence of undernourishment, stunting, and food insecurity; and proportion of children and young people achieving proficiency level in primary and tertiary education.

Another parameter to measure inequality that is used in this thesis is Gini coefficient. Gini coefficient can be said as the most widely used index to measure inequality. It based its calculation on the Lorenz Curve, a curve that compares the cumulative percentage of household (from poor to rich) and the cumulative percentage of expenditure or income. A perfectly equal society is signified with 0 while a totally unequal society is symbolized by 100 (the logic behind is only 1 person takes the whole wealth while the others do not). Thus, the higher the number of Gini coefficient a country gets, meaning that inequality is more rampant in a particular country.[35]

I.6 Research Method and Data Collection Technique

I.6.1 Research Method

The qualitative research method is utilized to equip this research. In this qualitative research method, the author tries to examine an issue related to the oppression of individuals and collect the stories using narrative approach.[36] To help the author achieve that, the research will focus on the understanding of data so it

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[34] "Sustainable Development Goal 10: Reduce Inequality Within and Among Countries", the United Nations, accessed on July 4, 2019, https://sustainabledevelopment.un.org/sdg10

[35] "Poverty Manual: All", JH Revision, August 2005, p.97

[36] John W. Creswell, *Research Design: Qualitative, Quantitative, and Mixed Method Approaches, 4th Edition* (California: Sage Publications, 2014) p.109

constructs a holistic understanding of the topic. As this research intends to find the relation between economic reforms and income inequality, the approach of case study was used. During the case study implementation, the author developed an in-depth analysis of the case, which includes the reform programs and Indian government activities, the process and implementation of the reform, and the impact to the society. India will become the centre point of case study where detailed data and understanding will be built around the case's limited scope.[37]

I.6.2 Data Collection Technique

The author collects data from various resources. Both public and private resources were used to help the author in finishing this research. The public documents that were used include minutes of meetings, official reports, records of public domain, and archives in national libraries. Meanwhile, the private resources that were used include personal journals, research reports, and individual publications. The public sources the author used including (but not limited to) survey by Planning Commission of India and National Sample Survey Office (NSSO) of India while the private sources covers (but not limited to) reports from independent organizations, journals of fellow scholars, and articles published by several news media.

Empirical references were obtained through documents in forms of books, academic journals, research papers, as well as newspapers.[38] This research will not

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[37] *Ibid,* p.96
[38] Bruce L. Berg, *Qualitative Research Methods for the Social Sciences, 4th Edition* (California Pearson Education Company, 2001) p.35

conduct direct observation nor interview to the Indian high official nor any development-related agencies due to limited time, resources, and capacity. Most of the economic depiction is aided with data that is provided by surveys, social scientists, or international organizations that also studied India's income inequality.

After the author finishes collecting the data, triangulation came into place. Triangulation was used to examine evidence from various sources so the data could be used to build coherent justification and analysis. Since the research is constructed upon various source of data, hopefully the triangulation process could also pose as an addition to the validity of the study.[39] After all the process completes, the author then continues and conclude its research by making one solid conclusion, making the research thorough and whole.

I.7 Thesis Organization

The author elaborates her research in four chapters. *Chapter I* provides the basic information to provide general understanding of the research. This chapter includes explanation on research background, problem identification, purpose and significance of the research, literature reviews, theoretical framework, research method, and the data collection technique.

Chapter II consists of elaboration and data of India's economic policies and its economic condition prior to the 1991 Economic Reforms. The aftermath of the policies set that prompted the reforms is also explained. It also discusses the economic reform era, completed with thorough explanation of each policy that

[39] ibid, page 645.

Indian government imposed during the reform. The expectation of Indian Government in implementing such policies is also explained.

Chapter III elaborates the finding about the result of the reforms, which is income inequality. The parameter of the inequality is the Gini coefficient, shares of national income captured per income group, and total amount of spending for food and education spent by each income group. This chapter also analyses the implication of each policy measures taken by Indian government during the reform that makes the income inequality only gets wider, even until decades later. *Chapter IV* concludes the finding and provides highlights of this research.