Globalisation of the Economy

A disaster for India and other developing countries

by Acharya Krtashivananda Avadhuta

Supporters of capitalism make vociferous campaigns in favour of globalisation of the economy. Multinational corporations (MNCs), with the collaboration of Bretton Woods institutions (World Bank, International Monetary Fund) and the World Trade Organisation (WTO) have imposed their strategic plan through the General Agreement on Tariffs and Trade (GATT). The strategy is to allow MNCs free access to all countries, removing all trade restrictions. The similarities amongst the "standard menus" of all these institutions is obvious:

STANDARD GLOBALISATION MENUS

IMF AND WB

- Reduction of budgetary subsidies
- Removal of subsidies for agricultural inputs
- Removal of food subsidies
- Pursuance of liberal economic policies
- Promotion of foreign investment
- Import liberalisation
- Privatisation of the banking sector

WTO

- Reduction of subsidies
- Reduction of support for domestic agriculture
- Removal of PDS (food subsidies)
- Pursuance of free trade by developing countries
- Removal of restrictions on MNCs in utilities industries
- Removal of barriers on imports
- Lifting restrictions on entry of foreign investors

In his speech as outgoing chairman of the Group of 77, Luis Ferdinand Jaramillo of Colombia presented a sweeping critique of North-South relations. He traced the decline of the U.N., multilateral programmes and the Third World in global affairs to the rising power of Bretton Woods institutions, which are under the control of Northern countries. He commented, "The Bretton Woods institutions for their part continue to be made the centre of gravity for the principle economic decisions that affect the developing countries. We have all been witness to the conditionalities of the WB and IMF. We all know the nature of the decision making system in such institutions. Their undemocratic character, their lack of transparency, their dogmatic principles, their lack of purism in the debate of ideas and their impotence to influence the policies of the industrialised nations. We all know the way structural changes are imposed and how projects are formulated. And how subsequently, when many of those policies and projects fail their authors disappear from the facilities of Pennsylvania Avenue. Nobody is then accountable for anything...."

Dubious Benefits

The question may arise whether globalisation is justifiable for countries like India.
An audit of the performance of the Indian economy after reforms were initiated in July 1991 fails to reveal any spectacular achievements. The opening of the economy to foreign capital has not succeeded in attracting a significant flow of capital or technology into the country, especially into the productive sector. Exports have picked up, partly as a result of devaluation of the rupee and partly because of general improvement in world trade.
But after an initial slump, imports have grown rapidly, and present indications are that there is likely to be a huge trade deficit by the end of the present financial year. Foreign debt has increased significantly and the WB has cautioned that the servicing of the debt and repayment obligations may begin to exert pressure on the international balance of payments in 1996-97 and beyond.
It may be asked whether an increase in foreign investment will lead to a higher growth rate and better absorption of rural labour in non-agricultural employment. Employment in the private industrial sector, which stood at 7.55 million in 1982-83, was only 7.67 million in 1990-91 - that is, after nine years. This is only a 1.5 percent increase. At the same time, gross capital formation at current prices rose by four times - 400 percent.
Modern industry is knowledge intensive. It may result in jobs for the highly educated, but it is unlikely that jobs will be generated for the poor, especially the surplus agricultural force of rural India, even when the growth rate of investment is high in the private sector.

Majority Unbenefitted

The failure of the reform process is evident from the speech of G.V. Ramakrsna, member of the Central Planning Commission, for the Garg Memorial Lecture at the Institute of Naval Architects, New Delhi in April 1995:

> "Where are we now and how far have we come in the reform process....? After three years, different people are looking at the reforms from their own perspectives. They have more colour TVs, more channels on cable, more imported goods, and so on. Nobody is any longer ashamed of conspicuous consumption. Then we have the middle class, which is seeing this as an opportunity for its advancement to the upper class. Many feel making money one way or the other will get them into the high consumption category. Then we have the lower class. They are worried as they ask: 'What is there in this for us? We don't know what liberalisation is. We don't know what the capital market is. What is our net gain in the package? We want jobs, less inflation,' and they ask, have we got any of these?"

Even former Prime Minister P.V. Narasimha Rao, while speaking to his party workers in July 1995, attempted a similar audit of the reforms. The report said: "He began by delineating the social structure's three segments. The crust according to him consists of about 60 million people (6.5 percent), who do not need to be canvassed about the economic reforms.

> "The next layers he believes contain about 250 to 300 million people (27 to 33 percent) belonging to the middle class, who are beginning to appreciate the benefit of liberalisation.... It is the next segment, of 550 to 650 million (60 to 71 percent) of lower income and poor people who remain unappreciative of the changes in the economy." (*The Hindu Standard*)

The Indian Rich 49 years after Independence
Annual income (in US$): No. of households More than 13,150: 1,402,000 More than 26,300: 577,000 More than 52,600: 238,000

More than 131,600: 74,000 Out of a total number of Indian households of up to 200,000,000 "The number of 'very rich' continues to be too small to make a viable consumer base for any serious manufacturer." *India Today*, Nov. 15, 1996, p.135

Amongst these lower income groups the largest consists of agricultural labourers, who constitute 26 percent of the labour force. It is a sad commentary on economic and political policies that almost half a century after Indian independence more than half of her people are in that kind of plight.

To allow globalisation of the economy via financial markets, without an appreciation or analysis of its implications, is bound to be disastrous.

Preparation Required

One can cite the example of Taiwan, which has recently opened up its markets to imports, as proof of the merit of following reforms like India's. But that country prepared for this for over 30 years. The same is the case of Japan and South Korea. India needs to modernise its financial institutions gradually before she throws the system open. It must be realised that by this measure, India will lose control over her domestic interest rate policy. In a primarily agricultural country, opening the economy to large inflows and outflows of "hot money" moved around to take advantage of quarter percentage point interest rate gains would be disastrous.

Also, Taiwan has an annual trade surplus of approximately US$40 bn and sound foreign exchange reserves. India has a trade deficit, weak foreign exchange reserves and huge debts (about $70 bn). Its industrial base is also weak. Is it judicious at this moment to open up the stock exchange to international capital movements? Before embarking on globalisation, India should strengthen its village economy on a decentralised basis, modernise its entire economic and financial system and strengthen her international competitiveness.

It has been claimed that allocation of resources is best when done under a free market system. Unfortunately, with the present distribution of income and wealth, there is no such thing as a free market in India. The globalisation of India's financial sector would put the bulk of it into the clutches of money lenders.

India at present needs to expand and strengthen its basic industrial sector. Small scale industries, artisans, farmers, handloom weavers and cottage industries should be encouraged through decentralised planning, just allocation of resources and increasing credit facilities and training.

Without basic preparation, the introduction of so-called globalisation is passing economic control on to MNCs, and whatever basic economic infrastructure exists will be ruined instead of enhanced.

General mass reaction to such policies has thrown the previous Congress government out of power. In the present "rainbow" coalition, Finance Minister Cidambaram and Industry Minister Murasoli Maran are advocating policies recommended by Harvard economist Michael Porter.

Chidambaram is a former Harvard scholar, and was Commerce Minister in the previous Congress Party government. He is a strong supporter of the free market and liberalization of the economy. There is no reason to believe that he has radically changed his ideas and policies. The present quasi-nationalistic coining of words - done at the insistence of his communist colleagues in the present government - is only to camouflage the real policies, which indiscriminately open India to the international economy.

Porter has show in his book Competitive Advantage of Nations that the competitive edge acquired by specific industries in various countries in global markets has not come from mere "laissez faire". Advantage is rather the outcome of deliberate policies of governments that develop those specific industries in a competitive way.

But this policy does not at all address the basic problems of strengthening the village economy, decentralisation of industrial development and streamlining of financial institutions. It is incorrect to say that present government policy is radically different from that of the previous goverment. In addition, it is also similar to policy followed in the 1980s. Capital formation is not the only criteria to be considered for India's economic recovery. As mentioned, just allocation of resources considering the economic future of the poorest people should be the priority. This has been utterly neglected by all governments, including the present one. The centralised character of the Indian economy must be dissolved, or the people will revolt again.

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