India under globalization's shadow

The country has not totally succumbed to the "free trade" mania, but neither has it taken on the larger task of fighting it. Ramtanu Maitra reports.

The following was written as a contribution to the economics panel at the Sept. 5-6 Labor Day conference of the International Caucus of Labor Committees/Schiller Institute in Reston, Virginia. Transcripts of the oral presentations appeared in EIR *on Sept. 25.*

The 12th Non-Aligned Movement (NAM) summit was held in Durban, South Africa, on Sept. 2-3, at a time when a distorted global financial system had already begun to collapse under its own weight, bringing untold miseries to the billions of people in general, and to the economically less-privileged majority, in particular. There are 113 member-countries of the NAM, and 12 non-member countries, including the United States for the first time, attended the 12th summit as observers.

This distorted financial system has not only thwarted efforts of the developing nations to raise themselves economically, but as it has now begun to come crashing down, it threatens to destroy much that the developing nations had created over the past few decades. For while the formal and recognizable forms of colonialism and imperialism are things of the past, the financial system devised for these forms of exploitation continues to thrive, and has devised new instruments of exploitation. The name under which modern nation-states are brought to their knees and forced to dilute their sovereignty, is "globalization." "Free trade," under the modalities set by the World Trade Organization (WTO) and the unconditional worship of a highly skewed free market, is similarly structured to rob the state of any interventionist role. It is in this context that the role of the NAM and the state of the Indian economy need to be analyzed.

The spirit and charter of the Non-Aligned Movement, this old and yet-to-be-effective organization, forms a part of India's economic and foreign policy foundation. Neither the Indian economy nor Indian foreign policy can be deciphered without having a basic understanding of the NAM.

Indian policy rooted in NAM's vision

At the time of independence, India, the larger part of a subcontinent partitioned by the British colonialists in 1947, had a population less than 375 million and an economy which was based on primitive and semi-modern agriculture and an undercapitalized textile industry. What India also had at that time, however, was a strong social set-up; an elite that had fought for more than 40 years for India's independence from a colonial ruler; a small, but highly developed and skilled group of people with a great deal of scientific background and a fervent hope that the Indians, with their destiny finally in their own hands, would be able to shape not only their own future and that of future generations, but also the future of the entire world.

The first few years of post-independence economic and political history were an education for the Indian elite. They saw and felt for the first time the reverberations set off by the violence, and the potential of a greater degree of violence, unleashed by the Cold War. Developed nations, driven by the threat of communism, were busy setting up a system which provided little opportunity for the just-freed colonial nations of Asia and Africa to have an all-round national development. Instead, much of the free resources were spent to counter the threat of communism, and the weaker nations were put in different baskets with labels. Those who were "with" the developed nations in the crusade against the communist Soviet Union and China were allowed to avail themselves of some of these resources, but were allowed to do so at a huge social cost.

It is in this environment, that the Non-Aligned Movement was born under the leadership of India, Indonesia, Egypt, and Yugoslavia. The object of the movement was to ensure the formulation of "just" state-to-state relations and an economic order which would enable the newly freed colonial nations to stand on their feet once again and get counted. At the First Conference of the Non-Aligned Movement in Belgrade, the task was set forth to put an end to the economic exploitation of "young" countries and to promote their economic cooperation.

In the Fifth Conference at Colombo, Sri Lanka (1976), this theme was further emphasized when the NAM Economic Declaration stressed: "The developing countries should use their sovereignty and their independence at the political level as a lever for the attainment of their sovereignty and their independence at the economic level."

The 1976 NAM summit is widely considered by various observers as a watershed, since it is in Colombo that the NAM

India's first Prime Minister, Jawaharlal Nehru, inspects a newly opened steel plant in March 1961.

for the first time looked formidable, and it was envisioned by the NAM leaders at that time that the outside world, particularly the United States, which had come out of the war in Vietnam morally and physically exhausted, would respond to the real world necessities. The weakness of the Soviet economy at that juncture was for all to see, and China, after two fruitless and dangerous decades (the "Great Leap Forward" and the "Cultural Revolution"), was then ready to take a pause and re-evaluate its own domestic scene and the world situation.

Frustrated plans and misplaced hope

That time was also a watershed for the Indian economy.

In the earlier stages the Indian economy was built around two basic objectives: to attain self-sufficiency in the agro-industrial sectors and to develop its scientific and technological fundamentals. India's Five-Year Plans, following the broad sketches of the Soviet Gosplans, insisted on developing an industrial nation where the basic industries will occupy the "commanding heights" under the government's leadership. Steel plants and power plants; heavy engineering and heavy electrical production; dams and hydroelectricity were given priority, while a new set of elites were being developed out of hundreds of engineering colleges across the country established in the first two decades following independence. The eagerness to become an industrial nation was never so clearly visible in India as it was then. A huge research center was set up in the shadows of the Western Ghat hills to muster the entire fuel cyle for the generation of nuclear power for commercial use, and at the same time, work began to develop indigenous space technology for communications and space exploration. There were none at that time who doubted that India would be in the forefront of the community of nations at the end of the 20th century.

The advent of the '60s, however, brought a new reality to Indian leaders. India, having spent much of its efforts to vitalize the nation through a crash course of industrialization, had decidedly fallen behind in a number of important areas, among which agriculture and the financial system stand out as the most important. The Sino-Indian border war, the 1965 India-Pakistan war, and a string of dry seasons had bankrupted the nation and had brought development to a grinding halt. The Indian currency, pegged to a basket of currencies, was devalued for the first time, and India faced mass famine.

It then dawned on Indian leaders that, despite India's deep-seated faith in international goodwill and extension of support in various world institutions set up by the victors of World War II, all and sundry abroad wanted India to give up its plan to industrialize and modernize. India also realized that the country's sovereign nation-state status would become greatly jeopardized unless it became self-sufficient and the state acquired the discretionary power to allocate credit. A new agricultural policy, which gave birth to a successful "Green Revolution," and the nationalization of all major commercial banks were instituted before the decade was over.

It was then that India began to backtrack on its industrial policy. The lack of available funds to improve and modernize both the backward agricultural sector and the basic industries, and the increased militarization in the subcontinent in the wake of growing conflicts arising from the Cold War, pushed the Indian leadership to look inward. Removal of poverty as a project in itself emerged for the first time in the '70s. At the Colombo summit, where the Indian leadership was very much felt, the economic declaration reflects much of the state of economic affairs that were then prevailing in India.

A change in the world order was reflected in the Seventh Conference of the Non-Aligned Movement held in New Delhi in 1983. Most of the developing nations, still far behind in the agro-industrial and social sectors, were already burdened with massive foreign debt and were under international pressure to hand over their real wealth to fatten the private bankers. In addition, the newly freed states, regarding the prevention of a potential nuclear catastrophe as the fundamental condition for their advancement, noted once again the indissoluble relationship between disarmament and the prospects of economic progress of the young states. India's Prime Minister, Mrs. Indira Gandhi, told the assembled

The gathered workforce at the inauguration of an Indian steel plant, March 1961. After independence, expectations were high that India could industrialize and develop out of its colonial-era backwardness. Now, in the face of the global financial disintegration, India has not completely abandoned its industrialist outlook, but, yet, has made potentially fatal accommodations to globalization.

heads of state in New Delhi: "We are not asking for pity nor charity of any kind. We are asking for cooperation which will help them as much as it will help us. The industrialized countries ignore the Non-Aligned, they ignore the so-called South, they do so at their peril, too." It became clear that the NAM leaders had come to realize then that the global financial system was bankrupt, and their dependence on this decrepit system to sustain a long-term development was futile.

Anatomy of a 'mixed-up' economy

During the '80s and continuing into the present decade, Indian economic policies have moved away from looking outwards to gain technological benefits to an inward-looking approach. In the '80s, India borrowed heavily to help modernize its communications and road transport infrastructure, while falling behind perceptibly in the power, railroads, and heavy engineering sectors. Social sectors, such as health and education, were attended to only minimally, leading to further deterioration in these sectors.

In the '60s, the Indian economy had lost the vision to become a major industrial nation, and instead worked out a plan to develop a highly resilient economy, which would enable it to maintain its sovereign nation-state status. Even today, when India's economic growth flounders around a meager 5-6%, political debates rage against globalization and economic liberalization. Even though millions of poor throng the cities and India's weak infrastructure continues to decay, the political leadership finds it almost impossible to shape the economy toward a high level of exports and a high level of growth, with dependence on foreign markets.

However, that is not to say that India ever rejected outright what is known as the "Washington Consensus"—meaning International Monetary Fund-World Bank conditionalities and the policies of the Washington think-tank circuit, and not the policies of the Clinton or other U.S. administrations per se—which held that good economic performance required liberalized trade, macro-economic stability, and budget austerity. Once the government got out of the way, private markets would produce sufficient allocation and growth, the Consensus claims. India never clearly rejected this approach, and, in fact, with much ballyhoo, adopted a program of economic liberalization in the early 1990s.

But, at the same time, it did not embrace the Washington Consensus hook, line, and sinker. India kept the import tariff up to a very high level all the way through the 1980s and brought it down to the Southeast Asian level in the mid-1990s:

• India never actually reduced subsidies to farmers, on items such as fertilizers;

• India continues to keep a vast number of consumer items off the Official General List of importable items;

- India refuses to formulate labor laws which would allow non-profitmaking private facilities to close their doors and throw workers out;
- India refuses to privatize the existing public sector enterprises;
- India has declined to make the rupee fully convertible and has remained steadfast in keeping all the major commercial banks nationalized.

If these are some of the areas where India continues to defy the IMF policy, it has also given in to pressure in other areas. For instance, its annual budget pays full heed to the International Monetary Fund demand that the fiscal deficit must be kept at a pre-determined level in order to keep inflation low, and the government must formulate fiscal, trade, and revenue policies which would enable the country to pay back domestic and foreign debts religiously. Accepting these terms has meant taking monetary measures which entail a tight money supply and upward adjustments of interest rates, paying little attention to the developmental requirements of the country. While the New Delhi Consensus does not mesh with the so-called Washington Consensus fully, there are areas of agreement which have resulted in keeping India poorer, and backward in technology and infrastructure.

In essence, though, India has continued to function as a somewhat isolated country, whose economic strength depends on an undernourished domestic market. India's total trade is less than $90 billion, or about 25% of that of China, and amounts to only 6-7% of GNP. India's foreign exchange requirement, as a stated policy, is primarily to pay off the $90 billion of foreign debt (more than 85% of which is long-term government debt and less than $6 billion is private), and to import such essential items as petroleum products and high-tech items, including hardware for the military. Indian leaders, at least till now, have no plan to generate foreign exchange for investment in the Five-Year Plans. The Plan money comes from within. In recent years, however, enticements have been offered by the government to a number of foreign thermal power plant manufacturers to build, operate, and transfer power plants by bringing in foreign direct investment.

As a result of maintaining such an economic and financial policy, India has remained less vulnerable to the speculative bubbles which have grown all over the world. The collapse of these bubbles will nonetheless have an impact on the slow-growing Indian economy—but a delayed impact. The collapse will reduce India's export capabilities, making the foreign debt look bigger than it seems now. It will also reduce India's capability to import essentials as the production centers around the world would likely close down in large numbers. In addition, foreign direct investment, which Indian leaders have begun to seek fervently of late to alleviate crying infrastructural needs, will decline drastically following the collapse. But, more importantly, India will not be able to grow at the rate it needs to grow, even if it wants to. The present arrangement that India has accepted has not made it vulnerable to financial storms abroad, but it gives India no chance to develop at all.

A genuine breakout holds great promise

Once the Indian leaders shifted their views in the 1960s on what exactly India should be, a low-growth regime, acceptance of poverty, and use of low technology came to be accepted. It is for this reason that the Indian leaders have not fought against the IMF-dominated global financial system the way they should have.

It is clear to all of us who are aware of this country's potential that India has to move out of this arrangement and work out a different arrangement with the community of nations. Such an arrangement means developing a new global financial system which would provide India and all other nations with the necessary resources to sustain growth and development—industrial, agricultural, environmental, and social.

In addition, India is left with no option but to build large infrastructural projects, whose lack of development has remained a significant barrier to India's agro-industrial growth. In this context, close cooperation—technological, financial, and institutional—with China and Russia would provide all three what no one of them has individually. Between the three, almost all essential state-of-the-art technologies are available. Utilization of these techologies through a regime set up entirely to serve the nations in the region could provide the necessary edge that these large nations desperately require.

Moreover, both India and China are water-short nations and yet, they both get drowned annually by the monsoon deluge. Most water management technologies are generated in the West, but the West has an entirely different annual rainfall pattern. It is, therefore, up to India and China to work out a technological solution to the harvesting of water at the time of plenty to serve their people at the time of scarcity. This is not only necessary to prevent the annual scourge such as the floods of 1998, but would provide both nations with long-term food and social security.

Harvesting of rainwater can be done in a number of ways. The most widely known mode, and definitely the less desired, is by excavating large reservoirs. However, the technological challenge that lies before both India and China is to harvest the abundant rainwater and store it underground wherefrom the water does not evaporate.

India's arable land is close to 160 million hectares. Needless to say, if Indian agriculture, throughout the entire cultivable land-mass, achieves a yield comparable to the highest attained by any nation, it would not only produce what India, China, and Japan are producing together now, but a whole lot more.

But, in order to accomplish that, a new global financial system will be necessary.