CHAPTER - IV

GLOBALIZATION: WHY INDIA RESORTED TO GLOBALIZATION

4.1. INTRODUCTION:

It is argued by scholars that the rapidly changing global economy is the compelling reason for the sweeping economic reforms initiated in the country. The reform process has now got into second phase with the full convertibility of the rupee on current account transactions and the slashing of custom duties to a great extent, in particular, both of which emerged as special measures taken in the budgets initiated by the Union Government since 1991. The efforts are now being made to integrate further the Indian economy with the emerging global economy.[1]

What exactly is the nature of the global economy out there? Who are the main participants in it? What are their agenda? How does the national economy of India get integrated with it? No doubt there is a considerable body of literature on some aspects of it, as for instance, on Transnational Corporations (TNCs) or Multinational Corporations (MNCs) who, it is generally accepted, play a crucial role in the emerging global economy. But what is the nature of the engagement between these bodies and the national economies? The Economist's special survey on the world economy made in September, 1992 asserts - Twenty years from now economists will think of the 1980s not as the decade of the international debt crisis, nor of the dollars boom and bust, still less of Reaganomics and 'monetarism'. All these mattered, but none of them marked decisive change in the forces that drove the world economy. Yet, the 1980s did witness such a change. During these years many of the boundaries between national financial markets dissolved, and a truly global a capital market began to emerge. It is for this that the past decade will be remembered. Is this a valid

claim? And if an integrated global economy is emerging in the financial sphere what are its implications for the 'real' economy? [2]

These are some of the questions which have been raised and analyzed in the following sections .It will also consider how the global economy impacted on the economy of India as she responded to structural adjustment programme - liberalization, privatization, and globalization.

From 1970 onward ----- the developing world witnessed a wave of economic policy reforms with one country after another taking recourse to the liberalization process. The process has been described by many critics as an act of imposition exercised by the International Financial Institutions. The reform process initiated by the developing world had been preceded by a quarter-century of state-directed efforts of economic development, during which time the goals of economic self reliance and Import Substitution industrialization (IST) were the hall marks of development strategies in the less developed countries. These goals seemed particularly justified, given the long experience of these countries with colonialism and the agricultural nature of these countries. Besides these, there was intellectual support for them from Keynesianism and the new discipline of development economics, especially in view of the historical memories of the massive market failures of the Great Depression Years (1930-1940). However, the present globalization wave has overtaken all those developments. [3]

Three reservations need to be enumerated here.

The first is that in the context of the international economy the relationship of one of its units with others is of a 'between nature' as, for instance, the Indian economy in relation to the US Economy or the Indian economy in relation to all other economies. It is in this latter sense that the recommendation is being made that the Indian economy must be opened up to global economy out there. But the concept of the global economy is an inclusive one. The Indian economy is within the global economy, and as such may share

some of the characteristics of the global economy and the global economy may reflect some of the features of its constituent unit, the Indian economy.

The second reservation is that the units of the emerging global economy can not be treated as similar or homogeneous in nature as the emerging global economy consists (at least) of national economies and multinational corporations. Hence, it is important that the global economy should be conceptualized as consisting of heterogeneous units which distinguish it clearly from the existing conceptualization of the international economy as consisting of homogeneous units.

This distinction will be sharper if the third reservation is taken into account which is related to what was already referred to as the agenda of the units. Within the conceptualization of the international economy, which is concerned with trade, it may be legitimate (definitely convenient) to depict all units as having the same agenda, but intuitively one can see that national economies and MNCs can not be treated as having similar agenda.[4]

The characterization of the 'global economy' given above is not an end in itself. Its purpose is to serve as an aid to the understanding of what is happening around the world. A quick review of the developments in the world economy since the end of the Second World War (1938-1945) may be helpful. Recalling the collapse of world trade, the competitive devaluations (beggar thy neighbour policy) and the spread of the depression of the interwar period, that United States and the United Kingdom, as the emerging victors of the second world war set out to create a world in which the countries did not close their eyes to the repercussions of their actions . That was the under lying principle of the Bretton Woods Conference of July 1944 which set up the International Monetary Fund (IMF) whose responsibility was to maintain a fixed exchange rate system with provisions for dealing with temporary balance of payments problems of member nations and the International Bank for Reconstruction and Development (World Bank) to provide long term capital requirements. For the first time, therefore, two

international agencies were set up followed by a third, the General Agreement on Tariffs and Trades (GATT) in order to permit national economies to pursue domestic policies of their own almost autonomously, but providing for free trade and free exchange rate with a view to paving the path of globalization.[5]

The changed world environment, right from the beginning of 1970s has given birth to the waves of economic policy reform in the developing world including India. The key feature of the changed world economy is the element of heightened economic globalization, which provided new external challenges as well as opportunities for development. [6]

4.2. GLOBALIZATION:

Globalization is considered as an important element in the reform package being carried out by all the developing nations across the world. Scholars have defined the concept in different fashions. Since globalization is such a pervasive phenomenon, definitions can be either very comprehensive or quite narrow. Some provide a broad definition : 'globalization may be thought of initially as the widening, deepening and speeding up of world-wide interconnectedness in all aspects of contemporary social life, from the cultural to the criminal, the financial to the spiritual' (cited in Basumtwi-Sam and Dobuzinskis 2003 : 35). Similarly, a synthetic but critical account gives globalization as overly abstract description as 'a reconfiguration of social geography marked by the growth of transplanetary and supraterritorial connection between people' (Scholte 2005: 8,86). According to Joseph Stiglitz, "Globalization is the closer integration of the countries and the people of the world which has been brought about by the enormous reduction of costs of transportation and communication, and the breaking down of artificial barriers to the flow of goods, services, capital, knowledge and people across the borders". The constituents of globalization are:

i) reduction of trade barriers so as to permit free flow of goods across national frontiers;

ii) creation of an environment in which free flow of capital can take place among nation-states;

iii) creation of an environment permitting free flow of technology;

iv) last, but not the least, from the point of view of the developing countries creation of an environment in which free movement of labour can take place in different countries of the world. But the advocates of globalization, more especially from developed countries, limit the definition of globalization to only three components viz. unhindered trade flows, capital flows, and technology flows. They insist on the developing countries to accept their definition of globalization within the parameters set by them. In this connection the definition relating to globalization given by Peter Marcus is noteworthy, "Globalisation is not something new but is a particular form of capitalism, an expansion of capitalist relation ships since ..... there are two distinct aspects to the development of capitalist relations since 1970 that are often lumped together under the rubric of globalization; developments in technology and development in the concentration of power". However, several economists in the developing world believe that these definitions of globalization are all incomplete in nature and in case the globalizer's ultimate aim is to look upon the world as a 'global' village, then the fourth component, unrestricted movement of labour can not be left out. But the entire issue whether debated at the World Trade Organization (WTO) or at other forums blacks out the 'labour flows' as an essential component of globalization.[7]

The concept of globalization which has emerged as an appeal for the developing countries for experiencing the fruits of development for the last two decades has not come to us an evolutionary process of history. The present form of liberalization can be named as 'Neo-liberal Globalization'. International

Monetary Fund (IMF), World Bank and world Trade organization (WTO) propounded the present version of globalization. United States of America (USA), Great Britain etc. took the leading role in propagating the concept of globalization. Scholarly contributions in this field came from the writings of Friendrich Hayek, Milton Friedman and Kenichi Ohmae etc. [8]

4.2.1. A BRIEF HISTORY OF GLOBALISATION:

Globalization which is a more romantic word indicating the desire to integrate nation - states within the overall framework of the WTO, is nothing but a modern version of the 'Theory of Comparative Costs Advantages' which was propagated by the classical economists to provide the theoretical foundations of unrestricted flow of goods from Great Britain to other less developed countries - at that time obviously the colonies. The school argued that international specialization benefits both the countries which enter into trade relations. The present advocates of globalization have brought forth the similar argument in a very lucid manner. They desire of an export- led- pattern of growth to replace the import -substitution trade policies followed previously. The imperialist nations during the 18th, 19th and 20th centuries also emphasized capital and technology flows into the colonial countries. Interesting point in this context was that these imperialist powers could force their will at those times because they had rein of controls at their hands. Minute analysis of all these historical evidences reveal that all these trade, capital and technology flow helped the imperialist nations to drain out resources from the poor colonial nations. In this way the imperialist nations thrived at the cost of the colonial countries as these colonial nations were thrown into the trap of stagnation and poverty. [9]

But the advocates of globalization at present want us to believe that they are sincere now and as a result of these policies of globalization the developing countries would be able to improve their competitive strength and usher in a period of growth. The appeal rose high as the developing nations found the

economic collapse of the U.S.S.R. (erstwhile) and other East European countries like Bulgaria , Hungary, Czechoslovakia, Romania etc. in the process of operating state controlled development through imperative planning having been influenced by the socialistic school of thought in the late eighties and early nineties. As a result of these facts, the developing countries are cajoled and through various kinds of soft and hard pressures are persuaded to fall in line. Consequently as it happened in India, the process of dismantling trade barriers started and every year since 1991 the Finance Ministers have been announcing reduction of import duties and a simplified taxation system. Advocates of present form of globalization argued that this shall enable free flow of goods, capital and technology and thus globalization becomes a motivating force for nations to develop themselves at a faster pace that creates more gainful environment in the world scenario for each economy. For a developing country like India, it opens access to new markets and new technology. [10]

4.2.2. ECONOMIC MODUS OPERANDI OF GLOBALIZATION:

The most common mental image of globalization is the internationalization of the economic system, more specifically about the integration of markets for goods and services; an integration that transcends geographical and political borders. To put it in other words, it aims at the creation of economic system across the world dismantling the national barriers. Some scholars may be tempted to argue that market integration through trade and exchange has been known to human society for a very long time. Indeed, the discovery of the world and the extension of exchange have always gone hand in hand .In true sense the present process of globalization is totally dependent on some of the economic functioning. These functioning may best be presented in the following manner. [11]

Privatization, liberalization, world wide functioning of the Multi National Corporations, internationalization of the systems of production and investment,

structural adjustment programmes being carried out by the developing countries at the direction and pressure of the developed countries through the international agencies like International Monetary Fund (IMF) World Bank etc., introduction of balanced budget by force in the developing countries introduction of aslant trading system at the pressure of the developed countries and finally the open market system are the key features of present form of globalization. The entire process of globalization can be divided into eight important stages (Bagchi). These are as follows:

a) expansion of international trade across the globe;
b) immigration of the people among the different regions across the world;
c) the movement of money and other medium of exchange among the different nations;
d) the introduction of the flow of capital from one country to another country in the process of generation resources through the production in the fields of industry, agriculture and services;
e) the introduction of the movement of finance capital among the different countries in the world;
f) impact of Multi National Corporations (MNCs) and Trans National Corporations(TNCs) over the trade investment and production in the world;
g) the exchange of technology among the different countries;
h) Finally, the expansion of information medium and the application of electronic technology upon the different mediums of information in the different parts of the globe.

One can easily understand the economic functionings of the present process of globalization when all these divisions mentioned above are joined together.

4.2.3. GLOBALIZATION AND THE SOVEREIGNTY OF THE NATION-STATE:

The question of sovereignty of the nation-state is closely associated with the concept of globalization. World Trading Organization (WTO), International Monetary Fund (IMF), World Bank etc. through the investment of capital are trying their level best to fulfill their own interest in the developing countries in the world. Against this current of globalization the nation-states, more particularly the developing countries or the third world countries are virtually helpless and cornered to a great extent at present. The present wave of globalization has given the free permit & license for the speculative capital and portfolio investment to invest it in different parts of the globe. Third world countries at present are in receiving end to retain their sovereignty as nation-states. In this attempt they have been made virtually handicapped the time they enter into the process of globalization. People of the developing countries witness that so many functioning beyond the control of the state are taking place and as a result of the fact these people are suffering a lot from the malfunctioning of the state. In the nineties, the collapse of the USSR (erstwhile) and other socialistic countries paved the way for the USA for having monopolistic control over the world. At present the USA with its hegemonic control is in such a commanding position that it determines the bilateral relationships and the nature of relationships between two nations or among the different nations in the world. USA through its control-network also determines the amount of production in developing countries of the world. This development with the sovereignty of these countries in the continents of Asia, Africa etc. has done a great damage with the liberty of the people in these nations. This, in fact is not only an economic damage. The inclination has attacked the political institutions and democratic rights of the common people in these societies of the developing nations. Education, health and social security measures of the developing nations with the advent of globalization in its polished form are at stake to a great extent.[12]

4.2.4. GLOBALIZATION AND CULTURE:

The present form of globalisation does not only cast its impact on the political and economic spheres, but also at the same time on the civilization and the culture of the developing nations and no doubt this impact is clearly visible. John Tomilsion argued that globalisation and culture, both these concepts are inextricably intertwined with each other. The scholar contends that' Globalization' is at the heart of modern culture, cultural practices lie at the heart of 'Globalization'. Truly speaking in this age of globalization there exists no national food, no national dress. People residing in different parts of the world are now wearing the dresses made of jeans and having cold drinks spontaneously. They are also using mobile phones at random and having fast foods at great speed.

From the above discussion it can easily be concluded that the present activities of the process of globalisation sharply narrowing down the geographical differences among all the nation-states in the world. But the economic operation of the process of globalisation on the other hand is widening up the differences between the developed and developing blocs in the world at present steadily. Whatever the positives aspects are there in the process of globalisation are all being swallowed up by the so called developed blocs in the world as these developed states reside in a comparative advantageous economic position. Developing nation-states in the quest of development are being trapped articulately in the trap of the debt. These nation-states have been made bound to accept adverse conditions at the time of receiving loan cum aid from the agencies like the World Bank and International Monetary Fund (IMF). These countries have been made bound to open up their economics to the Multination Corporations (MNCs) and Trans National Corporations (TNCs) to be exploited and looted at random. Their sovereignty is at bay at the hands of the USA and its followers to a great extent. Western economists like Joseph Stiglitz have admitted "Globalisation is not working for many of the World's poor. It is not working for

stability of the global economy". But there is no question of looking back at present. There is no denial of this fact that globalization is a well established fact across the world. Under the present circumstance, all the nation-states including India should try their utmost to run the machinery of the state in such wise and useful manner so that the maximum amount of benefit of globalisation can be achieved in their own favour at all costs. [13]

4.3. BACKGROUND OF INDIA'S RESPONSE TO THE CONCEPT OF GLOBALIZATION:

The issue of globalization of the economy of India has drawn attention of the academic community in India overwhelmingly. On the part of the scholars several attempts have been made to explain the compelling reasons for India to respond positively to the New International Economic Order (NIEO) and to the prescriptions propounded by the IMF -World Bank to globalize the Indian economy.

Historical evidences prove that after the attainment of freedom from the British imperialist power in 1947, India chose to follow a closed economy approach. Public sector was given commanding height for the economic development of the country and the private sector was allowed to take part in the development process under the control of the government. The aim was virtually in tune with the making of planned economic development armed with regulatory mechanism and controlling powers in order to protect the people from exploitation in the domestic market by the monopolists and externally by foreign investors and suppliers. Given the bitter experiences at the Indians as well as of other colonies caused by the endless dominance and exploitations by the imperialist powers of the West over a fairly long period of time for the benefit of their own economies, the call for NIEO appears to the people of the LDC including India to be a new finer way of exploitation by the developed countries, a way to get rid of the growing problems faced by the rich nations since second

World War (1938-1942). Such a hesitant attitude of the Indian people is not totally unjustified by the reason of the fact that through the so closed economy approach and the growing importance of the public sector, the country has been able to build a sound industrial base, has successfully combated the challenges of famines and draughts and has attained significant growth in agriculture.[14]

But another school of thought argued that planned economy with regulatory mechanism has not been able to realize the desired standard of development. The scholars of this school insisted on opening up the economy of India before World Markets. To consolidate their standpoint this school of thought put forward the success story of the nations situated in South-East Asia. These countries namely Hongkong, Singapore, Taiwan opened their economy through de-administered development mechanism and thereby experienced development to a great extent. [15]

Being influenced by this success story and also being driven by the balance of payment problem, the country has been facing during the late 80's ,the government of India had adopted the policy of economic reform first in 1985 and then in 1991 and thereby leading the country towards the path of liberalization, privatization and globalisation of the Indian economy in order to overcome the problems of slower growth of industry vis-à-vis the whole of the economy to combat the problem relating to poor standard of living, poverty and unemployment etc. with the inception of New Economic Policy (NEP) in July, 1991 there has been a continuous attempt on behalf of the Government of India to transform the economy of India from a controlled economy to an open economy. [16]

But the rather sketchy account of the salient aspects of the transformation that the country has been carrying out during the past four decades or so, evolving a global economy out of an international economy, it is hoped, is helpful to an understanding of the global economic context of the early 1990s which constitutes the backdrop to Indian economic reforms. For understanding

the reasons or the compulsions of India's response to the process of globalisation it is necessary to capture the essential features of evolving global economic environment. [17]

1. National economics with the help of their relationships existing among them still play a major role in the contemporary global economy. But the scholars opine that these relationships are not multilateral in any way. There are four distinct centers of the international economy: North America (led by the United States, Europe (with a unified Germany in the lead), the Far East (where Japan is the major actor followed by South Korea) and the People's Republic of China. A minute observation over the functioning of the evolving global economy makes it clear that these are the active agents of the international economy with other national economies being passive participants in it, of the four, the last has been characterized with some special characteristic features of its own and as a result of this fact the country has not been drawn into the global system as much as the other three. [18]

Table: 4.1
Industrial Production - Annual Average

(Per cent)

Country	1960-70	1970-80	1980-90
United States	4.9	3.3	2.6
Japan	15.9	4.1	3.9
West Germany	5.2	2.3	1.8
France	6.0	3.0	1.3
Italy	7.3	3.3	1.3
United Kingdom	2.9	1.1	1.8

Source: World Institute of Development Economics Research, World Imbalances, (Helsinki, WIDER, 1989).

2. So far as the question of economic activities likes productions, trade and capital flows are concerned the first three accounts for a high proportion. It has been noticed that with respect to capital states like Germany and Japan have emerged as surplus nations and the United States as the largest deficit nation absorbing a major share of the capital available in the global system. For instance

in 1988 Japan had a surplus of some $80 billion, Germany $48 and the NICs of Asia $26. As against this (and smaller accounts from other countries) the United States absorbed some $135 billion. To put in other worlds, "the United States is now absorbing most of the capital exported by all the creditor nations of the world there by crowding out their potential borrowers and increasing world real interest rates." [19]

3. The above mentioned situation has already cast its impact on the trading system of the world at present to a great extent. But the interesting fact which has been noted that in spite of all the trumpeting about 'free trade' as the corollary of the capitalist system, no leading capitalist country has put it to practice to a considerable extent. In the year of 1948 there has been the establishment of GATT. The primary objective was to achieve a freer and fairer trade through reduction of tariffs and diminution of other trade barriers. But enough exceptions were provided for instance, agriculture was kept entirely out of its purview at the insistence of the USA and many European countries. As a recent study observes," The (GATT) system was never based on standard economic arguments for free trade but rather on a kind of managed mercantilism under which countries traded 'concessions' on imports in return for export opportunities". Capitalist bloc has put forward a variety of reasons for the maintenance of this system of concession. Among the many reasons the chief among them being the magnitude of current account deficits of the US which has led to increased pressures for protectionist policies in that country. There has been a tremendous change in the global trade regime in the 1980s. In 1985 the Council of Economic Advisers of the President of the United States reported, "The world is moving away from, rather than toward comprehensive free trade. In major industrialized countries, for example, the proportion of total manufacturing subject to non-tariff restrictions rose to about 30 percent in 1983,up from 20 percent just three years earlier". The process continued for a long period of time. The Economist's survey of the World Trade in September

1990 gave the following information. Many new sorts of trade protection have been proliferating in recent year. One of these devices is what has come to euphemistically referred to as 'voluntary' export restrain' (VER)."Increasingly if a powerful government is worried about the harm that imports are doing to its procedures, especially if it happens to be the American government, it requires another government on pain of retaliation, to restrict its country's exports of the goods in question". During 1970s this practice was largely confined to textiles but notable fact is that VERs recently have spread to the fields of industries like steel, cars, shoes, machinery, consumer electronics and more. Secretariat of the GATT has counted nearly 300 VERs. In this context 'The Economist's' observations about 'Section-301' are worth repeating. "The crowbar in American's toolbox is the notorious section-301 of its trade law. This authenticates the president broad authority to retaliate against foreign trade practices that unfairly discourage American exports. America decides what is unfair, the law is vague on the point." In the year of 1988, Super-301 was made obligatory, again on pain of retaliation for the 'named' countries to reach agreement with the US Trade Representatives within 12 to 18 months. It must be noted here that 'India' is one of the countries undoubtedly. [20]

This practice of protectionism is found not only with the United States of America but with the Asian giant Japan also. Infact, it has been observed that Japan is even more notorious with the difference that protectionism there is domestic policy –the Japanese have 'vehemently and voluntarily' agreed not to use foreign goods if these are produced in Japan also. [21]

4. The global economy formally from 1971 and effectively from the second half of the 1980s, in terms of national currencies, has been functioning without any formally accepted standards or even a lead currency, taking the situation to the same kind of flux and uncertainty that prevailed following the collapse of the gold standard during the inter-war period. The situation has led to exchange rate volatility becoming the order of the day. [22]

5. During 1970s and subsequently during 1980s also it has been observed that transnational and multinational corporations have emerged and evolved as powerful nongovernmental agencies as well as actors in the newly emerged global economy. The prime motive in the process of the operation of these actors is the maximization of financial profits. Production process has been transnationalised by these agencies with no long term commitment to any particular global location and always ready to hop, step and jump to wherever they perceive their advantages to be. Through the control mechanism these agencies always exercise a great deal of control over capital movements, but for reasons, indicated, capital of this kind is especially and essentially footloose here today and gone tomorrow. Critics label this capital as speculative capital functioning in the global economy. Increasingly the TNCs and MNCs are turning to financial activities and their actions have led to a substantial integration of the financial system in the global economy. These agencies take full advantage of the exchange rate volatility with great tact and truly speaking to a great extent, these agencies also generate such fluctuation in the process of their operation in the name of the integration of the global economy. It is not to forget that exchange rates today are much more a reflection of global financial transaction than of trade. With the ability of influencing exchange rates these agencies are in commanding position to cast their impact on national economic policies, especially relating to monetary policies. In the emerging global economy, therefore, these non governmental agencies have a profound influence. This influence is very evident in some respects but in many other respects this influence is subtly hidden. [23]

6. The international economic agencies such as the IM Fund, the World Bank in view of all these changes have lost much of their original mandates, but under the present scenario these two agencies function primarily to protect 'global stability' which can mean only stability that favors those who control the physical and financial resources. In pretending to be guardians of global

interests, they become effective allies of those who are the 'de facto' controllers of the system.[24]

7. The 'South'-poorer or developing countries of the world as a group - have definitely had rough deal in the emerging new dispensation. The report of the South Commission's description consolidates the important observation : "The widening disparities between south and north are attributable not merely to differences in economic progress, but also to an enlargement of the north's power vis-à-vis the rest of the world. The leading countries of the north now readily use that power in pursuit of their objectives. The 'gunboat diplomacy' of the nineteenth century still has its economic and political counterpart in the closing years of twentieth century or even in the beginning of twenty first century. The fate of the south is increasingly dictated by the perceptions and policies of the governments in the north, of the multilateral institutions which a few of those governments control, and of the network of private institutions that are increasingly prominent. And "a network of relationships has been built up among private entities - banks, investment houses and transnational companies- in the leading developed countries. This has served to strengthen the influence of decisions made by private bodies on world economic activity, and to that extent to limit the effectiveness of governmental policy decisions. For the south the result is even further marginalization and greater powerlessness." Neither is this mere rhetoric. If the question of hard cash is taken into account, for instance, it has been noticed that debt related transfers of resources from 1984 turned out to be from the south to the north, the net amount being as high as $163billion between 1984 and 1988. This reverse flow was not only from the south to the north. Net credits from the IMF to developing countries also turned out to be negative in 1986-88.[25]

4.4. GLOBALIZATION: WHY INDIA RESORTED TO GLOBALIZATION ?

It can be asserted that the Narasima Rao government would have embraced liberalization in the chosen form in the absence of the 1991 crises at the encouragement of the IMF and the World Bank.

Bhagwati and Srinivasan put forward the following arguments:

'The fact that the reforms were part of the conditionality that came with multilateral assistance has created the impression that they are the result of foreign pressure. In turn, there is the notion that the ideas and policies being imposed on us are foreign and also that they are ill-designed in consequence for us.'

4.4.1. PRESSURE BY THE WORLD BANK AND THE IM FUND AS THE FIRST PROPOSITION:

'Indeed it is true that without the crisis being on us, the initial adoption of the reforms may have continued to be postponed. Our earlier efforts at initiating them had been hesitant and limited at best. Conditionality played a role, for sure, in strengthening our will to embark upon the reforms. But the seriousness and the sweep of the reforms and the Rao Government's explicit embrace of them as against the earlier 'reforms by stealth', demonstrated that the driving force behind the reforms was equally even overwhelmingly, our own conviction that we had lost precious time and that the reforms were finally our only option'.

It is undoubtedly worth mentioning here that the combination of crisis and conditionality is seen to be significant in translating 'reforms by stealth' into decisive reforms action. [26]

A fine line exists between' having one's will strengthened' and yielding to pressure is to be noted here. That the crisis created an apprehension that certain dramatic action was called for. But such action need not have been the liberalization package opted for. To quite what degree the will to embark upon the radical liberalization existed independently of conditionality, is not clear. An

inquiry into the thrust of the argument of Bhagawati and Srinivasan makes it clear that it did. However, it has been merely asserted by them. In support of their assertion direct evidence has been produced. Rather a different track was followed by them. They make a spirited attempt to argue that such a will has strong Indian intellectual roots in the past in their second proposition. But it hardly disposes of the present argument even if it were true of course. The question remains whether it is true or not. The nature of their claim can be scrutinized in this context.

4.4.2. THE SECOND PROPOSITION:

'The complaint that the ideas being implemented are extraneous does not reflect the reality either. These reforms in our, and indeed in many developing countries' policies, were being advocated from the early 1960s and the proponents, the pioneers, included Indian economist. It is ironic, in fact, that these ideas rejected at the time by our authorities and by many of our economists as well, have now been adopted worldwide but have come to be adopted by us only at the end of this revolutionary change. Indeed, these ideas have been recycled back to us, in many cases, by the staff of the multilateral institutions who learnt them from our own pioneering economists. The claim that the ideas are foreign and hence ill-suited to us is therefore incorrect. In any case it is surely odd and counterproductive to accept or reject ideas based on where they are coming from!'

To say the least in this context, it is dubious in character. On at least three important counts, it is so: on the suggested timing, on the postulated strength of early liberalizing arguments of Indian economists and on the proposition that it was from 'our own pioneering economists' that the staff of the multilateral institutions learnt the relevant logic. [27]

Above mentioned situations earlier prevailed in the global economy, to which the reform measures initiated in July, 1991. The Indian Economy seeks a

degree of greater integration. Scholars of different fields opine that a number of questions need to be raised regarding this proposed integration even when the answers may not be readily available as the intellectuals argue. [28]

First is the question of timing. It has been observed that the scholars favoring the process of globalization have been advising the Government of India to make its economic policies 'outward oriented' to open up its economy to foreign goods and foreign investment and to join in the global movements towards liberalization and privatization. The voices of this school rose high as the fifty years of planned economy could not bring the desired development for the country. Apart from some theoretical considerations, this advice was also based on some empirical evidences in particular, the experience of Singapore, Honkong, Taiwan and South Korea, the Asian tigers who took the advice a couple of decades ago or more and shown excellent results in transforming their economies. Repeatability of such experiences of course, raises many questions. But at least one of this is crucial. Does the global economy in early 1990s provide the same kind of conditions to as it did in the mid 1960s and even the early 1970s? A minute analysis of global economy will reveal the fact the 1960s were years of rapid growth of the global economy as also of international trade. In sharp contrast, the World Bank's World Development Report, 1991, the challenge of development as its theme had this grim picture of economic scene of the early 1990s. [29]

"A seven-year expansion in the world economy came almost to a halt in 1990. Signs of slowing economic activity in a number of large industrial countries became evident as monetary policies were tightened in response to production at near- capacity levels and rising inflation. The slow down became more widespread and pronounced with the Gulf crisis in August, 1990. Increased uncertainty had adverse effects on consumer and business confidence, which in turn led to markedly lower growth of consumer spending and business investment in the industrial countries. The financial requirements of the

unification of Germany and Japan despite the economic slow down in 1990 and early 1991. Real GDP growth in industrial countries slowed down to about 23 percent in 1990 compared with 3.3 percent in 1989 and 4.5 percent in 1988.

Canada, United Kingdom and the United States have been in recession. Growth also has slowed down elsewhere in Western Europe. Equity prices in Japan have fallen by about 50 percent, and the quality of bank portfolios in both Japan and the United States has deteriorated. Although the slow down of the industrial economies is likely to be short lived and shallow, the recovery is expected to be only gradual. [30]

In the developing countries real GDP growth declined from 4.3 percent in 1988 to 2.9 percent in 1990, the lowest since 1986. The main reasons- in addition to continuing macro-economic instability and domestic policy weaknesses- were falling non-oil commodity prices, high international (non-dollar) interest rates, and slower growth in world trade. From the above analysis, it is crystal clear that reasonable thinking would not have favored greater integration with the global economy.

Second consideration is related with the diagnosis of the crisis of the Indian Economy. The point put forward when the reform measures were suddenly announced was that the prudent strategies as claimed by the pro-liberalization school of thought in India of growth of the 1980s and the wise policies derived from them were reversed by two short sighted governments that were in power from December, 1989 to June, 1991. But in true sense, a minor analysis of the evidence available from all official sources will show that the crisis was the direct consequence of the policies of the 1980s. The growth at that period was supported by mounting import surpluses and financed by reckless government deficits particularly in revenue account related to the political decision not to 'hurt' those able to pay direct taxes. The developments were similar to what was being put into effect in the United States at the same time and not surprisingly with the same consequences, viz. alarmingly high debts

both internal and external. But unfortunately no one appeared to be willing to lend support to a struggling India.[31]

The external debt crisis, which surfaced in early 1991, brought India close to default in meeting its international payments obligations. The balance of payments situation was almost unmanageable. The fear of acceleration in the rate of inflation loomed large. The under lying fiscal crisis (an imbalance between income and expenditure of the central government) was acute. The factors that led the economy into such a situation were not attributable to any sudden shock beyond our control such as a series of bad monsoon or a dramatic increase in world oil prices. It was the outcome of persistent mistakes in economic policy that accumulated through the 1980s. Fiscal deficits (the gap between central government spending and receipts) met by borrowing at home mounted steadily. This was coupled with current account deficits in the balances of payments which roughly meant that receipt from foreigners, in hard currencies like the US dollar, were less than payments to foreigners. It led to borrowing abroad which grew steadily larger. The internal imbalance in public finance led to a rapid accumulation of internal debt that the government owed to its people. In addition the external imbalance in the public payments situation meant a rapid pile up of external debt that the country owed to foreigners. It needed no great economic calculation or foresight to anticipate that the country was heading for a debt crisis if policies remained unchanged.

In order to get rid of the critical condition mentioned above the Government of India set in motion a process of macro economic stabilization combined with fiscal adjustment and structural reform in conformity with the orthodox wisdom of the IMF and the World Bank. It needs to be stressed here that this was nothing new. It replicated broadly the pattern of several developing countries in Latin America and Sub-Sahara Africa in response to the debt crisis in the 1980s. All these countries were under similar IMF programmes of stabilization coupled with World Bank programmes of structural adjustment.

These high-sounding words need to be spelt out in Plain English as they constitute a core set of almost common economic policies irrespective of the country and its specific problems. [32]

Third, if the diagnosis was wrong, were the remedies initiated by the country right? In this context the capital flights of October, 1990 to June, 1991 and the consequent sharp fall in the foreign exchange reserves were mentioned as the immediate manifestations of the crisis for which remedial measures needed. The Economic Survey, 1992-93 has how provided the figures. During those months a total amount of $1.33 billion was withdrawn from the Foreign Currency Non Resident Accounts (FCNR), starting with $102 million in October, going down to $11 million in February but picking up again, shooting up to $573 in April, then $228 in May and another $330 in June. Certainly, the cumulative impact of these flights would have been alarming, especially to a new administration. But what was the nature of these capital flights? It has been pointed out that the capital flights started after the World Bank had strongly advocated a 20 percent devaluation of the rupee in a report in October, 1990. Even if there is not enough evidence to suggest that the capital flight was thus engineered. It can be safely inferred that the learned arguments of the bank must have had a bearing on the decisions of NRIs. In any case, if the crisis was precipitated by capital flight was the devaluation of rupee - the first and best way to resolve it? The answer could be that the devaluation was confidence restoring measure and it seemed to have worked because the capital flight was arrested. Perhaps yes, although the evidence is not very convincing. The FCNR flow turned positive in January, 1992, but from there until September, it was again negative. After that till January 1993(the latest month for which figures were available) it remained positive. W ill there be another outflow now that the interest rate has been brought down? In other words how much can one rely on the NRI deposits? Are they being made for patriotic reasons, or are they part of the global phenomenon of transient capital resting in India for a while? [33]

Fourth, other than as a temporary confidence restoring measure what is that the devaluation is expected to achieve? If a look is given into the conventional theory of international trade it is noticed that devaluation is expected to correct balance of payments problems by stimulating exports and curbing imports. Scholars are convinced that latter is almost sure to happen because devaluation will make imports costlier in terms of the domestic currency but the former will depend very much on how price elastic a country's exports are and whether the increase in the volume of exports if it happens is sufficiently large to compensate for the higher exchange value of the foreign currency. Export and import figures available in 1991-92 which show that exports fell to $18,135 million from the 1990-91 figures of $18.491 million and that imports also declined from $26,241 million in 1990-91 to $21, 213 million. Though it is to be accepted that less than one year's figures are certainly not adequate to judge the issue. But the more important question is whether in the kind of ongoing global economy that has been flourishing; a country like India has much of a chance to boost its exports through exchange rates adjustment alone. [34]

Fifth, there is the related issue of the convertibility of the rupee. But one important point has to be kept in mind here again; convertibility will be desirable objective to work towards if the external value of a national currency is determined primarily of its 'real' transactions with the rest of the world. But in the global economy where financial transactions per se, including speculative buying and selling of currencies, are substantially the major component of transactions, is convertibility a virtue in itself? As of now convertibility is limited to current account but if and when it becomes effective on capital account, there is the possibility of speculative buying and selling of rupee to a great extent. The situation will lead to violent fluctuation in its external value. Under the circumstance it can easily become reasonable that rupee will face the similar problems as at present being found with the Italian lira or with the British pound.

Sixth, doubt is over the expectation of taking it as guaranteed that there will be a significant flow of foreign capital into India if rupee is devalued and the process of convertibility are established smoothly. No doubt at the operation of this process some amount of foreign capital will get poured into Indian Economy as has happened in the food processing industry, for instance, to take advantage of India's big domestic market for such goods. But the process will certainly will not help in increasing the exports of the country and in reducing the underlying balance of payments problems. On the contrary, to the extent that payments will have to be made in foreign currency and as a result of the fact the balance of payments position may get aggravated. Some finance capital may also get in as has been happening. It has been observed that in 1991-92 foreign banks had made a profit of more than Rs. 1000 crores in their Indian operations and that profits were far larger than the global rate of profits. [35]

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