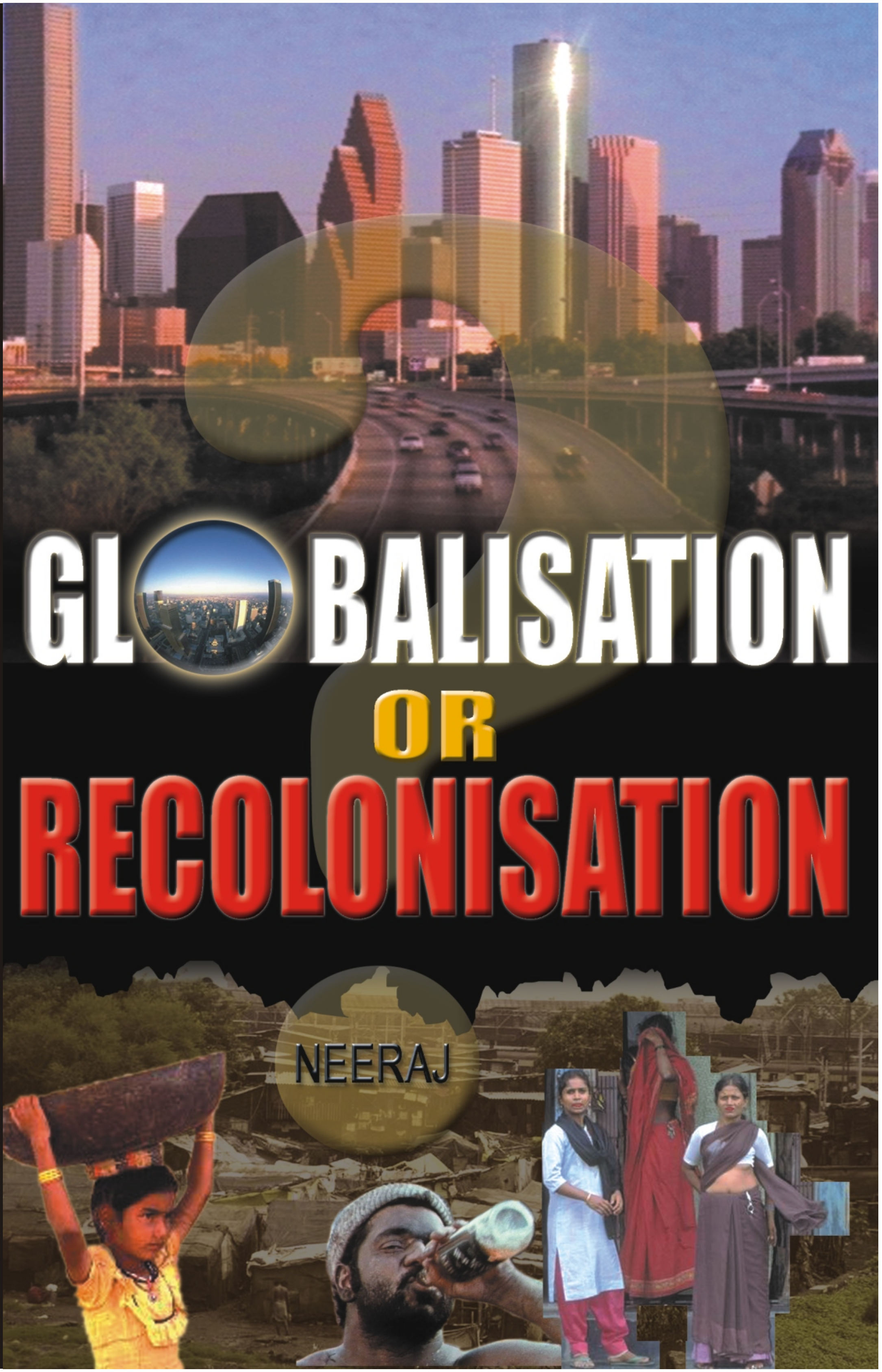
GLOBALISATION OR RECOLONISATION ?

Globalisation - the triumph of unrestrained capitalism over the entire globe - is supposed to mark the end of conflicts, of imperialism, of revolution - indeed, the end of history ; we all can now look forward to a new era of infinite progress. If that is true , then why did thousands of anti-globalisation protestors from all over the world converge on Seattle in November 1999, bringing the WTO meetings to a halt? Subsequent months have seen many more such protests in what is clearly a rapidly growing worldwide movement. Are these people just “a bunch of hoodlums” (to quote Finance Minister Yashwant Sinha) or is the truth about globalisation much different from the extravagant claims being made ?

Anti-globalisation protests, Seattle Nov 1999

Published by
LOKAYAT

GLOBALISATION OR RECOLONISATION? ▪ NEERAJ ▪ LOKAYAT



GLOBALISATION OR RECOLONISATION

NEERAJ

Some Glimpses of
Anti-globalisation
Protests Worldwide
(See pg. no. 240 for details)

Some Glimpses of
Anti-globalisation
Protests Worldwide
(See pg. no. 240 for details)

GLOBALISATION

OR

RECOLONISATION ?

NEERAJ JAIN

LOKAYAT

GLOBALISATION OR RECOLONISATION ?

- **Author**
  Neeraj Jain
  129B/2, Lokayat,
  Opposite Syndicate Bank,
  Law College Road
  Near Nal Stop, Erandwane,
  Pune - 4

- **First Edition - March 2001**
  Reprint - January 2004
  Second Edition - October 2006
  Reprint - September 2013

- **Published and Printed by**
  Alka Joshi
  129B/2, Lokayat,
  Opposite Syndicate Bank,
  Law College Road
  Near Nal Stop, Erandwane,
  Pune - 4

- **Cover Design & Layout**
  Milind Joshi
  Anupam Creations
  2/14, Marwa, Anupam Park, Kothrud,
  Pune 411 029

- **Typesetting**
  Nandkumar Nair

Contribution Price Rs. 150/-

CONTENTS

PREFACE TO THE SECOND EDITION

Its been five years since this book was written. There has been a great demand for an updated edition to this book, as much has happened during these last five years, globalization has gone ahead at an accelerated pace.

However, due to my engagements with our group LOKAYAT's activities, I have been unable to take out time to revise this book. But finally, just when we decided to send the book as it is to the press, I decided to just add a last chapter as a brief update of what has happened in the last five years. It is very incomplete, and is not a very comprehensive summary of all that has happened since I wrote this book, but I thought that adding something is better than adding nothing.

Apart from this last chapter, I have also added an index for those wishing to look up a specific issue.

And in the end, I hope many of you who will read this book will send in your comments to the addresses given at the end.

In solidarity,

Neeraj

Pune, 9 October, 2006

INTRODUCTION

I. THE END OF HISTORY

The world over, talk of 'globalisation' is the new rage these days. Barring a few 'rogue' states like Cuba, the rest of the countries - including the rich developed countries and the poor underdeveloped third world countries – are coming together and rapidly 'integrating' their economies. It has given birth to a dynamic global market economy that has no precedents, and it is supposed to propel the world into a new millennium of abundance. For instance, the editors of the prestigious US magazine *Business Week*, in a recent double issue on the 'The 21st Century Economy', predicted that "Revolutionary technology and rapid globalisation…will send productivity soaring, allowing faster growth with low inflation and modest employment. This dynamic could last for decades, bringing unimagined prosperity worldwide."[1]

India began the globalisation of its economy in 1991, relatively later than most other third world countries. A decade later, if Finance Minister Yashwant Sinha is to be believed, India is emerging as an economic superpower.[2] In his address to the joint session of the US Congress during his recent visit to the United States, Prime Minister Atal Behari Vajpayee painted a glowing picture of India's economic progress since the economic reforms began: "In the last ten years, we have grown at 6.5 per cent per year that puts India among the ten fastest growing economies of the world."[3] He drew the attention of the US lawmakers to the stable nature of this growth: "Two years ago, while much of Asia was convulsed by economic crises, India held its course."[4] Talking about the future, he remarked: "We want to do even better in the decade that has just begun. We have pledged to double our per capita income in the next ten years. This implies a growth rate of around 9 per cent. Although it is a difficult challenge, India can achieve it. India will achieve it."[5] The "comprehensive reforms" being implemented in India will enable the country to achieve this growth rate, he added.[6] Vajpayee's host, the President of the United States

William Jefferson Clinton, also waxed lyrical about the rapid strides made by India in recent years. He went so far as to describe India as a future world power – "a rising economic leader, an emerging environmental leader, a pioneering health leader, a leader in our community of democracies…"[7]

The repeated success of Indian models in the world's biggest beauty paegents, the high demand of India's software professionals in the developed countries, the meteoric rise of Indian software companies like Infosys and the emergence of a new breed of Indian billionaires like Asim Premji – are being presented as proof for the above statements, that they are not merely empty rhetoric. The two-and-a-half page Clinton-Vajpayee Vision Statement issued during Clinton's visit to India in March this year proclaims: "We have built creative, entrepreneurial societies. We are leaders in the information age."[8]

What about India's most basic reality: that more than one-fifth of our population – 200 million people – does not have access to safe drinking water; nearly half our population – 400 million people – is illiterate; nearly two-thirds of our population – 600 million people – lacks basic sanitation; nearly 40 per cent of our population – 370 million people – lives in abysmal poverty? Actually, talking about such things has become old-fashioned in the 'information age'; countries must ensure high growth rates, and the growth would automatically trickle down and eradicate poverty. The Indo-US joint statement of March 21, 2000, points out: "growth is the key to rising incomes and rising standards."[9] India is not only going to eliminate poverty at home, it has joined hands with the US to launch "an unrelenting battle against poverty in the world, so that the promise of a new economy is felt everywhere and no nation is left behind."[10]

And so, a new age is dawning. If we are to believe the millennial pundits, the world stands on the eve of a virtually unlimited era of global prosperity. Obviously then, peace and tranquility is going to prevail throughout the world; the strife that has plagued the world throughout the 20th century has come to an end. Therefore: it is the end of class struggle, the end of revolution, the end of imperialism, the end of dissent; some have even declared: it is the end of history.

II. OUR CONTENTION

If we are to move away from the hype and look at what the facts have to say, we will find that all these extravagant claims are nothing but blatant lies. The harsh reality about globalisation is that it is nothing but

'recolonisation' in a new garb. The third world countries are being transformed into economic colonies of the developed, or imperialist, countries – the same imperialist powers who had once before directly colonised them. In the name of **'free market'** and **'free trade'**, multinational corporations and banks of the West are re-entering the third world economies to plunder their wealth and resources. The imperialists are not enforcing this new colonial order by force as they once did in the 19th and early 20th centuries. They don't need to. The ruling classes of the third world countries themselves are betraying the interests of their people and countries. They are voluntarily handing over control of the economies of their countries to Western corporations and governments and the international financial institutions controlled by them. The third world elites are of course being well-rewarded for their treachery: they are getting a share of the imperialist plunder of their own countries.

This re-colonisation – or globalisation – has had catastrophic consequences on the livelihood of billions of people throughout the third world. All the gains in living standards made by the common people in these countries in the 1960s and 1970s are being rolled back. The new economic order being imposed on them is killing of hunger and preventable or curable diseases more men, women and children every three years than all those killed by World War II in six years.[11] In addition, globalisation has pushed the world economy to the brink of a financial collapse very similar to the Great Depression of the 1930s. The media hype surrounding globalisation is in fact very similar to the euphoric prognostications of "New Era" (of Henry Ford) and "endless prosperity" made during the boom years of the 1920s.

Likewise, India's opulent brown rulers have also decided to become collaborators of the United States and other imperialist powers. In the name of globalisation, gigantic Western corporations and financial institutions are being welcomed with garlands and red carpets to take over the most crucial sectors of our economy (including the infrastructural, agricultural and financial sectors), ravage our natural resources, pollute our environment, and inseminate our culture with crass consumerism. While a tiny minority – the industrialists, big farmers and big traders, and the upper middle classes – has enormously benefited from this 'SALE' of the country, it is having a disastrous impact on the living standards of hundreds of millions of Indian people: a further 50-million-plus have sunk below the poverty line in the past decade, millions are being kicked out of their jobs – and the only new jobs now available are low-paid casual jobs, hundreds of millions of India's small and marginal peasants are being pushed out of their farms into urban slums, the country's already inadequate public health, public education and public distribution network is being destroyed. Globalisation has also driven the Indian economic 'miracle' to the brink of a meltdown, very similar to the meltdown of the East Asian 'miracle' in 1997. The praise being showered on the Indian economy reminds one of the hype built around the East Asian 'miracle' till just before it began to unravel in mid-1997.

Apart from the spectacular collapse of the East Asian economies which made headlines the world over, the economies of many other third world countries too suffered a similar crash in the 1990s. All these meltdowns were a logical consequence of globalisation. However, each time such a crisis has occurred anywhere in the world, the whole array of economists wheeled out by the International Monetary Fund (IMF), the World Bank (WB) and the US government have spun out some or the other explanation for why it occurred. All the theories cooked up by them have essentially said the same thing – that all these crises occurred because of insufficient globalisation! Globalisation has become the Eleventh Commandment.

III. OUTLINE OF CONTENTS

We have been campaigning and mobilising against the sell-out of the Indian economy to the imperialists by the treacherous Indian ruling classes in the name of globalisation. We have brought out a series of small pamphlets on the ruinous impact of these 'economic reforms' on the lives of the Indian people. For quite some time, we have been feeling the need for a more comprehensive write-up on the impact of globalisation on the Indian economy and people, as well as its consequences for the rest of the third world countries. Hence this essay.

In **Chapter 1**, we discuss the changes in the international situation which propelled the third world countries to begin the globalisation of their economies. In this background, we then discuss the factors that pushed the Indian rulers to begin the globalisation of the Indian economy in 1991. One important aspect of globalisation is trade liberalisation – the removal of all restrictions on imports and exports. We discuss the rationale being given for this policy reform and its impact on the balance of payments position of the third world countries, including India, in **Chapter 2**. In **Chapter 3**, we discuss the most well known aspect of globalisation – the

opening up of third world economies to foreign direct investment (FDI) flows. We first examine how much truth there is in all the propaganda about the benefits of these FDI inflows for the third world economies. We next discuss their actual impact: that it has pushed these countries (including India) into an economic trap – an ever worsening foreign exchange crisis - wherein they are being forced to sell off their productive assets to the imperialists in order to keep their economies afloat. We then proceed to see how this has affected the third world countries.

The Indian economy is also caught in a similar trap. We discuss its consequences in detail in the next chapter, **Chapter 4**. In Part-A, we discuss the sale of the infrastructural and financial sectors of the Indian economy to the imperialists: simultaneously, these crucial sectors are also being remoulded, so as to facilitate the extraction of imperialist super profits. In Part-B, we discuss another significant aspect of the colonisation of the Indian economy: the entire orientation of the economic policies of the country is being changed. The World Bank has come up with a new doctrine: that governments must attempt to reduce their fiscal deficits, and that too in a particular way. Third world governments, including the government of India (GOI), have rigorously implemented this policy. We first discuss the validity of this economic doctrine, and then the particular way in which the GOI is going about implementing it: it is leading to a massive transfer of government funds from the poor to the rich.

Thus, in the name of globalisation, the economies of the former colonial world are being transformed into appendages of the economies of the developed countries. In **Chapter 5**, we discuss how the crucial agricultural sector of the third world countries is being subordinated to imperialist designs.

The impact of all these policies, in other words, of globalisation, on the livelihood of the ordinary Indian people is discussed in **Chapter 6**. We also take a brief overview of the conditions of the people in the rest of the third world, nearly two decades after these countries began the globalisation of their economies.

In the last decade of the 20th century, a strange development took place in the global world economy – it came to be dominated by speculative capital. Consequently, it has led to a massive rise in speculative capital – also known as portfolio capital – flows to the third world countries. These countries in fact have no option – globalisation has pushed these economies into a situation wherein they are forced to open up their economies to these extremely volatile capital flows. It has had disastrous consequences: it is these flows that precipitated the financial meltdown in East Asia and also in many other third world countries during the 1990s. It has also pushed the global economy to the brink of a global financial collapse. Yet, globalisation of the world economy continues to accelerate. We discuss all these aspects in **Chapter 7**. Finally, we take a look at the impact of speculative capital flows on the Indian economy: all facts point to the inescapable conclusion that our country too has become hostage to the whims of the global speculators.

Having thus succeeded in re-establishing their hegemony over the entire world, in the final decade of the 20th century the capitalist classes started proclaiming the '**end of history**'. However, this bout of capitalist triumphalism has proved to be short-lived. In the second half of the 20th century, a new wave of revolts of the working people-students-youth has emerged throughout the world – these movements are aimed at not merely resisting capitalist globalisation, but are seeking to challenge capitalism itself. We take a look at this inspiring development in the concluding **Chapter**.

Pune
September 20, 2000

References

1. *Business Week*, Aug 31, 1998, p.146, cited in David McNally, *MR*, July-Aug 1999, p.149
2. Editorial, *TOI*, 3.3.2000
3. PTI Report, *THBL*, 15.9.2000
4. Malini Parthasarathy, *The Hindu*, 15.9.2000
5. Sridhar Krishnaswamy, *FL*, Oct 13, 2000, p.24
6. Malini Parthasarathy, op.cit.
7. Editorial, *TOI*, 18.9.2000
8. Praful Bidwai, *FL*, Apr 14, 2000, p.101
9. Ibid., p.102
10. Ibid.
11. Fidel Castro, Speech at the South Summit of the G-77 in Havana, Apr 2000, reproduced in *TWR*, No.117, May 2000, p.30

■■■

WHY GLOBALISATION ?

The Indian economy was in deep crisis by the late 1980s. One indication of this was that the government of India (GOI) was on the verge of financial bankruptcy (on external account) in early 1991 – it was forced to sell off a part of its gold reserves to pay the service charges on its voluminous external debt. It was clear to everyone that the Nehruvian model – the developmental model implemented in the country since independence by India's ruling classes - was in tatters.

Meanwhile, momentous changes were taking place in the world in the decade of the 1980s. These changes ushered in what has come to be known as the globalisation of the world economy.

In such an international environment, the Indian rulers decided to abandon the 'Nehruvian path of development' and globalise the Indian economy – integrate it with the world economy. Since then, this process has gone ahead at an accelerating pace.

We first discuss the changes that had taken place in the world in the 1980s – to gain an insight into why did globalisation of the world economy begin in the first place. We then examine the immediate factors that propelled India's rulers towards globalising the Indian economy in the 1990s.

I. REASONS BEHIND THE GLOBALISATION OF THE WORLD ECONOMY

Three important developments took place in the world in the 1980s – whose consequences may be said to have led the world into a new phase itself.

ONE: COLLAPSE OF THE SOVIET BLOC

Firstly, the camp of the Soviet-bloc countries surrendered before the rival USA-led bloc, and the Soviet Union itself broke up. Consequently, the bargaining power of the third world countries vis-à-vis the developed countries became seriously eroded because they no longer were in a position to take advantage of the rivalry between the two imperialist blocs. Additionally, the other important rival to Western capitalism, China, had abandoned its socialist path of development and given up its principled opposition to the two imperialist blocs in the second half of the 1970s. It now quickened up the capitalist transformation of its economy. And so, the US-led bloc of the developed Western countries was now in a position to dominate the world economy as never before.

TWO: CRISIS IN THE THIRD WORLD COUNTRIES

Secondly, the economies of most third world countries were in dire straits. Most of these countries had achieved independence from colonial rule during the first two decades after the Second World War, following a wave of powerful anti-imperialist upsurges. By the 1970s, the colonial era was on the verge of coming to an end. In many of these countries, the new native ruling classes who assumed power took the path of relatively autonomous capitalist development, using the strategy of active state intervention and limiting the influx of imperialist capital into their economies. The state intervened in the financial sector so as to direct the flow of scarce capital to the most important sectors of the economy. Strategic sectors of the economy were nationalised. State intervention was also used to provide protection to domestic industry, help it to grow, as well as to broaden the base of the domestic market. However, there are inherent limitations to capitalist development in the former colonial world, and by the late 1970s, these models had failed. The third world economies became crisis-ridden.

It is important to note that in adopting the '**State Interventionist Model**', which is much maligned today, the third world countries had only been attempting to duplicate the strategy adopted by the developed capitalist countries from England to the United States during the 18th and 19th centuries – the days of early capitalism. Alexander Hamilton, one of the founding fathers of the United States, is credited with having invented the concept of infant industry protection and modern protectionism.[1] It is not possible to go into all the reasons for the success of this model in the latter group of countries and its failure in the third world - it is beyond the scope of this essay. But one obvious factor needs to be pointed out, and it is also probably the most important one, which unfortunately seems to have been forgotten in the present euphoria about globalisation: the developed capitalist countries had financed their industrial revolutions by

looting and plundering the third world which they had colonised, while on the other hand the third world had no region to plunder when it began its capitalist development in the second half of the twentieth century. Capitalism has always been a system of unequal development – in which some win, others lose. But it is not just that. It has also always been a global system – in which the winners happen to win thanks to the others losing. As the renowned Uruguayan author Eduardo Galeano wrote in his magnificent book *Open Veins of Latin America*[2] about the underdevelopment of Latin America (which is true for the rest of the third world too),

> *"Our defeat was always implicit in the victory of others; our wealth has always generated our poverty by nourishing the prosperity of others – the empires and their native overseers."*

Therefore, it would not be an exaggeration to say that the third world capitalist development models were doomed to fail from the very beginning. By 1982, when the third world debt crisis shook the capitalist world, this was an established fact.

During the 1970s, as their development models sank into crises, the ruling classes of the third world countries had increased their borrowings from the developed capitalist countries. The imperialists were only too willing to give loans, it provided them an opportunity to influence the course of development in the former colonial world. This has been neatly put in a report of the US House of Representatives Committee on Foreign Affairs, which, after listing a number of reasons for the economic assistance program, had concluded:

> *"The most important reason is that nations are determined to develop. Only by participation in that process will we have an opportunity to direct their development along lines that will best serve our interests."*[3]

Now, there is a difference between an internal and an external debt. When a businessman **borrows internally** and has to repay the debt, the procedure is very simple: as his business grows with the help of borrowed money, he uses his profits to repay the debt with the same kind of currency he borrowed. That is the key: **he repays in the same kind of currency he borrowed**. But if a businessman **borrows from a foreign source, he can only repay the debt in the currency of the foreign nation. So**

that even if the borrowed money helps to create internal growth, the debt cannot be repaid unless there are sufficient exports to get the needed foreign currency.

Since third world exports were insufficient to pay for the debt (there are severe limits to export earnings of third world countries, which we shall be discussing very soon below), they had to take still more loans to pay the service charges on the past debt. Gradually, the debt accumulated, and eventually became unpayable. By 1982, the total debt owed by the third world countries to American, European and Japanese banks had climbed to an astronomical $785 billion.[4] That year, 22 of these countries were forced to negotiate debt rescheduling because they did not have the foreign exchange to pay the interest and amortisation due on their loans.[5]

THREE: STAGNATION IN THE DEVELOPED COUNTRIES

The third important change that took place in the world in the 1980s was that the economies of the developed countries – the USA, the European Union and Japan - themselves became crisis-ridden. Stagnation had returned to afflict them once again. Since this development is of crucial importance, and there are a lot of myths about the health of the developed capitalist economies, we discuss this in some detail.

Capitalism is essentially a process of profit accumulation. Capital must be invested to earn profits, which needs investment outlets. Once this is available, investment generates profits, which stimulates further investment. Ultimately, this cycle leads to over-expansion of capacity as compared to effective demand, in other words, recession. To recover, it needs external stimuli, such as a new technological development that creates enormous investment opportunities. During the 19th century, the build-up of basic industries and infrastructure and railroads (in what are today called the advanced capitalist countries) required enormous amounts of capital. The result was that breakdowns in the accumulation process were brief. The opportunities for investment seemed to be virtually unlimited.

By the turn of the 20th century, capitalism in the developed capitalist countries underwent a profound change. The small capitalist firm typical of 19th century capitalism gave way to the giant corporation. The economies of the capitalist countries now came to be dominated by giant monopolies, which not only had an enormous capacity to expand production, but also were in a position to earn super-profits by forming cartels and manipulating prices upwards. And with the merger of banking and industrial capital,

there arose in the capitalist world a new aristocracy of financial capitalists who presided over enormous pools of capital.

In these new circumstances, capitalism was faced with a new problem – where to get the profitable investment opportunities to invest the growing pool of accumulated capital. The basic industries and infrastructure were all in place. Consequently, since the beginning of the 20th century, the developed capitalist countries have been faced with a crisis which is not of a temporary nature like the crises of the 19th century. Their economies are gripped by a tendency towards permanent recession, in other words – stagnation.

This problem first came to the fore in the Great Depression of the 1930s. It was something new in the history of capitalism, a whole decade in which there was no growth at all. Unemployment reached unheard of levels. The whole society was in profound crisis.

What brought this period to an end was the Second World War. As John Kenneth Galbraith so aptly expressed it, the Great Depression never ended, it just merged into the war economy.[6]

The boom continued for two decades after the Second World War. It was obviously not the result of the internal logic of the capitalist system, a logic which had been exposed in its purest form in the Great Depression. The boom was due to external forces: repairing war damage, making up for shortages caused by wartime diversion of resources from civilian production, investment in technologies developed during the war like electronics and jet planes, and above all new wars, especially the Korean and Vietnamese wars.

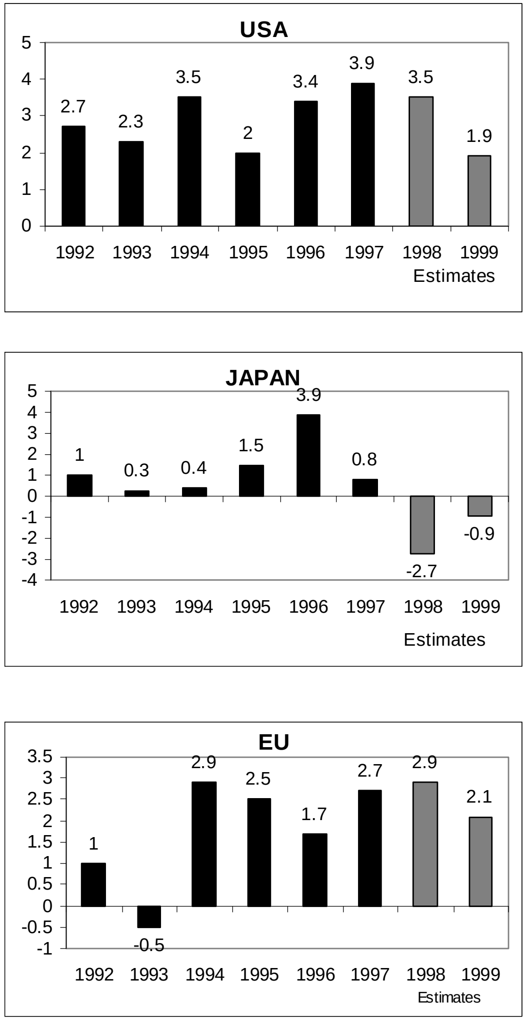
But it is in the nature of capitalism to eliminate the demand that stimulates it. That is what began to happen as the 1960s drew to a close, and by the 1970s, stagnation had returned to afflict these economies once again.

But then, what about the rapid scientific and technological advances of recent years? They should have opened up huge new investment opportunities. Unfortunately for capitalism, that has not taken place. The reason is that these innovations, particularly in the knowledge – information – communication areas, use vastly less capital than the great innovations of the past – steam engine, railroads, automobiles. Further, the big corporate enterprises of today can and do finance a large and steady stream of innovations out of depreciation funds without any net investment at all.

Chart 1.1

Global Economic Powerhouses : Comparative Growth Rates

(Real GDP in % compared with previous year)



Source: Deutsche Bank Research, cited in *Times of India,* Jan 14, 1999

And it is net investment that counts.[7]

Consequently, since the early 1970s, these economies have been gradually slowing down. The combined average annual industrial production growth rate of six leading industrialised nations – the US, UK, Japan, W.Germany, France and Italy – fell from 7% during the 1960s to just 2% in the 1980s.[8] According to the Organisation for Economic Cooperation & Development (OECD), the members of the G-7 enjoyed an average economic growth rate of 3.5% per annum in the 1970s; since 1989, in contrast, growth has averaged just 2.1%.[9]

In the 1990s, the situation has worsened further. The chart 1.1 brings this out in graphic detail.

Of the developed countries, only the US economy is said to be booming – when its growth rate of around 3.7% is far less than that of even India, whose growth rate even during the recent recession was above 5% per annum! Even this miserly growth, which has averaged 3.2% since the present expansion began (this is average growth rate from the first quarter of 1991 to the first quarter of 1999), compares poorly with the average growth rate achieved during the previous periods of expansion.[10] More significantly, this growth is actually artificial – Alan Greenspan, the Chairman of the US Federal Reserve, himself admitted to this in a speech in New York on January 13, 2000.[11] It is based on an unprecedented stock market boom – US stock prices have increased 150% since 1993. This has increased the wealth of US households, which are on an all-out spending spree: in fact, during the first months of 1999, they spent 100.5% of their after-tax income! On the other hand, US households are also heavily in debt – household debt is now approximately 100% of after-tax income, an all-time record.[12] Sooner or later, in the words of Greenspan, a stock market correction has to take place.[13] That would force many of these heavily indebted households to drastically scale back their spending, sending the US economy tumbling into the depths of a severe recession. Even Swaminathan S.Anklesaria Aiyar, the arch-conservative columnist of the *Times of India*, was constrained to comment on the US bubble economy some time ago:

> *"Now, bubbles can keep inflating for years, as Japan showed in the 1980s. So perhaps the US bubble can expand a few years more. Yet the bigger the bubble, the sharper the subsequent contraction. Remember that the Nikkei index in Japan is today just*

one-third of its peak value, and its collapse ushered in eight years of stagnation."[14]

(We have written about the US 'boom' in some detail as there has been much hype in the media about it.)

This means that the massive amount of capital accumulated by the MNCs and other investors in the developed capitalist countries is finding no investment outlets in those countries. Already, investment has far outstripped demand – the capacity utilization rate (percentage of existing production facilities that are currently being utilised) is at an abysmal 65-70% worldwide, and is declining.[15] The hundreds of billions of dollars of FDI flowing into the developed countries (mostly from other developed countries) is not for any new investment; virtually all of it is to fund cross-border mergers and acquisitions.[16] Capital is faced with a crisis of existence.

AND SO: GLOBALISATION

These developments set the stage for the globalisation of the world economy in the mid-1980s. Faced with saturated home markets, the developed countries now desperately began looking for investment opportunities in new markets. Coincidentally, this was also the time when the economic models of the third world countries had become crisis-ridden, and these countries had become deeply indebted to their Western creditors. It was now easy for the developed countries to arm-twist the third world countries into opening up their markets for inflow of foreign goods and capital. Furthermore, due to the surrender of their most powerful rivals – the Soviet-led imperialist bloc and socialist China – the Western imperialist powers were now no longer worried about the safety of their capital flows to distant corners of the globe. Consequently, there has taken place an upsurge in capital flows from the imperialist countries to third world countries (apart from capital flows amongst the developed countries themselves) during the last decade of the 20th century, and it looks set to continue in the present decade too. This has come to be known as globalisation.

It was important for the imperialists to dismantle the 'state interventionist model' adopted by the third world countries and force the latter to suitably restructure their economies so that they could absorb large amounts of foreign capital flows. Aid policy became a key weapon used by the developed countries to achieve this objective.

A significant component of aid given by the developed countries to the

third world was channelled through international financial institutions (IFIs) like the International Monetary Fund (IMF) and the International Bank for Reconstruction and Development, also known as the World Bank (WB). The US and other developed countries have decisive control over these institutions.[17] These institutions often work as a consortia in aid programs, and impose conditions upon the recipient countries as desired by the donor developed countries. For the US and other imperialist powers, working through these institutions serves as a handy tactic: the imposition of the will of the United States does not appear as ominous when it comes under the auspices of an 'international organisation'. During the early 1980s, the US prodded (rather, directed) these organisations to change the criterion for their lending programmes.[18] The debt-laden third world countries needed quick money to avoid defaults. The World Bank and the IMF stepped in to make it available. They also helped in arranging stretched-out schedules for the repayment of this debt. In return, these countries had to agree to a thoroughgoing restructuring of their economies. The main components of this so-called '**Structural Adjustment Programme**' (SAP) were:

- liberalising imports and instituting incentives to produce for export markets;
- removing restrictions on foreign investment in industry and financial services;
- devaluing the local currency;
- privatising state enterprises and withdrawal of the government from interfering with operation of free markets;
- cutting wages, reducing government spending, increasing excise duties and other such measures to reduce domestic consumption, thereby forcing domestic production to be oriented towards export markets.

Acceptance of these conditions was not enough to release a 'Structural Adjustment Loan' (SAL). The recipient country had also to agree to the WB/IMF strictly monitoring its compliance. These loans were released in instalments, so that in case adequate compliance was not forthcoming, additional loans could be withheld.

By the end of the 1980s, over 70 third world countries had submitted themselves to this 'structural adjustment' programme managed from distant Washington.[19] By the early 1990s, the World Bank declared these SAPs to be a grand success. In its publication *Global Economic Prospects and the Developing Countries 1993*, it asserted:

> *"... developing countries face brighter prospects for growth than in the preceding decade. The improved prospects can be attributed mainly to the widespread economic reforms these countries have adopted, notably, privatisation, greater openness to trade, reduction of fiscal deficits, and elimination of commercial bank debt overhangs."*[20]

II. INDIA JOINS THE REST FOLLOWING THE 1991 DEBT CRISIS

While Nehru indulged in a lot of rhetoric about socialism, the development model implemented in India under his leadership was essentially a model of capitalist development. Its main features – the mixed economy, the Industrial Policy Resolutions of 1948 and 1956 – were based on an economic plan proposed by a committee set up by the Indian capitalists themselves. The architects of this proposal, which popularly came to be known as the Bombay Plan, were the doyens of Indian industry, J.R.D.Tata and G.D.Birla.

The aim of the Nehruvian model was to promote a broad-based development of indigenous industry and agriculture along capitalist lines. To achieve this, the state actively intervened in the economy – in order to ration scarce resources and direct them to planned uses, curb the power of monopoly houses and limit the penetration and influence of foreign capital.

The private sector in India could not have prospered without the public sector. Today, the Indian capitalist classes and their call-boy intellectuals want to wash their hands off all responsibility for the economic crisis by putting all the blame on Nehru. However, the reality is that at the time of independence, the capitalists were unwilling to invest in infrastructure. Firstly, because they did not have the massive amounts of capital needed for investment in this sector. Secondly, because the gestation period for projects in this sector was long, while the returns were low. The capitalists were more interested in investing in areas like consumer goods, where there were quick profits to be made with little investment. But for these areas to prosper, development of the infrastructural sector was a must. Hence, it was in the interests of the Indian capitalist classes, and (as mentioned above) at their recommendation, that large-scale projects in

energy, transportation, steel, oil, telecom and other areas of the infrastructure, as well as advanced institutes for scientific and technological education and research, were set up in the public sector, using the hard earned savings of the people and by burdening them with indirect taxes.

We have mentioned earlier that there are inherent limitations to capitalist development in a third world country. Within these constraints, even the limited capitalist development that was possible in India was throttled because of Nehru's failure to carry out radical land reforms. While a lot of emphasis was laid on setting up huge industries, the agriculture sector was neglected. As a result of this, the purchasing power of more than 70% of the population living in the rural areas remained undeveloped.

The consequence was predictable: the Nehruvian model became crisis-ridden in the 1960s itself. Nehru himself had admitted to the failure of his policies in Parliament a few years before his death.

In the 1970s, an attempt was made to stimulate growth by giving a boost to capitalist development in agriculture. The Green Revolution was initiated. One of the reasons for nationalisation of the banks was so that credit could be directed to the agricultural sector in a big way. These measures however provided only temporary relief, and the crisis continued to deepen.

To keep the economy growing, the GOI resorted to increased external borrowings in the 1980s. It also opened up the economy to a limited extent for increased foreign direct investment. With export incomes less than import payments, the result was that the current account deficit of the country went up by a whopping six times in less than a decade – from Rs.1657 crores in 1980-81 to Rs.11,382 crores in 1989-90.[21] The only way to cover this growing gap was by taking still more loans from abroad. Consequently, the external debt of the GOI zoomed upwards – from $20.58 billion in 1980 to $83.7 billion in 1990.[22]

The Western creditors now sensed that the time was opportune to force the GOI to submit to a 'restructuring' of the Indian economy and open it up to foreign capital flows and imports. The international environment was also extremely favourable for successfully mounting this pressure.

In 1985, the World Bank initiated an in-depth research into India's industrial and trade policies. This led to the publication of numerous reports and research papers by the World Bank, culminating in the Anderson Memorandum dated November 30, 1990 submitted to the GOI. The recommendations of this memorandum were the essential components of the World Bank's SAP.[23] They called for: opening up the economy to foreign investment; liberalisation of trade; reforms of the financial sector; privatisation; ending protection to small-scale industry and eliminating controls on operations of big business houses; and changing the orientation of the economy and making it export-oriented by cutting government expenditure and increasing excise duties to curb domestic consumption, thereby freeing production for exports. These proposed reforms were along the same lines as were being undertaken by numerous other third world countries.

Acting virtually as a consortia, the developed countries now began to tighten their purse strings, putting on hold fresh loans to the Indian government, demanding that it first implement the above policy changes. In 1990, international credit rating agencies like Moody's suddenly lowered their ratings for India, and international commercial credit dried up overnight. The Aid India Consortium, a club of rich nations, slashed concessional aid to India. The US delegation to the meeting demanded that India remove "barriers to foreign direct investment, trade and modern financial markets."The World Bank also blocked loans to India, stating that their release would be conditional on "reform measures contained in the 1991-92 budget and in any policy related statements."[24]

With foreign loans drying up, the foreign exchange reserves of the country plummeted to just $ 1.2 billion on December 31, 1990. The non-resident Indians (NRIs) too began withdrawing their deposits from India in panic.[25] By early 1991, India was entrapped in a situation wherein default on her external obligations could only be avoided if the government agreed to the demands of its international creditors and went in for a '**Structural Adjustment Loan**' from the World Bank and IMF. The country was in the grip of a foreign exchange crisis very similar to that which nearly 70 other third world countries had experienced in the previous decade.

The minority government led by Chandrashekhar that was in power in early 1991 was in no position to implement the policy changes demanded by India's foreign creditors. In a desperate attempt to temporarily tide over the foreign exchange crisis and prevent the country from sliding into bankruptcy, it first sold off 20 tonnes of gold valued at $ 200 million, and soon after pledged an additional 47 tonnes of gold to garner $ 400 million more.

Elections to the Lok Sabha were held in May 1991, and in June a new

government headed by P.V.Narsimha Rao with Manmohan Singh as its finance minister took charge. The stage was set for the implementation of the policy changes demanded by the World Bank in its 1990 document – an agenda that was most definitely set at the instance of the developed capitalist countries.

On July 1 and 3, the rupee was devalued in two doses by a total of 22% against foreign currencies. On July 4, the government announced a trade policy reform package. On July 24, the Union Budget and a 'Statement on Industrial Policy' were presented to the Parliament. All these policy statements and reforms were in accordance with the demands made by the foreign creditors and the World Bank-IMF. The latter now began to loosen their purse strings once again. The IMF, the WB, the Aid India Consortium and other creditors all quickly sanctioned fast-disbursing loans. The country's foreign exchange reserves went up from a mere $ 975 million on July 12,1991 to $ 5.631 billion by March 1992.[26] The ruling classes now declared the country's foreign exchange crisis to be over. In an interview given to the *Economic Times* on 9.11.92, Finance Minister Manmohan Singh spoke of his achievements:

> *"When we came into office, we faced a collapse of international confidence in our economy. Nobody was willing to lend us money … Today, I think nobody is talking of any lack of confidence in us … We have imparted a measure of confidence and support to India in international fora. We have got international financial institutions fully behind us in our restructuring …"* [27]

Actually, there is little justification for Manmohan Singh claiming this success – of getting the creditors back – all for himself and his minority Congress government. In this context, it is interesting to note that in the 1991 Parliamentary elections, the grave economic crisis being faced by the country was not an election issue at all! Forget about debating the reasons for this crisis and the measures needed for recovery from it, no party was even willing to mention the existence of such a crisis. Clearly, all of them had a common hidden agenda. There was a consensus amongst India's rulers on implementing the policy changes demanded by the developed capitalist countries. Events since 1991 bear this out. Since then, all the major political parties have shared power directly or indirectly at the Centre – yet the process of globalisation of the Indian economy has gone ahead not only smoothly, but at an accelerating pace.

III. SUMMARY OF THE ECONOMIC REFORMS IN INDIA

It is now nearly a decade since the full-scale globalisation of the Indian economy began. We give below a brief summary of the policy changes being made, which are in various stages of implementation:

(i) After a sharp devaluation of the rupee in 1991-92, the central bank gradually moved to a market determined mechanism for determining the exchange rate of the rupee. By 1993-94, the currency was made convertible for current account transactions. Now, gradual steps are being taken towards capital account convertibility too.

(ii) Trade policy liberalisation: All quantitative restrictions on imports are being removed, tariffs are being lowered across the board, and exports are being freed from all constraints.

(iii) Industrial policy liberalisation: All controls on foreign investment are gradually being removed in all but a handful of sectors. The number of areas where automatic approval is accorded to foreign investments subject to sectoral caps has been expanded substantially; this ceiling on FDI through the automatic route has also been considerably enhanced, going up to 100% in many areas. All conditions on foreign investment like transfer of technology, imposition of export obligations to offset loss in foreign exchange, etc. are being removed; controls on profit remittances are being relaxed; licensing system for industries is being scrapped. Protection given to small-scale industries is being eliminated, including scrapping of subsidies. All controls placed on operations of big business houses (like the MRTP Act) are being relaxed.

(iv) Natural resources and mineral wealth of the country is being thrown open to exploitation by foreign investors.

(v) Agricultural policy liberalisation: Steps are being taken to remove land ceilings and permit agri-business houses to enter the farm sector; agricultural subsidies are being slashed; public investment in agriculture is being lowered in the expectation that private investment will replace it.

(vi) India's patent laws are on the verge of being modified to bring them in tune with WTO requirements.

(vii) Financial sector liberalisation: Controls and devices of segregation between money and capital markets, and Indian and foreign investors, are gradually being removed. Controls over new capital issues have

been abolished. Banks have been allowed to deal in shares by setting up mutual funds. Banks have been permitted to set up their own lending and deposit rates, but the central bank still retains some devices of control. Emphasis on lending to 'priority sectors' at subsidised rates has gradually been lowered, and the orientation is to eventually remove all such subsidies. Indian public sector banks and insurance companies are on the way to being privatised, and foreign investors are being allowed to enter the financial sector, implying that eventually they will be allowed to take controlling stakes in the public sector financial institutions once these are privatised. Foreign financial institutions have been allowed to enter Indian stock exchanges, but there are still controls on hostile takeovers of Indian companies. All controls on foreign borrowings by the Indian corporate sector are being relaxed.

(viii) Privatisation: The public sector is being privatised and foreign investors are being allowed to enter and take over the 'commanding heights of the Indian economy.'

(ix) The new philosophy is that government interference in the markets must end. Hence price controls are being removed; the public distribution system to control speculation in foodgrains is gradually being done away with; charges for all essential services like electricity, water, public hospitals, education, etc. are being raised; all cross-subsidisation, like subsidising local telephone calls by charging more for international calls, is being eliminated.

(x) Trimming the fiscal deficit: Keynesianism has been abandoned in favour of this new obsession. Since direct taxes on the rich cannot be raised, this is being done by raising indirect taxes (which are paid by everyone) and cutting government expenditure. Drastic cuts are being made in government capital expenditure, subsidies to the poor are being eliminated, attempts are being made to cut the expenditure on wages by stopping fresh recruitment and freezing wages at existing levels.

(xi) Modification of labour laws: The Second National Commission on Labour has been set up – to recommend modification of labour laws and bring them in tune with the new 'globalised environment'. This would mean allowing companies to retrench workers at will, ending the system of paying a minimum bonus and reducing or eliminating other welfare measures.

References

1. Noam Chomsky, *Class Warfare*, Oxford University Press, Delhi, 1998, p.19
2. MR Press, New York, 1974, p.12
3. Cited by Harry Magdoff in *The Age of Imperialism*, MR Press, New York, 1968, p.125
4. Walden Bello & others, *Dark Victory: The US, Structural Adjustment & Global Poverty*, Third World Network, Malaysia, 1994, p.69
5. Editors, *MR*, Jan 1984, p.1
6. Paul M. Sweezy, *MR*, June 1994, p.6
7. Paul M. Sweezy, *MR*, May 1995, pp.6-7
8. Harry Magdoff, *Globalisation – To What End?*, MR pamphlet, 1992, reprinted by Cornerstone Publications, Kharagpur, W.B., pp.6-7
9. Quoted in Ethan B. Kapstein, *Foreign Affairs*, May-June 1996, p.28
10. Doug Henwood, *MR*, July-Aug 1999, pp.135-136
11. Marjorie Olster, *ET*, 16.1.2000
12. Doug Henwood, *MR*, July-Aug 1999, p.140 & Fred Moseley, *MR*, Mar 1999, p.19
13. Fred Moseley, *MR*, Mar 1999, p.18
14. *TOI*, 24.1.1999
15. Frederic Clairmont, *EPW*, Nos. 36-37, Sept 5-12, 1998, p.2349 and Fred Moseley, *MR*, Mar 1999, p.15
16. UNCTAD, *World Investment Report, 1998*, quoted in Jayati Ghosh, *FL*, Dec 18,1998, p.94
17. For more details, see Samir Amin, 'Fifty Years is Enough', *MR*, Apr 1995
18. See W.Bello & others, op.cit., pp.26-27 and John Mihevc, *The Market Tells Them So: The World Bank and Economic Fundamentalism in Africa,* Third World Network, Malaysia, 1995, pp.48-50
19. Walden Bello & others, op.cit., p.31
20. World Bank, *Global Economic Prospects and the Developing Countries, 1993,* Washington, D.C., 1993, Back Cover
21. Dalip S. Swamy, *The World Bank and Globalisation of Indian Economy,* Public Interest Research Group, Delhi, 1994, p.3
22. *Statistical Outline of India*, 1999-2000, Tata Services Ltd., Mumbai-1, p.177
23. Dalip S. Swamy, op.cit., p.5
24. Ibid., pp.15,19
25. Ibid., p.17
26. *AIE*, No.9, p.16
27. *AIE*, No.9, p.15

FREE TRADE (!)

We now begin our investigation into the impact of globalisation on the Indian economy. Simultaneously, we also take a look at the impact of these economic reforms on other third world countries, which had embarked on this course much before India.

Any evaluation of the impact of these policy changes, in other words of globalisation, on the economies of third world countries must obviously begin by examining their impact on the current account deficit. It was after all a worsening current account deficit and hence a rising external debt in all these countries that had precipitated a foreign exchange crisis and necessitated the 'reforms'. In this Chapter, we take a look at the impact of trade liberalisation – a most important component of globalisation – on the balance of payments (on current account)* of the third world countries. We also take a look at their external debt situation nearly two decades after these countries began globalising their economies.

**** Definition: Balance of Payments on Current Account***

Of a country's foreign transactions, the 'balance of payments on current account' covers the day-to-day economic transactions between nations. It is the balance between earnings and expenditures in these transactions.

Earnings are primarily income from export of merchandise and services, money sent back home from workers abroad, and earnings on capital invested abroad.

Expenditures are primarily imports and remittances of earnings by foreign investors here, like royalties, dividends and interest on loans.

I. WORLD BANK PRESCRIPTION: INCREASE EXPORTS

According to World Bank-IMF theory, for a third world country like India, when it is faced with a current account deficit, the way out is to orient its economy towards boosting exports. All third world countries who had suffered a balance of payments (BoP) crisis in the 1980s and had gone to the WB/IMF for SALs had also been given the same advice – make the economy export-oriented.

We now examine the worth of this prescription and see if it is indeed possible for third world countries, India included, to come out of the debt crisis by increasing their exports in a big way, in the context of the structure of the world economy today.

i) INCREASING TRADITIONAL EXPORTS

Because of weak industrial development of the third world countries, a very major portion of their exports consists of food, fuel, minerals and other raw materials. According to the World Trade Organisation (WTO): the share of primary commodities (including processed food) in the trade of the Middle East, Africa and Latin America (excluding Mexico) was more than two-thirds in 1997; in a sample of 91 developing countries, for 67 of them the share of primary products in total merchandise exports was above 50%, reaching as high as 95% in some cases.[1] Even the very limited non-extractive exports made by them are mainly light industry manufactures and handicrafts. India is also in a similar situation. It's exports are largely either primary commodities (tea, shrimp, cotton, ores, leather, cereals, etc.) or low-technology manufactures (garments, cut diamonds, handicrafts, leather goods, etc.).

The World Bank has advised all the third world countries that are 'restructuring' their economies to increase their exports of this limited range of goods. According to its doctrine of 'comparative advantages', "a country (should) produce those things which it can best produce …"[2] This has undercut the process of economic diversification that the third world countries had initiated in the initial years after attaining independence.[3]

Now, if all third world countries simultaneously attempt to increase their exports of the same primary commodities, in a world economy wherein their biggest markets – the developed capitalist countries – are gripped by recession, there is bound to be over-supply. The root of the English word

'glut' means 'to swallow'. But when applied to markets, it means just the opposite. Markets, unlike gluttons, simply cannot swallow unlimited quantities of foods or textiles or transistors.

Therefore, predictably, prices of primary commodities have plunged. The World Bank itself admits this: "between 1979 and 1992, real commodity prices virtually collapsed – beverage prices fell by 74%, cereals by 44%, oils and fats by 57%, logs by 24%, and metals and minerals by 36%."[4] By the early 1990s, the average level of non-commodity prices was the lowest for over a century.[5] After a brief recovery during the period 1994-96, prices in all the major commodity groups have again fallen precipitously. Agricultural commodities saw prices fall by 16% in 1998, and by an average rate of 14% during the first 10 months of 1999. Likewise, minerals and metal products prices have suffered a cumulative decline of nearly 25% over the period 1995-99.[6]

The net result of this continuous decline in prices of primary commodities over the past few decades is that today the purchasing power of such commodities as sugar, cocoa, coffee and others is 20% of what it used to be in 1960.[7]

Even the prices of exports of manufactured goods from developing countries (which are mainly labour-intensive or natural resource-based) have been falling. Since the beginning of the 1980s, terms of trade of developing countries relying mainly on such exports have fallen by as much as 1% per annum on the average.[8]

The slave owner knows the slave does all the work. The World Bank is not ignorant about the reasons for this collapse in prices. The same report quoted above goes on to say, "Were these price declines the result of Structural Adjustment programmes that raised the export volumes of these commodities? Clearly, there were large increases in output, and such increases in output put strong downward pressure on prices."[9]

Over the years, this relative deterioration in terms of trade has cost the Latin American countries over 25% of their potential export earnings.[10] According to another estimate made some time ago, over the period 1980-91, the cumulative terms of trade loss on all non-oil commodity exports from developing countries totaled some $ 290 billion.[11] To put it differently, this much was transferred to the coffers of the developed countries for free! The colonial era loot has continued.

Consequently, third world countries have had to export increasing volumes just to keep export earnings at the same level. According to the IMF's *World Economic Outlook* (October 1992), 122 net-debtor developing countries had to export 12.4% more goods in 1991 as compared to 1984 to import the same amount of goods.[12]

The other side of the coin is that it has led to windfall profits for the developed countries.

To conclude: the possibility of third world countries increasing their traditional exports in a big way to overcome their BoP crisis appears bleak, if not impossible.

ii) INVITING FDI TO INCREASE EXPORTS

The WB-IMF, the leading economic pundits of the world, and even the ordinary intellectuals back home in India (who concur because if everyone who matters is saying so, then it must be true) argue that there is a way out of this crisis: third world countries must open up their economies and invite foreign direct investment (FDI) in a big way. That will lead to economic diversification and hence help these countries to export a wide range of goods, including manufactured goods. The government of India too gave this argument in its Industrial Policy statement of July 24, 1991.[13]

Before proceeding ahead to analyse what the facts say about the above argument, let us first raise a commonsense question.

Multinational corporations (MNCs) are huge. A handful of these monstrous MNCs dominate global economic activity in every conceivable sphere – from agriculture to manufacturing to retail trading to banking. Now, as it is, the Western economies are saturated, i.e., there is oversupply and goods are not being sold. In such a situation why should a MNC coming to India to set up a manufacturing unit here export goods from this plant to developed countries to compete with goods manufactured by this same MNC in those countries?

Obviously, it will not. That is why even though it's been nearly two decades since other third world countries opened up their economies to foreign investment, they continue to export the same goods they were exporting before they began to globalise.

Even more 'childish' is the expectation that MNCs would help increase the technological capabilities of the domestic industry, thus enabling diversification of exports. Capitalism knows no such cooperation. Its mantra is - 'cut-throat competition'. Yet the *World Investment Report* (WIR) 1999

of the United Nations Conference on Trade and Development (UNCTAD) claims this to be one of the benefits of FDI flows to developing countries. It gives statistics about increasing royalty payments and license fees in support of this statement. This is simply absurd! These payments in no way reflect any transfer of technology to the domestic industries of third world countries. (On the contrary, these outflows only worsen the BoP crisis of the country – an aspect we discuss in a later chapter.) MNCs in fact are extremely conscious about guarding their technological capabilities, so much so that they undertake very little R&D activities in developing countries – a fact admitted to by the **WIR-99** also (page xix).

In a rare admission, the UNCTAD's *Trade & Development Report* (TDR) 1999 notes that increasing FDI flows have not led to significant expansion of exports from third world countries during the past decade (p.123). Further, even in cases where statistics show that there has been some diversification and rise in hi-tech exports, the figures are often misleading. Thus, (according to a study quoted by the *WIR-99*) Mexico's hi-tech exports have increased to 15% of total exports. But reality is otherwise. There has been no rise in net exports because the import content of these hi-tech exports is very high. Not only that, the technological base of Mexico has not risen; on the contrary, technological downgrading has taken place because domestic suppliers have closed shop due to continued imports of parts and components. Consequently, while auto exports have risen, technological capacity of local suppliers to the MNC-dominated auto industry has shifted from transmissions and braking systems to windows and seats.[14]

The Indian experience too bears this out. The Reserve Bank of India's (RBI) *Fourth Survey of Foreign Collaborations* (1985) found that over 60% of them had clauses prohibiting exports. These were official clauses submitted to the government for approval. Another study of MNCs operating in India found that most cases of clauses restricting exports were not submitted to the government for approval.[15]

In the past, to minimise the loss in foreign exchange due to imports, royalties, etc., the GOI had stipulated that foreign-controlled firms fulfill certain export obligations. Most MNCs violated these stipulations with impunity – yet no action has ever been taken against them. Even in cases where they did export, these exports were generally not their own - they exported the production of other small Indian firms for which there was a guaranteed foreign market! Thus, Hindustan Lever sells soaps, detergents and other personal products in India. More than 80% of its exports in 1988-89 consisted of vegetable oils, readymade garments, animal feedstuffs, scourers, marine products, and the like – items in which it did not at all trade in India.[16] The case of Pepsi Foods, a subsidiary of Pepsico International, is even more infamous. Its agreement with the government stipulated that it would export Rs.194 crores of goods over a period of 10 years, of which 80% of the exports were to be goods from its own plants. In February 1991, a three member team set up by the Union Food Processing Ministry discovered that Pepsi Foods had so far not exported any of its products; all its exports were of other items like marine products and basmati rice, items which are established Indian exports.[17]

Very soon, all such export stipulations would become irrelevant because of India's commitment under the WTO agreement to liberalise imports. Thus, as a New Year gift to foreign investors, on January 1, 2000, the government scrapped the dividend balancing condition for foreign companies investing in India (whereby their dividend repatriations were linked to their export earnings).[18]

iii) COPYING THE 'EAST ASIAN MIRACLE'

Globalisation pundits and their diehard supporters now play their Ace of Trumps. That is all very well – so their argument goes – but then globalisation has also led to the East Asian miracle. This view is in fact most widespread. Most people believe that the fate of India would somehow be different from that of other third world countries, and that we are following the footsteps of the four East Asian 'tigers'. (The same people also believe that even though these economies have now collapsed, the same fate would not befall India! Since that is a different matter, we will leave aside this inconsistency for the present.)

Usually, South Korea is picked as the ideal model for escape from underdevelopment. The engine for its rapid growth was a major expansion of exports of manufactured goods.

It is true that South Korea's impressively high growth rate was because of its ability to produce and export steel, machinery, autos and other manufactured products in a big way. Its exports of manufactured goods per capita had gone up to $1,365 in 1989 (and this ratio was the lowest among the four 'tigers'). This figure, even though well below that of the industrialised countries, was far above a typical third world country – being 10 times larger than Mexico's and Brazil's and 100 times larger than India's per capita manufactured exports.[19]

Now, let us allow our imagination to fly and assume that the rest of the underdeveloped countries were somehow able to achieve the same level of per capita manufactured exports as South Korea ($ 1365). The population of the rest of the third world is over 4 billion. This means they would need to sell abroad $ 5.5 trillion of manufactures. But the entire world trade in manufactures is less than half that amount, about $ 2.1 trillion (all figures are for 1989). To whom would the extra $ 5.5 trillion be sold? In a world economy already plagued by slow growth, where are the markets for such an enormous leap in business?

Clearly, even if it were possible to do so, it is simply impossible for the rest of the third world to achieve the same levels of development as South Korea by attempting to duplicate the latter's (or the East Asian) model of export-led development. One important question now arises: if it is not possible for third world countries to export their way out of underdevelopment, how come the East Asian countries were able to do so?

The biggest myth about the South Korean or Taiwanese model of development is that their success is a consequence of globalisation. (We are omitting the city-states of Hong Kong and Singapore from this discussion because their history and structure make them exceptional.) It is not! They began to globalise only in the early 1990s. This may sound surprising, but that is the truth:

> *"In the early 1950s, … South Korea and Taiwan embarked on…. 'remarkably similar import-substitution programmes' in which key industries were 'protected by and nurtured behind a wall of tariffs, overvalued exchange rates, and other obstacles to foreign entry'. This early period of withdrawal from international markets was critical to the construction of an industrial base in both countries."* [20]

This has also been admitted to by Joseph Stiglitz, when he was the Chair of Clinton's Council of Economic Advisors, in an issue of the World Bank *Research Observer* (Aug 1996). He drew "lessons from the East Asian miracle", among them that "**government took major responsibility for the promotion of economic growth**", abandoning the "religion" that markets know best and **intervening to enhance technology transfer, relative equality, education and health, along with industrial planning and coordination** (emphasis ours).[21]

Certain important external factors enabled these countries to successfully implement their development models. During the 1950s-70s, these countries were accorded immense privileges by the US as a part of its Cold War strategy. While the US attempted to subvert the industrialisation programmes of most third world countries in those years, in the case of East Asia it supported this for geopolitical reasons. Therefore, these countries were provided massive amounts of foreign aid, most of it as outright grants. (Total aid provided by the US to those countries with whom the US had special military relations during the Cold War – Greece, Iran, Turkey, South Vietnam, Philippines, Thailand, Spain, Portugal, Laos, Taiwan and South Korea – over the period 1945-67 was a whopping $ 36.9 billion, of which 87% was grants.[22]) Not only that, the US and its West European allies allowed these countries access to their markets – for the same reasons.[23]

In the late 1980s, with the Cold War over, the US and other developed countries were now no longer interested in propping up these 'tigers'. They now began to mount pressure on these countries to globalise their economies. The US even threatened to take action under the much dreaded Super 301 Act.[24] And so, in the early 1990s, the East Asian countries began relaxing controls on inward and outward flows of capital. This process was considerably speeded up by 1993-94. It resulted in a massive inflow of foreign capital, including portfolio capital, into these countries. It set into motion a chain of events that ultimately led to the collapse of the South Korean economy as well as the economies of other countries of this region in 1997. Since we discuss this aspect – the reasons for the collapse of the East Asian 'miracle' – in considerable detail in Chapter 7, we give only one significant quotation as evidence in support of this at this juncture.

In 1998, the same Joseph Stiglitz whom we have quoted earlier and who was now chief economist of the World Bank wrote: "**The current crisis in East Asia is not a refutation of the East Asian Miracle**". Their "amazing achievements" were achieved with "**heavy doses of government involvement**" in violation of the new doctrine of neo-liberalism, but in accord with economic development in the US and Europe, he correctly and significantly added. "**Far from a refutation of the East Asian Miracle**", he concluded, the "**serious financial turmoil**" in Asia "**may, in part, be the result of departing from the strategies that have served these countries so well, including well-regulated financial markets.**"[25] Is it any wonder, then, that Stiglitz had to resign last year from the World

Bank after facing much criticism for his unorthodox views. The *Economic Times* (26.12.99) noted, "Much of Washington is celebrating (his) resignation."

From the above facts, it is obvious that the 'miraculous' development of the East Asian economies has had nothing to do with globalisation. This is a myth propagated by 'experts' invariably drawn from the IMF, WB, Wall Street, think-tanks of mega-corporations and governments of the North Atlantic nations. A host of special factors contributed to the success of these development models. Some of these we have discussed above. These special factors/circumstances enabled these countries to industrialise and export their way out of underdevelopment. In contrast, the strenuous efforts made by other third world countries to industrialise in a big way failed, they were not even able to maintain their share in the total world exports of manufactured goods (table 2.1).

Table 2.1: Third world exports as a percent of world exports of manufactured goods
(excluding East Asian Tigers)

1966	1982	1986
9.6%	7.3%	6.8%

Source: Magnus Blomstrom, *Transnational Corporations and Manufacturing Exports from Developing Countries*, United Nations, New York, 1990, p.11

iv) RISING PROTECTIONISM IN DEVELOPED COUNTRIES

Since the 1980s, whatever little possibility that existed of the third world massively increasing its exports, especially of manufactured goods, to the developed countries has completely ended. Firstly, because of the end of the Cold War: the third world now lost its ability to bargain with the two rival blocs, the world economy now came to be dominated by the US and its allies. Secondly and more importantly, because of the onset of stagnation in the developed countries: the developed countries now began to impose all kinds of restrictions on low-cost exports from the underdeveloped countries so as to protect their domestic markets for domestic suppliers.

The latter argument obviously sounds strange. The United States, the undisputed leader of the developed world, is after all the biggest champion of 'a world without borders'. The most reputed newspapers and journals from all over the world and in India have carried innumerable lead stories on 'America's passion for deregulation' and America's export of 'American values of free competition, fair rules and effective enforcement' through global commercial treaties to a world still fumbling in darkness. However, the truth is quite different; no one dares to call the emperor naked.

President Reagan of the United States has probably been one of the biggest preachers of the free-market gospel in recent times. It should be sufficient to quote a review of the Reagan presidency years in the reputed US journal *Foreign Affairs* by a senior fellow for international finance at the Council on Foreign Relations. He noted the "irony" that Ronald Reagan, "**the postwar Chief Executive with the most passionate love of laissez-faire, presided over the greatest swing towards protectionism since the 1930s**."[26]

There is really no 'irony' in this. The '**laissez-faire**' doctrine has always meant: **market discipline for you, but not for me, unless the 'playing field' is tilted in my favour**. England was the biggest proponent of '**Free Trade**' in the nineteenth century, when half the world was its direct or indirect colony.

Today, on the one hand, the US and its allies, the European Union and Japan, use international agreements like the Marrakesh Agreement of 1994 to force open the markets of third world countries for their exports. On the other hand, they have been resorting to all kinds of techniques, both overt and covert, to prevent their own markets from being flooded with cheap exports from the underdeveloped countries.

The US has been most aggressively resorting to such techniques. One such underhand method has come to be known as Voluntary Export Restraint (VER): the US arm-twists the erring third world country to voluntarily impose restraints on its exports! Between 1980-91, it had imposed at least 125 such VERs on third world countries, according to a study by General Agreement on Tariffs & Trade (GATT).[27] (The highest number of these VERs were imposed on East Asia. In 1989, a GATT study identified a total of 236 VERs of which 134 were directed against the East Asian countries.[28]) Even after the WTO came into being, even though it is formally opposed to VERs, the practice has continued with impunity. In 1996, Clinton pressurised Mexico into an agreement to end the shipment of low-price tomatoes to the United States, a gift to Florida growers that has cost Mexico $ 800 million annually. The agreement not only violates WTO, but also North America Free Trade Agreement (NAFTA)

rules ![29] In 1999, the US pressurised steel exporters from Japan to Brazil to 'voluntarily' cut exports to the US as their low prices were posing a threat to the US steel industry.[30]

In several cases, the US has used a proviso recently included in Section 301 of the US Trade Act, infamously known as 'Super 301', to pressurise recalcitrant third world countries into accepting a VER. Super 301 gives the US President the authority to retaliate against a country that harms US commercial interests through "unreasonable" and "unjustifiable" trade practices. What exactly is 'unreasonable' and 'unjustifiable' is determined by the US. Such unilateral actions are a gross violation of the WTO rules. Despite that, not only has the Super 301 continued in existence, the US has passed yet another law which explicitly states that in case of a conflict between the WTO and US laws, the latter would prevail.[31]

Developed countries have also been using anti-dumping measures based on the flimsiest of pretexts to ban third world exports when domestic interests are threatened. In recent years, marine exports from India have been banned in Europe on grounds of hygiene, while ghagras (skirts) from Jaipur have been banned in the US because the fabric was considered inflammable. And in the case of textiles and agriculture, areas of crucial concern to underdeveloped countries, the developed countries have resorted to outright subterfuge to prevent the former from gaining access to their markets. The UNCTAD's *TDR-99* estimates that due to protectionism in the developed countries, the 'developing' countries are missing out on an average $ 700 billion in annual export earnings – a figure equal to four times the FDI inflows into these countries (p.143).

In recent months, the developed countries have been pressurising the third world to start a new round of trade negotiations, which has even been given the glamorous name 'Millennium Round'. In this Round, they want to include new topics like 'labour standards' and 'trade and environment'. That is not out of any concern for workers or the environment – profit knows no such concern. The real reason is to use these as new excuses to keep out third world exports from their domestic markets.

v) THE INDIAN EXPERIENCE

The exhaustive arguments given above make it very evident that the WB-IMF wisdom – which is backed by letters of recommendation from the world's leading economists – that third world countries can export their way out of underdevelopment is a lot of hogwash. Keeping in mind the structure of the world economy today, it is simply not possible for the third world countries to do so.

What has been India's experience? In tune with WB-IMF recommendations, the Indian government has been making desperate attempts to promote exports. Thousands of crores of rupees have been given as subsidies to exporters. These are called 'export promotion schemes' – on this account, the government doled out a whopping Rs.16,000 crores during 1994-97 alone.[32] Also, foreign capital inflows have been liberalised: since globalisation began, the total foreign direct investment that has come into the country is around $ 14-15 billion.

A look at the commodity composition of India's exports (table 2.2) is extremely illuminating. It shows that though there has been a slight increase in India's exports of chemicals and engineering goods, India still principally remains an exporter of primary commodities and labour-intensive low-technology manufactures – whose total share in India's export basket continues to be above 70%. A decade of globalisation has not resulted in any diversification of India's export basket!

Table 2.2: India: Composition of Exports
(Percentage of total)

	87-88 to 90-91 (average)	95-96	98-99 (provisional)
1. Agriculture & allied products	18.4	19.1	17.8
2. Ores & minerals	5.6	3.7	2.6
3. Low-technology manufactures*	30.5	25.6	26.2
4. Textiles & clothing	19.7	22.6	24.3
5. Chemicals & allied products	6.4	7.4	8.6
6. Engineering goods	11.5	13.9	13.1
7. Others	7.9	7.7	7.4
	100.0	100.0	100.0

*includes leather and manufactures, jute and coir manufactures, and handicrafts including gems & jewellery

Source: RBI *Report on Currency and Finance*, 1998-99, p. IX-17

Not only that, India's export earnings have stagnated. After touching a high of 21.1% in 1995-96, export growth has slowed down dramatically. Exports grew by just 5.2% in 1996-97, and then decelerated still further to 1.6% in 1997-98.[33] Exports actually plummeted in 1998-99, declining by (-)5.16%: from $ 35.01 billion to $ 33.20 billion. Export growth recovered slightly during the next fiscal 1999-2000, touching 11.58%.[34]

Forecasts for the future do not predict any significant spurt in exports. The World Bank Country Economic Memorandum for India, 1996, projected that India's exports would grow at the rate of around 10% a year over the next decade provided world trade grew at a rapid 6.3% a year, which in turn depended on a sustained growth of 2.9% a year in the developed countries.[35] Both these are of course rosy assumptions. World trade grew by a mere 2.8% in 1998-99,[36] and with the world economy continuously slowing down, it is most unlikely that India's export growth would see a significant upturn in the near future.

But then **what about software exports**, the so-called success story of the 1990s? They are supposed to totally transform India's balance of payments (BoP) outlook.

Indeed, software exports have zoomed in recent years. They went up by a whopping 54% in 1998-99 to reach $2.62 billion, and then surged to roughly $4 billion in 1999-2000.[37] However, despite all the media hype about this export boom, it has not helped in reducing the current account deficit to any significant extent! That sounds ridiculous – where have the export earnings disappeared? We explain what is happening below.

Even though software exports have increased, the overseas expenses by Indian software companies have also risen equally rapidly. We have definitive statistics for the period 1993-94 to 1996-97. During this period, while software earnings tripled from $ 325 million to $ 1.1 billion, the overseas expenses of these companies on "management fees, office expenses and agency fees" also shot up from $ 653 million to $ 1.15 billion.[38] For the years after 1996-97, even though we have not been able to get hold of precise statistics about the export earnings and overseas expenses of India's software industry, the statistics put out by the RBI indicate that while the situation did improve marginally after 1996-97, it has deteriorated again in 1999-2000.

The RBI does not include the earnings and expenses of the software industry in the foreign trade statistics of the country (which is why software exports do not figure in the table 2.2 given above). It includes it in the category of "Invisibles" in the current account BoP tables. The RBI information on invisibles is presented under four main heads, of which one is "Non-factor Services". This head is further divided into five sub-categories, of which one that is of interest to us at present is "Miscellaneous items". In this sub-category, the RBI clubs together the earnings from software, media, consultancy and other technology-related services. It does not classify software earnings separately.[39]

As the table 2.3 indicates, while the net earnings from the Miscellaneous category turned positive and rose to $1.28 billion in 1998-99, in the subsequent year, despite a rise in gross earnings, due to an even more rapid rise in overseas expenses, the net earnings have fallen to a third - to just $500 million for the first three quarters of 1999-2000!

Table 2.3: Invisibles on Current Account

in US$ Million

Non-Factor Services *of which:*	**April-Dec**							
	99-00	**98-99**	**98-99**	**97-98**	**96-97**	**95-96**	**94-95**	**93-94**
Miscellaneous (Net) (1-2)	490	1510	1286	355	-811	-1416	-594	-664
1. Receipts	6000	5180	7447	4163	2354	2430	1912	1455
2. Payments	5510	3670	6161	3808	3165	3846	2506	2119

Source:

1. For the years 1993-94 to 1998-99 (full year): *Economic Survey*, cited in *EPW*, No.11, Mar 11, 2000, p.859.

2. For the period April-Dec of 1999-2000 & 1998-99: G.Rambabu, *THBL*, 4/4/2000.

Obviously, the software companies are parking their export earnings abroad and showing it as overseas expenses. For this reason, we have excluded India's 'booming' software earnings from our discussion about the impact of globalisation on India's export earnings. Including these earnings would in fact distort reality, since while on paper, software exports are booming, in reality their contribution to reducing India's current account deficit is negligible.

II. IMPACT OF GLOBALISATION ON IMPORTS

We now take a look at what is happening to the import bill of the country.

The World Bank's recommendation is explicit. In its report, *India: Strategy for Trade Reform*, dated Nov. 20, 1990, the Bank demanded removal of all quantitative restrictions on imports and also asked for a steep cut in import duties on all commodities.[40]

The WB has been doling out the same medicine to all third world countries who have undertaken to reform their economies under its supervision (under the Structural Adjustment Programme). According to it, "liberalising imports is central to the success of the reform process underway…"[41]

We have seen above that the economies of developed countries are in severe crisis, they are gripped by stagnation. Consequently, they have been using all kinds of protectionist measures, to the extent of flouting WTO rules, to restrict third world exports to their domestic markets. Therefore, liberalisation of capital goods imports by underdeveloped countries only goes to increase their import bill, it in no way helps to increase their exports of manufactured goods. Even more senseless is the liberalisation of consumer goods imports by these countries. How on earth is this supposed to benefit a country already facing a balance of payments deficit? It needs no knowledge of economics to understand the simple logic that asking a country which is deep in external debt to open up its economy to imports across the board is like asking it to commit external accounts hara-kiri!

i) THE DEVALUATION FORMULA

The free-market theorists are unfazed. According to their hocus-pocus economics, countries should not use import controls, but the 'free-market' tool of devaluation, to control their trade deficits. (Whether a third world country likes this recipe or not, it has to swallow it. It is a part of the SAL conditionalities imposed by the World Bank.) Devaluation of the currency of a country increases the prices of its imports and reduces its export prices. Therefore, according to this theory, imports would decrease and exports would get a boost, thereby reducing the trade deficit.

In reality, nothing of this sort happens. Let us assume an underdeveloped country, say Brazil, devalues its currency by 25% relative to the dollar. However, the competitiveness of its goods vis-à-vis other third world countries who export similar goods does not increase, because they also devalue their currencies – they must, otherwise their goods would be priced out of international markets. At the same time, since the Brazilian currency is now cheaper by 25% as compared to the dollar, it has to export 25% more goods in volume terms in order to earn the same amount of dollars. Only if Brazil increased exports massively – by 30%, 40%, or more – would it increase its export earnings in dollars. A tall order indeed!

On the other hand, the imports of the underdeveloped countries do not fall despite the increase in prices. That is because their imports are in the main inflexible: the industry has become dependent on capital goods imports, so their demand is not affected much; the economy has become such that it cannot curb consumption of costly primary commodities like oil, so these imports also do not decline; and the rich can afford to pay the increased prices of luxury goods, so their demand also does not go down.

Clearly, the 'devaluation theory' is all a lot of nonsense. The past experience of India bears this out. The Indian rupee's value had moved steadily downwards during the 1980s – from Rs.7.91 per dollar in 1980-81 to Rs.20.54 in May 1991. Did it deter imports? They spiralled upwards – from $ 15.87 billion in 1980-81 to $ 21.27 billion in 1989-90 (or from Rs.12,549 crores to Rs.35,412 crores); incidentally, these figures do not include arms imports.[42]

The real motive behind this theory is: it provides windfall profits to the developed countries, their terms of trade improve enormously, they can now import the same volume of goods at much cheaper prices – this has helped them to keep inflation low, thus preventing their economic crisis from worsening.

All this is so easy to comprehend. Yet, the ruling classes of most third world countries have been succumbing to WB-IMF dictates and allowing their currencies to depreciate. The Indian rupee has also depreciated from Rs.20.54 to a dollar in May 1991 to roughly Rs.45 now.

ii) SURRENDER AT MARRAKESH

That is not the end of this sordid drama of betrayal of the interests of the third world countries by their own native rulers. The Marrakesh Agreement of 1994 signed by these rulers at the end of the Uruguay Round of trade talks is heavily biased against the interests of these countries.

The concessions received by these countries in terms of market access are far less than those received by the developed countries. This is evident from the charts 2.1 & 2.2.

Chart 2.1

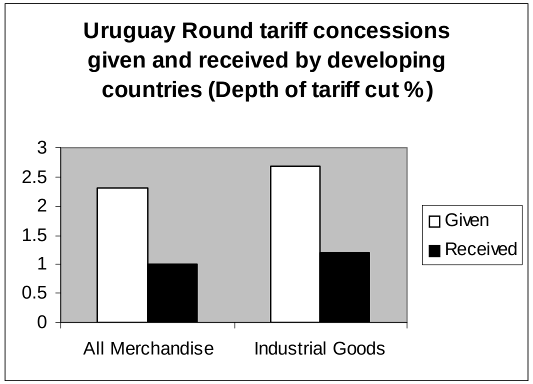
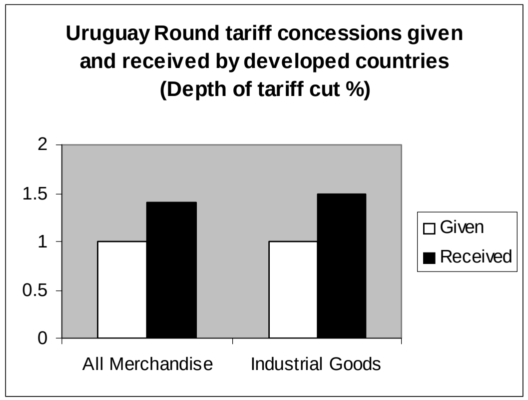


Chart 2.2



Source: C.P.Chandrasekhar, *Frontline*, November 26, 1999, pp.103-4

Even this picture is partial. It does not capture the actual extent of the concessions given by the two sides in practice since 1994. For instance, in agriculture, third world countries have proceeded much farther in doing away with non-tariff barriers and reducing tariffs than warranted by commitments made in the WTO Agreement on Agriculture (AOA). This is true for India too. Except for a few tariff lines, its tariff rates are already significantly lower than that required under the AOA; the domestic subsidies given to agriculture are already negative, as calculated by the WTO in 1998; and subsidies given to exports are nominal and in areas where India is not required to reduce them.[43] On the other hand, the developed countries are making use of loopholes deliberately left in the AOA to continue their subsidies to farmers. For the US, such loopholes will allow it to continue subsidies of up to a whopping $ 16 billion in the year 2000. In addition, a wide range of additional subsidies are exempt from reductions. These include the $ 15 billion of public finance spent on Research and Development and the $ 2 billion allocated for crop insurance. Finally, it has to reduce the volume of its export subsidies by just 21%, which means that it can continue 79% of its export subsidies – which also run into billions of dollars.[44]

The WTO agreements are so obviously loaded in favour of developed countries that even the Secretary General of the United Nations, Kofi Annan, was forced to take cognisance of it during the recent Seattle Conference of the WTO. He admitted that poor countries still pay four times higher duties to export to rich countries than these rich countries charge each other. Even when they do manage to find ways to price their goods to sell in rich countries, they are accused of 'dumping'. "In reality, it is the industrialised countries who are dumping their surplus food on world markets – a surplus generated by subsidies worth 250 billion dollars every year – and thereby threatening the livelihood of millions of poor farmers in the developing world, who cannot compete with subsidised imports," he stated in his prepared text.[45] We repeat: **industrialised countries have succeeded in continuing their subsidies to agriculture to the tune of 250 billion dollars a year! Other, equally reputed estimates put this figure to be even higher at 350 billion dollars a year** – or twice the value of exports of underdeveloped countries.[46]

Is it not astonishing? The ostensible reason for globalisation was that it would help the third world countries to increase their access to developed country markets. In reality, it is doing just the opposite. It is helping open up the markets of third world countries for developed country exports.

iii) INDIA: IMPORT LIBERALISATION

The Indian ruling classes, like their counterparts in other third world countries, are willing to crawl when asked to bend. To appease the developed countries, the Indian government is going far beyond its commitments in the WTO and willing to remove all tariff and non-tariff barriers to imports.

Under article XVIII of the GATT treaty, third world countries with balance of payments (BoP) problems have the right to impose quantitative restrictions on imports. The BoP committee of the WTO, which reviews the BoP position of a country, must under WTO rules operate by consensus. If India insists that it is facing BoP problems, the WTO cannot, under the terms of the above provision of GATT, compel India to liberalise imports. This was admitted to by the then Commerce Minister P.Chidambaram himself in an interview given to *Business Standard* and carried by that paper on 27.3.96.[47]

Despite this legal position, successive Indian governments have been gradually accelerating the pace of import liberalisation. Of course, while doing so, these **governments of National Shame and Subjugation** have been putting up a brave face before the public, that they are not doing so under WTO pressure, but "autonomously" (a phrase used by Commerce Minister P.Chidambaram).[48] In other words, no one has been twisting their arms. They have done it themselves!

During the past decade, import curbs (known as quantitative restrictions, or QRs) have been gradually lifted, enabling a wide range of items to become freely importable (that is, no license will be required). Simultaneously, the peak rate of tariff on imports has also been gradually lowered – from 355% in 1991 to 35% (plus 10% surcharge) in the latest budget (2000-2001).[49]

All these measures should have led to a surge in imports and the growth rate of imports had actually started spiralling upwards by the mid-1990s; what prevented the import bill from shooting through the roof during the second half of the 1990s was the recession that set in from 1996-97 onwards.[50] The recession turned out to be a blessing in disguise! The Gods have still not abandoned us.

The policy of dismantling QRs reached its logical conclusion towards the end of the 1990s, in a finale that was symptomatic of the entire globalisation process. Very quickly, and without open debate, on December

16, 1999, US deputy trade representative Susan G.Esserman and special secretary in India's Commerce Ministry N.N.Khanna signed an agreement committing the Indian government to phasing out all the remaining 1429 QRs by April 2001. The agreement had been kept under wraps; only after the US government made the news of the agreement public in early January 2000 did the GOI admit to it.[51] In accordance with the terms of the agreement, the GOI lifted import curbs on 714 items with effect from April 1, 2000, All Fools Day.

These 1429 items are amongst the most sensitive of imports, for three reasons. Firstly, they include items like rice, bajra, potatoes, milk and footwear. Import liberalisation of these is going to affect the livelihood of the poorest of India's poor – subsistence farmers and agricultural labourers to fisherfolk and dairywomen and quarry workers. Secondly, the list includes 236 items whose production had been reserved for the small-scale sector. Opening up these areas to imports effectively brings to an end the reservation policy and threatens to wipe out tens of thousands of small-scale enterprises. Both these groups will find it impossible to compete with the deviously subsidised produce from the highly automated farms and factories in the developed countries. (We discuss both these issues in greater detail in Chapter 6). Thirdly, the list includes a number of luxury consumer goods for which there exists a pent-up demand amongst India's well-to-do.

Government spokesmen, including the Union Commerce Minister Murasoli Maran himself, have of course been claiming that none of this is going to happen, and that they are going to use import tariffs to keep out unwelcome exports.

Public utterances of spokesmen of a concubine government carry little meaning. What matters is the commitment made by them to their masters abroad. Some days ago, on March 24, 2000, *The Hindu* carried a newsreport that the Union Finance Minister Mr. Yashwant Sinha has assured the visiting US Commerce Secretary Mr. William Daley that India would gradually reduce its import tariffs in the coming years.

The shameless ease with which the Indian ruling classes are kowtowing to imperialist pressures leaves one appalled.

III. AND SO, THE IMPACT ON TRADE DEFICIT AND EXTERNAL DEBT

The *Trade and Development Report* (TDR) released by the United Nations Conference on Trade & Development (UNCTAD) in the second half of 1999 admits that "developing countries have striven hard, and often at considerable cost, to integrate more closely into the world economy" (p.V). In other words, the third world countries have attempted to implement the conditions imposed upon them by the IFIs to the letter. They have gone to the extent of strangulating their domestic consumption - with tragic consequences for their people - so as to focus domestic consumption for export. (We shall examine the impact of these policies on the people of these countries in Chapter 6.)

Yet the trade deficits of these countries continue to rise. According to the *TDR -99*, the average "developing" country trade deficit (excluding China) "in the 1990s is higher than that in the 1970s by almost 3 percentage points of GDP" (p.VI).

The experience of India has been no different. Despite a vigorous implementation of economic reforms as dictated by the IFIs and the US, the trade deficit has gone through the roof. From $ 2.8 billion in 1991-92 and $ 4.05 billion in 1993-94, it has shot up to $ 15.5 billion in 1997-98 and $ 13.24 billion in 1998-99 (table 2.4).

To meet this growing gap in their balance of trade, third world countries have had to resort to increased external borrowings. Consequently, their external debt has continued to spiral upwards. It has gone up from $ 567 billion in 1980 to $ 1.4 trillion in 1992 and further to $ 1.8 trillion in 1998.[52] Africa has become the most indebted region in the world, its total external debt rose from 39.6% of the GNP in 1980 to 78.7% in 1994[53]; for Latin America, the accumulated external debt had climbed from 257 billion dollars in 1982 to 698 billion dollars by 1998.[54]

Likewise, India's external debt has also risen – from $ 83.8 billion as on March 31, 1991[55] to $ 98.2 billion on March 31, 1999.[56]

It is now nearly 20 years since the first tremors caused by the third world debt crisis shook the capitalist world, which brought the WB-IMF into the picture. The most important aim of the SAPs imposed on the third world countries by these international institutions should have been to resolve their debt problems. By that yardstick, they have been a complete failure. The third world debt crisis has continued to worsen. Yet the policy prescriptions of the WB and other IFIs imposed on all third world countries facing balance of payments difficulties have not changed. Not only that, the numerous reports of the WB and IMF published every year have continued to declare Structural Adjustment a resounding success.

Table 2.4: India: Foreign Trade

in US$ million

	98-99	97-98	96-97	95-96	94-95	93-94	92-93	91-92
Exports	34298	35680	34133	32311	26855	22683	18869	18266
Imports	47544	51187	48948	43670	35904	26739	24316	21064
Trade Balance	-13246	-15507	-14815	-11359	-9049	-4056	-5447	-2798

Source: *Economic Survey*, cited in *EPW*, No.11, March 11, 2000, p.859

IV. REAL AIM OF SAP: RESCUING THE CREDITORS

Actually, there is no contradiction in this. If one looks at the result of the 'structural reforms' undertaken by the third world countries from the point of view of the multinational creditor banks, they have been most successful. As a result of these reforms, between 1980 and 1992, the third world countries repaid a whopping $ 1.6 trillion to their Western creditors, mostly the commercial banks.[57] A popular myth about the world's most crisis-ridden region - Sub-Saharan Africa - is that its debt has continued to increase because of its inability to service it. On the contrary, this region paid up a total of $ 138.6 billion during the period 1983-93, despite which its debt went up from $ 80 billion to $ 199 billion over the same period.[58] Likewise, the US banks have received well over 600 billion dollars in income from this source from the Latin American countries over the course of the past decade.[59] So massive has been this decapitalisation of the third world countries that a former director of the World Bank exclaimed:

> *"Not since the conquistadores plundered Latin America has the world experienced a flow in the direction we see today."*[60]

India has been no exception to this gory tale of plunder. Over the period 1991-99, total debt-service payments made by India to its external creditors was a whopping $83.08 billion[61] – despite which her external debt went up by over $ 14 billion!

The real purpose of the emergency loans given by the IFIs to the indebted third world countries – thereby preventing them from defaulting on their debt service obligations to the Western banks – has never been to rescue these countries from the debt crisis. Commenting on these 'energetic rescue measures' undertaken by the IFIs, the editors of the much respected US magazine *Monthly Review* write,

> *"One thing, however, needs to be clearly understood about these heroic efforts in the heartland of finance: it was the banks that were rescued, not Mexico, Brazil, Argentina, and other potential defaulters."*[62]

By 1982, the year the third world debt crisis first hit world headlines, just the nine biggest US banks had lent $ 77.7 billion of their deposits to the third world countries – which was an astounding 340% of their capital! Had just 2 of these countries – Mexico & Brazil, the biggest debtors – defaulted on their loans, these 9 banks would in all probability have been forced out of business, since over 100% of their capital was needed to keep them going (at which time a run on the banks would have also become a distinct possibility).[63]

But then, as per Citicorp chairman Walter Wriston's doctrine, unlike individuals, "A country does not go bankrupt."[64] In 1982, when Mexico's inability to pay shook the markets, Willard Butcher, chairman of Chase Manhattan, one of the nine US banks mentioned above, explained it this way:

"Mexico owes $ 85 billion. Is Mexico worth $ 85 billion? Of course, it is. It has oil exports of $ 15 to $ 20 billion. It has gold, silver, copper. Has all that disappeared over the past week? I expect to be repaid my Mexican debt." [65]

All that was needed was a restructuring of the economies of the third world countries to enable their wealth to flow into the vaults of the Western multinational banks. This was achieved through the SAP imposed on the indebted third world countries by the WB-IMF.

By the early 1990s, Wall Street and London were trumpeting the end of the debt crisis. The exposure of the US commercial banks to the third world had dropped from the 1987 level of 140% of equity to just 29% in 1992.[66] For all intents and purposes, the crisis was over for the creditors.

What has actually happened is that the WB-IMF and other international agencies have provided fresh loans to the indebted countries so that they could continue making debt service payments to the foreign commercial banks. In other words, international public money has been used to bail them out. Consequently, a fairly large portion of the third world debt is today owed to the official financial institutions.[67]

Thus, the economic reforms package – of liberalisation, privatisation and globalisation – imposed by the WB-IMF and other IFIs on the third world countries has been remarkably successful in achieving its objective: the Western bankers have not only been bailed out, they have in fact made handsome profits in the process!

This was however just a secondary objective! The real objective was much more than this. We take a look at that in the coming pages.

References

1. Quoted by C.P.Chandrasekhar, *FL*, May 21, 1999, p.104
2. World Bank, *Accelerated Development in Sub-Saharan Africa*, 1981, p.24
3. James Petras & Henry Veltmeyer, *MR*, July-Aug 1999, p.45
4. World Bank, *Global Economic Prospects and the Developing Countries*, Washington, 1994, p.48
5. UNCTAD report, cited by B.S.Chimni, *EPW*, No.6, Feb 6,1999, p.341
6. 'Macroscan', *THBL*, 18.4.2000
7. Fidel Castro, quoted in *TWR*, No.117, May 2000, p.30
8. Jayati Ghosh, *FL*, Oct 22,1999, p.98
9. World Bank, *Global Economic Prospects and the Developing Countries*, Washington, 1994, p.48
10. James Petras & Henry Veltmeyer, op.cit., p.45
11. Alfred Maizels in *UNCTAD Review*, UN, Delhi, quoted by B.S.Chimni, op.cit.
12. Cited in *AIE*, No.9, p.33
13. Quoted in *AIE*, No.6, p.46
14. Quoted by Prof.Alejandro Nadal, *TWR*, No. 110/111, Oct-Nov 1999, p.33
15. John Martinussen, *Transnational Corporations in a Developing Country: The Indian Experience*, p.156, quoted in *AIE*, No.6, p.49

16. *AIE*, No.6, p.59
17. *AIE*, No.3, pp. 49-51
18. Sharif D.Rangnekar, *ET*, 3.1.2000
19. Harry Magdoff, *Globalisation: To What End?*, op.cit., p.33
20. Peter Evans, *Class, State and Dependence in East Asia: Lessons for Latin Americanists:* essay in Frederic C.Deyo ed., *The Political Economy of the New Asian Industrialism*, Cornell University Press, Ithaca, 1987
21. Quoted by Noam Chomsky in *Profit over People*, Madhyam Books, Delhi, 1999, p.32
22. Harry Magdoff, *The Age of Imperialism*, op.cit., p.151
23. Stephen Gill, *MR*, Mar 1999, p.4, and William K.Tabb, *MR*, June 1998,pp.30-31
24. W.Bello & others, op.cit., pp.74-75
25. Quoted in Noam Chomsky, *Profit over People*, op.cit., pp.32-33
26. Shafiqul Islam, 'America and the World', *Foreign Affairs*, 1989-90, quoted by Noam Chomsky in *Profit over People*, ibid., p.66
27. Quoted in W.Bello & others, op.cit., p.136
28. Biplab Dasgupta, *FL*, Nov 26, 1999, p.101
29. David Sanger, *New York Times*, Oct 12, 1996 - quoted in Noam Chomsky, *Profit over People*, op.cit., p.84
30. A.S.Firoz, *EPW*, No.32, Aug 7,1999, pp.2220-22
31. Patrick Low, *Trading Free – The GATT and the US Trade Policy*, A Twentieth Century Fund Book, New York, 1995, pp.63-64, 89-91, quoted in Biplab Dasgupta, *FL*, Nov 26, 1999, p.102
32. Editorial, *ET*, 3.2.1998
33. Prabhat Patnaik, *FL*, Feb 26, 1999, p.124
34. *THBL*, 2.5.2000
35. *AIE*, No.21, p. 46
36. *ET*, 4.5.1999
37. *EPW*, No.11, Mar 11, 2000, p.858 & *EPW*, No.30, July 22, 2000, p.2594
38. CRR, *The Hindu*, 28.1.2000
39. G. Rambabu, *THBL*, 4.4.2000
40. Quoted in *AIE*, No.9, p. 37
41. World Bank, *Trends in Developing Economies*, 1992, quoted in *AIE*, No.9, p.37
42. *AIE*, No.4, p.19
43. Ashok Gulati & others, *EPW*, No. 41, Oct 9, 1999, pp.2931-41
44. Kevin Watkins, *TWR*, No.100/101, Dec 1998-Jan 1999, pp.35-36
45. *TOI*, 2.12.1999
46. UNCTAD, *TDR-99*, p.136
47. Quoted in *AIE*, No.21, pp.50-51
48. *Business Standard*, 27.3.1996 - cited in *AIE*, No.21, p.50

49. 'Macroscan' by C.P.Chandrasekhar & Jayati Ghosh, *THBL*, 4.4.2000
50. For a detailed analysis, see ibid.
51. Ashok Dasgupta, *THBL*, 15.1.2000
52. Thomas E.Ambrogi, *TWR*, No. 107, July 1999, p.12
53. John S.Saul & Colin Leys, *MR*, July-Aug 1999, p.19
54. James Petras & Henry Veltmeyer, op.cit., p.40
55. Finance Ministry report, quoted in *AIE*, No. 17, p.14
56. *Statistical Outline of India*, 1999-2000, op.cit., p.178
57. Thomas E.Ambrogi, *TWR*, op.cit., p.12
58. John Mihevc, op.cit., p.73
59. James Petras & Henry Veltmeyer, op.cit., p.40
60. Quoted in W.Bello & others, op.cit., p.68
61. Figures for 1991-92 and 1992-93 taken from Finance Ministry Report, 1995, quoted in *AIE*, No.17, p.17, and figures for the remaining years taken from *ET*, 25.12.1999
62. *MR*, Jan 1984, p.2
63. Editors, *MR*, Jan 1984, pp.8-9
64. Quoted in W.Bello & others, op.cit., p.25
65. Quoted in Editors, *MR*, Jan 1984, p.6
66. W.Bello & others, op.cit., p. 69
67. W.Bello & others, ibid., pp. 68-69

There is no royal road to science and only those who do not dread the fatiguing climb of its steep paths have a chance of gaining its luminous summits.

- Karl Marx

OPENING THIRD WORLD TO FDI FLOWS

The actual objective of the WB-IMF imposed SAP on the third world countries, as pointed out earlier while discussing the immediate causes for the take-off of globalisation in the 1980s, was to force open the economies of the third world countries to capital flows from the developed countries.

The wheel has come full circle for the third world. During those extraordinary decades of the 1950s and 1960s, when a wave of anti-imperialist struggles was sweeping across the third world countries bringing the colonial era to an end, the ruling regimes in many third world countries - including many in Latin America, the backyard of the most powerful imperialist country in the world, the USA – had sought to limit the penetration of imperialist capital into their economies. For instance, in many of these countries, while MNCs were allowed to set up plants, they generally had to abide by legislation relating to content, employment of nationals and foreign exchange requirements. Restrictions were imposed on their direct investments and profit repatriations. In many third world countries, strategic sectors of the economy were brought under state control and MNCs were not allowed to enter into these sectors.

By the 1980s, due to the changed international situation and with the third world economies in debt crisis, the imperialist powers were in a position to roll back all these gains made by the people of the third world. Spurred on by the deepening stagnation at home, imperialism launched an unprecedented offensive to re-establish its hegemony over its erstwhile colonies. This is the real content of globalisation.

The developed countries led by the USA used their control over the WB and the IMF to arm-twist the third world countries into removing the barriers they had imposed on entry of imperialist capital into their economies as well as removing all restrictions on its operations. The ruling classes of the third world countries saw the writing on the wall. They abandoned their dreams of autonomous capitalist development of their countries and capitulated to the imperialist onslaught. For their narrow interests of profit accumulation, they decided to become collaborators of imperialist capital and began to globalise their economies.

Consequently, there has been an upsurge in global capital inflows (of foreign direct investment or FDI) into the third world countries. They had gone up from a mere $ 11-13 billion per year during the late 1970s - early 1980s[1] to an average of $ 24.7 billion per year during 1985-90;[2] after that, they have simply rocketed upwards in the 1990s, touching $ 96.3 billion in 1995[3] and topping $ 198 billion in 1999.[4]

The government of India has also been taking rapid steps to remove all barriers to foreign direct investment. As part of the 'second generation reforms', it has now virtually eliminated all controls on FDI inflows. The number of areas wherein automatic approval is accorded to foreign investments (subject to sectoral caps) has been substantially expanded, and even these ceilings placed on FDI through the automatic route have been significantly raised, going up to 100% in many areas.[5] The goal is to "create a India Fever" – in the words of the Union Commerce & Industries Minister Murasoli Maran[6] – and attract FDI inflows of at least $ 10 billion a year. This target was originally set by the left-wing United Front Government's Common Minimum Programme in 1996. Successive governments have repeated it. To achieve that goal, all kinds of incentives are being offered to foreign investors – from selling public sector enterprises at throwaway prices to giving sovereign counter guarantees to removing controls on profit repatriation.

Table 3.1: India - FDI Inflows

In US$ million

	99-00	98-99	97-98	96-97	95-96	94-95	93-94	92-93	91-92
FDI inflows	2200	2462	3557	2821	2144	1314	586	315	129

Source:
1. For 1991-92 to 1998-99: *Economic Survey*, cited in *EPW*, No.11, Mar 11, 2000, p.859.
2. For 1999-2000: C.P.Chandrasekhar, *Frontline*, Aug 18, 2000, p.106.

Despite putting up the entire country for 'sale', the FDI inflows target of $10 billion has proved to be elusive so far, as table 3.1 shows. FDI inflows have been, on the average, less than $2 billion a year. They rose marginally to touch $3.6 billion in 1997-98, but have since then fallen consistently to $2.5 billion in 1998-99 and $2.2 billion in 1999-2000.

The term 'global capital flows' is actually a misnomer. It should actually be called MNC capital flows, as it is the MNCs who are responsible for most of these flows. In fact, because of the sharp differentiation in size amongst these corporations, a significant part of the FDI comes from just a handful of giant behemoths: the largest 100 MNCs, ranked on the basis of the size of their foreign assets, control an estimated one-fifth (or $ 1.7 trillion) of global foreign assets![7]

In the nineteenth century, the imperial powers had attempted to justify their genocidal colonial conquests as a mission to 'civilise' the 'primitives'. The new colonialism of the end-twentieth century is being glorified as 'globalisation'. Leading spokesmen of imperialist capital are calling it "the best means of improving the human condition throughout the world" (Michel Camdessus, Managing Director, IMF in a speech at the tenth UN Conference on Trade & Development on February 13, 2000[8]). A dominant theme of the UNCTAD-X held in Bangkok in Feb. 2000 was the role these capital inflows can play in poverty alleviation and development of the third world. The intense propaganda offensive launched by the imperial powers has been so successful that even ordinary intellectuals have come to look upon these as 'truisms', as 'obvious facts', which need not be backed up by any facts and figures.

I. IMPACT OF FDI INFLOWS ON FOREIGN EXCHANGE CRISIS OF THIRD WORLD

For the present, let us avoid an objective investigation into these claims. Like in the previous section where we examined the impact of trade liberalisation on the BoP position of third world countries, we now take a look at the impact of these FDI inflows on the same.

i) THIRD WORLD: INCREASING PROFIT REMITTANCES DUE TO FDI INFLOWS

As the UNCTAD's *TDR-99* notes, third world countries have been using capital inflows as a source of external financing to alleviate their BoP woes.[9] In other words, FDI inflows have replaced external loans. That is the reason why the external debt of the third world countries during the 1990s has not been rising as fast as it did in the 1980s. The Indian government too has been using foreign capital inflows in place of foreign debt inflows to finance the current account deficit. Hence while external debt of the GOI shot up by more than 4 times during the 1980s, it has grown by a mere 25% in the 1990s.

But just as interest has to be paid on debt, MNCs invest to earn and repatriate profits. And this can be a far greater drain on the BoP as compared to borrowings! In the words of S.Venkitaraman, a former RBI governor:

> *"A simple exercise will show that both foreign direct investment and foreign institutional investor flows may have costs that are no less onerous than debt. An investor in the FDI segment expects an effective annual return of around 20 to 22% , taking into account the current risk premiums for investing in India."*[10]

(Of course, as with most intellectuals, wisdom dawned on this gentleman only after he relinquished office. While in office during the early 1990s, he had spent most of his time enticing all manners of shady foreign capital inflows.)

The actual rate of return on MNC investments in the third world is far more than what S.Venkitaraman has estimated in the above quote. According to the Economic Commission for Latin America & the Caribbean (ECLAC), the annual average profit rate on US direct investments in Latin America is in the range of 22 to 34%. The ECLAC has calculated that these profits totaled an astounding 157 billion dollars for the three-year period 1995-97![11] The returns on US direct investments in Africa are even more spectacular – according to UNCTAD's *WIR-98*, these returns were more than double the average rate of return on US FDI for all countries in 1997.[12]

We would like to add, even at the risk of sounding incredulous: the real rate of return on US direct investments in third world countries is higher than even the fantastic rates mentioned above! That is because the ECLAC calculations quoted above do not include profits transferred to the US in disguise through the transfer pricing mechanism, and because they are calculated after deductions for license fees and royalty payments.

Royalty and license payments do not always represent payments for transfer of technology to domestic firms. Often, it is payment made by a fully owned subsidiary of a MNC to its parent concern abroad – in other words, it provides a cover for transferring profits out of the third world country. Throughout the 1990s, these payments made to the parent corporations in the USA by their affiliates in Latin America have exceeded a billion

dollars a year and have been on the rise – growing by 14% in 1996 and 20% in 1997.[13]

Another method adopted by MNCs to disguise inter-country transfer of profits is known as transfer pricing. One way of doing this is by over-pricing capital goods imports made by a subsidiary in a developing country from its parent company located abroad. An UNCTAD study mentioned in its WIR-99 estimated most third world countries to be victims of this. The same study quotes data which indicates that the total transfer of profits to the US on this account was $ 3.5 billion in 1994.[14] This figure probably represents just the tip of a huge iceberg.

ii) INDIA: EXPERIENCING INCREASED OUTFLOWS ALSO

What has been the scale of profit remittances by MNCs investing in India? Have we been able to escape the plunder experienced by other third world countries? According to a recent editorial in one of India's leading business newspapers, *The Economic Times*: "some of the worst fears" (about "heavy outflow of foreign exchange") on account of FDI liberalisation "have not materialised...(i)n practice, no such outflows have occurred."[15] Let us see what facts have to say.

It is the job of the RBI to collect, analyse and publish data regarding the drain of foreign exchange on account of FDI. But unfortunately, in recent years, the collection of such data by the RBI has been sketchy. We have to make do with this limited information made available by RBI surveys about the extent of foreign exchange outflows on account of FDI in India. We give some of these facts below.

The RBI used to carry out surveys of foreign collaborations in India every five years. The last such survey available (to the best of our knowledge), covering the period 1981-82 to 1985-86, was published only in 1995 (in the RBI bulletin dated August 1995).

Though the 5-year period covered by the survey witnessed a sharp rise in foreign collaboration approvals, and over 3000 of these were converted into actual collaborations, the survey covers only 942 of these collaborations entered into by 720 companies. Of these, 47 were firms with majority foreign shareholdings (averaging 58.6% of the total capital of these firms in 1985-86), 411 were firms with minority shareholdings (average foreign equity of 28.3% in 1985-86) and 262 were pure technical collaborations. The salient features about the foreign exchange (or forex) transactions of these 720 companies were as below:

(a) Total foreign equity in the 47 subsidiaries and 411 minority companies (= 458 companies) was Rs.298.4 crores in 1981-82, and it rose to Rs.398.5 crores in 1985-86, a rise of Rs.100.1 crores in 5 years.

(b) Actual foreign capital inflow into these companies was less because a part of their foreign equity was due to reinvestment of profits in the form of bonus shares. Subtracting this, the actual foreign capital inflow during the five-year period under survey was Rs.33.7 crores (the remaining Rs.66.4 crores was on account of bonus shares). Likewise, the actual foreign capital inflow in these companies since their inception was Rs.192.5 crores in 1985-86.

(c) Total forex earnings and expenditures of these 720 companies for the period 1981-82 to 1985-86 were as in Table 3.2.

Table 3.2: 720 Foreign Collaboration Companies: Forex Earnings/Expenditures - 1981-82 To 1985-86

(In crores of rupees)

ITEM	47 Subsidiaries and 411Minority Companies	262 Technical Collaborations
A Earnings in foreign currencies (through exports)	2833.4	1281.6
B. Expenditures in foreign currencies (a+b+c+d)	4336.6	2037.4
a. Imports	3886.4	1919.5
b. Royalties & technical fees	68.9	86.5
c. Dividends	201.5	-
d. Interest on foreign loans	209.8	31.4
C. Net earnings in foreign currencies (A minus B)	-1533.2	-755.8

The net foreign exchanges outflow caused by these 720 foreign collaboration companies over the period 1981-82 to 1985-86 was a whopping Rs.2289.2 crores. That is, roughly Rs.450 crores a year!

Compare these figures to the actual foreign capital inflow in these companies: for the 458 subsidiaries and minority companies, the forex drain was 45 times the foreign capital inflow over the five-year period under consideration. Even more shocking is the fact this drain of foreign exchange in just 5 years was an astounding 8 times the total foreign capital inflow in these companies since their very inception (Rs.192.5 crores)!

Converting this into dollars (at the exchange rate prevailing in 1985-86), this implies that a total foreign investment of 157.4 million dollars had drained out 1223.6 million dollars in just five years! And as for the pure technical collaborations, there were no foreign capital inflows at all, just outflows.

That these figures are not mere 'statistical inconsistencies' (a term used by the World Bank when confronted with uncomfortable statistics) is borne out by other RBI surveys about the operations of foreign companies investing in India and published in its various bulletins. Let us take a look at the latest such survey published in the RBI bulletin dated February 2000 (table 3.3).

This gives the financial performance of 268 'selected' foreign direct investment (FDI) companies (enterprises in which foreign investors own more than 10% of the shares) in India for the three-year period 1994-95 to 1996-97.

A hallmark of RBI surveys in the post-1991 period is that these are even more sketchy than those of the previous decades. Thus, this survey makes no mention about the total FDI companies in India and the reasons for excluding the rest from the survey – most probably, they simply did not respond to RBI questionnaires. Further, the survey does not give the actual FDI in these 268 companies studied by it. It only gives the total equity investment in them.

The total equity investment in these 268 companies was Rs.2456.82 crores in 1994-95 and it rose to Rs.3183.72 crores in 1996-97 (excluding preference and forfeited shares which were negligible). Since a part of this was due to bonus shares, actual equity investment in these companies was:

1994-95 - Rs.1226.68 crores

1996-97 - Rs.1762.74 crores

The foreign currency earnings/expenditures of these companies for this 3-year period are given in table 3.3.

Table 3.3: 268 Foreign Direct Investment Companies: Earnings/Expenditures in Foreign Currencies

(in Rs. crores)

ITEM	1994-95	1995-96	1996-97	Total for 3 Years
A. Earnings in foreign currencies	3789.64	4215.27	4692.60	12697.51
B. Expenditures in foreign currencies (a+b+c+d)	3975.35	5783.72	8094.98	17854.05
a. Imports	3291.04	4893.51	6979.40	15163.95
b. Dividends	220.49	271.65	340.03	832.17
c. Royalty & technical fees	114.07	134.80	172.29	421.16
d. Others	349.75	483.75	603.29	1436.76
C. Net earnings in foreign currencies (A minus B)	-185.71	-1568.44	-3402.38	-5156.53

Even if 100% of the equity in these companies was FDI, the total forex drain by these 268 FDI companies in just three years was three times the total equity investment in these companies since their very inception; and by 1996-97, this outflow had accelerated to such an extent that in a single year it was nearly double the total equity investment! Converting these figures into dollars, the total forex outflow over the 3-year period was $1.45 billion, on a total FDI inflow (assuming these 268 companies to be fully-owned foreign subsidiaries) of 0.50 billion. And since actual FDI in these companies was less than 100%, obviously the drain of foreign exchange was much more than three times the actual FDI inflow! A major part of the foreign exchange expenditures of these companies was due to imports, indicating that these companies were probably resorting to transfer pricing in big way to shift profits out of the country. Also note that the forex outflow has increased rapidly over the three-year period under review - it went up by a whopping 18 times: implying that as the globalisation of the Indian economy has proceeded ahead at a rapid pace, forex outflows have simply gone through the roof!

These are figures released by the government's own central bank. What will be the scale of total profit remittances being made by the MNCs investing in India is anybody's guess. A rough estimate can be made from the current account BoP statistics of the GOI.

The RBI includes the receipts/payments of dividends and interest in the sub-category of "Investment Income", which is a part of the "Invisibles" category of the current account balance of payments tables. According to figures put out by the RBI, the gross payments under this head have steadily gone up from $3.3 billion in 1991-92 to $5.5 billion in 1998-99. However, because of an unusual category of receipts, the net payment of interest and dividends has remained more or less stable at roughly $3.5 billion a year. These receipts have not been dividends earned by subsidiaries of Indian companies abroad, but rather interest earnings of the RBI – it has invested India's substantial foreign exchange reserves in foreign government securities.[16] The other reason why the profit outflows on account of FDI have not gone up significantly is because MNCs have been investing their earnings from their existing investments in the country in increasing their share of equity in their subsidiaries in India – from the 40% usually permitted earlier to 51% and more (even up to 100% where permitted).[17] That is why the remittances are nowhere near the levels of, say, Brazil – where outflow of remitted profits has soared from $37 million to $7 billion in just five years, from 1993 to 1998.[18] Obviously, then, the outflows are going to rise at an even faster rate in the coming years.

Table 3.4: Dividend & Interest Outflows, GOI; and FDI Inflows

in US$ million

	98-99	97-98	96-97	95-96	94-95	93-94	92-93	91-92
INVESTMENT INCOME (net) (1-2)	-3544	-3521	-3307	-3205	-3431	-3270	-3423	-3840
1. Receipts	1935	1561	1073	1429	886	395	376	221
2. Payments	5479	5082	4380	4634	4317	3665	3799	4061
FDI INFLOWS	2462	3557	2821	2144	1314	586	315	129

Source: *Economic Survey*, cited in *EPW*, No.11, Mar 11, 2000, p.859

Despite the above mentioned factor having restrained a rapid increase in outflows, the gross remittances on account of interest and dividend payments in 1998-99 were more than twice the FDI inflows that year! Even the net investment outflows were nearly one and half times the FDI inflows!

Clearly, FDI flows to third world countries, including India, instead of easing the BoP problems of these countries, only go towards worsening it. This is so obviously true today that even the *World Investment Report 1999* of the UNCTAD is forced to acknowledge it. Just like cigarette advertisements in India carry the warning 'cigarette smoking is injurious to health' in small type at the bottom, so the *WIR-99*, while enumerating numerous farcical benefits of FDI flows to 'developing' countries, cautions that "profit and dividend remittances could have implications for BoP of third world countries" (p. xxii). It of course does not examine this issue any further.

That unrestricted inflows of capital into third world countries – from those countries who were not very long ago their colonial masters – is only going to lead to a massive haemorrhage of profit outflows and ultimately financial bankruptcy is also borne out by history. The heyday of British imperialism and British foreign investment was the half century before the First World War. In the period 1870-1913, Britain invested abroad a net amount of 2.4 billion pounds (roughly $ 12 billion). But during the same period, the income from foreign investment flowing into Britain came to 4.1 billion pounds. The flow of income to Britain exceeded the investment by Britain by a whopping 70%.[19]

II. OTHER MYTHS ABOUT BENEFITS OF FDI FLOWS

There are a number of other myths being propagated about the benefits of FDI flows to third world countries. One such myth, which we have already discussed and demolished in the previous chapter, is that it would increase the exports of these countries. It is also claimed that liberal entry of MNCs into third world countries would make the domestic industries of these countries more competitive and efficient, and that this increased competition would also lower prices. Before examining these claims, we first take a look at the nature of these MNCs who are responsible for most of the FDI flows.

The rise of multinational corporations

As mentioned earlier, in the last two decades of the 19th century, there took place a qualitative change in the nature of capitalist production in the advanced capitalist countries. Capitalism advanced to the stage of monopoly capitalism, stronger companies gobbled up the weaker ones and joined together in various forms of combinations like cartels, and monopolies came to dominate the economies of these countries.

Restless expansion – the accumulation of capital – is the driving force and the very essence of capitalism. The desire and need to utilise the resources of other nations for this accumulation process are present at all stages of capitalist development. With the rise of monopoly capitalism, competition among the developed capitalist countries to control sources of raw materials and markets of other nations intensifies. Consequently, ever since capitalism entered its monopoly stage in the closing decades of the 19th century, export of capital in the form of FDI has been accelerating.

By the late 1970s, the international operations of the monopoly corporations of the developed capitalist countries had expanded to such an extent that they came to be known as multinational corporations (or MNCs). With the onset of globalisation in the 1980s, the MNCs have become transformed into truly giant behemoths with operations straddled across the globe.

Simultaneously, the rivalry amongst these huge corporations has intensified – in markets spread all over the globe. This has led to a boom in mergers and acquisitions (M&As) among these giants as they attempt to consolidate their positions and go on the offensive against their rivals. In the 1990s, this boom has been scaling record heights every year. 1999 ended with the global value of M&As touching $ 2.4 trillion.[20] Most of the global FDI flows are also going towards funding cross-border M&As – in fact, it is the latter that has been the driving force behind the spurt in global FDI flows in recent years. In 1998, 84.5% of all FDI flows of $ 644 billion went to fund cross-border M&As[21] and in terms of growth rate it registered an increase by 60% over 1997 (from $ 342 billion to $ 544 billion).[22]

This has led to a quantum jump in the concentration and centralisation of capital on a global scale. Today a handful of monstrous MNCs dominate global economic activity in every conceivable sphere – from manufacturing to banking, from every conceivable service to agriculture and mass merchandising. The world's 200 biggest MNCs, which have been described by the Bangkok Bank Monthly Review as "fearsome giants clutching world business in their grip", accounted for an astounding 26.3% of the world's GDP in 1998; their combined revenues were more than $ 7.6 trillion in that year.[23] The Himalayan nature of this sum can be better gauged by the fact that it is more than the combined GDP of all the countries of the world except the biggest 12 economies[24]; while in comparison, the GDP of India was $ 0.381 trillion in 1997.[25] We have already mentioned earlier that these giant corporations control most of the global FDI flows – 300 corporations account for 70% of it.[26]

Today a few firms control global production in virtually every sector. The top five firms account for between 30-60% of the global sales in autos, electronics, airlines, steel, oil, personal computers and chemicals.[27] In pharmaceuticals, the top seven firms account for about a quarter of the $ 300 billion global market.[28] Just six agro-chemical corporations dominate the global genetically engineered food industry.[29] And the M&A frenzy gripping the world economy is going to further increase the power of this corporate gulag in the coming days.

These corporations are so big that they can gobble up entire countries. Wal Mart – the retailing giant – is bigger than 161 countries, including Israel, Poland and Greece. Mitsubishi is larger than the fourth most populous nation on earth: Indonesia. Ford is bigger than South Africa. Of the 100 largest economies in the world, 51 are corporations, only 49 are countries.[30]

With this background, we now examine how much truth there is in the claims being made about benefits of investments made by these MNCs – known as FDI flows – in third world countries.

i) Will the competitiveness of third world industry increase?

Such being the size of the MNCs, expecting the puny third world industries to compete with these monster-like corporations is simply ridiculous. Competition takes place among equals, not between giants and midgets.

Therefore, the inevitable consequence of the opening up of the third world economies to capital flows from the imperialist countries has been the gradual takeover of third world industry by US-EU-Japanese MNCs. In Latin America, $ 54.4 billion of FDI in 1998 went towards purchasing existing corporate assets – mainly privatised public enterprises and financially troubled private enterprises.[31] Such acquisitions account for 68 to 75% of all FDI flows to the region. It has led to key industrial sectors and top corporations falling into the hands of US and other developed country MNCs. By 1999, over 33 of the top one hundred Latin American corporations had fallen victim to foreign investors. In Brazil, Latin America's favourite playground for transnational capital, between 1992 and 1997 there were more than 350 M&As involving foreign (mainly US) firms. These were particularly evident in the sectors of banking, insurance and finance, as well as pharmaceuticals, chemical products and telecommunications.[32]

Likewise, after the economies of South Korea and other East and South-East Asian countries collapsed in 1997, most of the FDI flows to these countries have been directed towards buying out domestic assets at throwaway prices. We discuss this in Chapter 7.

In India too, the MNCs are moving in to take control of the entire economy. The percentage of FDI that has gone towards purchasing shares of existing Indian companies rather than into greenfield investment has been rising in recent years – from 1% in 1995-96 to 16% in 1998-99. Guesstimates for the year 1999-2000 suggest that the figure is likely to be higher and could go up to as much as one-third.[33]

The imperialist capital coming into India is gradually taking over the public sector infrastructural industries and financial institutions, which are being privatised by the GOI (we discuss this very soon below). Indian private sector big corporate houses are also undertaking massive restructuring. They are selling off parts of their portfolio of businesses to focus on a few select areas where they are hoping to survive the competition – for instance, Tatas have withdrawn from soaps and detergents through the sale of Tata Oil Mills to Unilever. In many other areas, they are entering into collaborations with the MNCs and becoming their junior partners. Here again there have been numerous instances where the MNCs have bought out their joint venture Indian partners after a few years of combined operations. Consequently, the acquisitions of Indian companies by foreign firms have been increasing, from an insignificant level before 1991 to 279 in 1997 (these figures include majority control acquired by foreign partners in joint ventures, as well as increase in equity control in FERA firms from 40 to 51%).[34]

Meanwhile, as far as the Indian small-scale industry (SSI) sector is concerned, it is simply being decimated. Tens of thousands of small-scale industries have already downed their shutters, while others are on the verge of closure. We return to this issue later – it is having deleterious consequences on the Indian economy.

ii) Will it lead to a fall in prices?

Let us now briefly discuss another of the supposed benefits of FDI flows: that increased foreign capital inflows would lead to a fall in prices. This is also a myth. In classrooms, economic courses still teach about how competition would lead to falling prices as firms indulge in cost-cuttings - they are still living in the world of competitive capitalism that prevailed in the 19th century. Monopoly capitalism does not function under the same laws. With the rise of the giant monopolies, there are now only a few competitors in every field. They now follow the unwritten rule of not indulging in price-cutting of the kind which would lead to price warfare and threaten the very existence of firms. This is because it benefits none of the competitors – all of them are so big that in case they indulge in price warfare, all of them would be ruined. They instead cooperate to rig up prices. Competition now takes place over market shares, in which the main weapons are product differentiation and a whole panoply of aggressive marketing techniques. This becomes the main terrain for inter-corporate rivalry. Price competition takes place only in new emerging industries, as has been taking place in computer software and PC industries. This continues until a shakedown leaves only a few giant corporations in the fray. Then, price-wars end.

We see this happening in India. The most obvious example is that of the two soft drink giants, Pepsi and Coke, who have taken over all their Indian rivals. They compete with each other over market shares, but do not indulge in price warfare. Instead, they cooperate with each other to

inflate prices, and sell a bottle of 300ml of coloured water costing a few paise for Rs.9.

iii) Will better quality goods be available?

Globalisation is also supposed to lead to the availability of better quality goods in the domestic market. Indeed, this does take place. In India, the well-heeled brown intelligentsia and yuppie-type middle classes are delirious about the easy availability of imported goods in the Indian market. They cite this as one of the benefits of FDI. These self-centred classes are simply not bothered about the 'costs' of these goods to the economy – in terms of the increased outflows of foreign exchange - which are leading the country towards external account bankruptcy. The elites do not suffer when the country goes bankrupt; it is the poor who will bear the costs of yet one more round of 'Structural Adjustment'. But we go into this aspect later.

III. THE FDI-INFLOW – PROFIT-OUTFLOW TRAP

> "*Now, here, you see it takes all the running*
> *you can do*
> *To keep in the same place.*"
>
> (Lewis Caroll, *Through the Looking Glass*)

Clearly, all the propaganda about the benefits of FDI flows to the third world countries is nothing but a pack of lies.

There was actually no need for all the extensive arguments made above to show that foreign investment is not going to lead to development of the underdeveloped countries. If indeed imperialist capital does lead to development, then these countries should have developed a long time ago – because all of them were colonies of the imperialists just over half a century ago. Millions of people in these colonies had sacrificed their lives to win freedom for their countries. That the return of imperialist capital into these countries is going to lead to re-colonisation of these lands once again should be obvious - at least to people in countries like India whose forefathers have borne the stigma of being slaves. However the media "propaganda" has been so successful in "manipulating" and "moulding" the "minds of the masses" (quotations from an important manual of the public relations industry by one of its leading figures, Edward Bernays[35]) that people have come to accept the opposite as gospel truth!

The third world's political leaders, their top intelligentsia, their leading economists, and others of their ilk – all those who excel in "controlling the public mind" (to use another phrase of Edward Bernays) – of course know about all the above facts, since all of them are garnered from official publications. In spite of that, the ruling governments of almost all third world countries (except for a few 'rogue' countries like Cuba) have been accelerating the globalisation of their economies – irrespective of whether the governments are of democrats or republicans, conservatives or social democrats, or military juntas. What makes them so desperate to attract an increasing volume of FDI into their economies?

In India too, since 1991, successive governments at the Centre – irrespective of their ideological leanings - have been assiduously wooing foreign investors, and the country's leading intellectuals have been clamouring for faster and faster globalisation. The latest *Economic Survey* of the GOI (1999-2000) declares: "The central lesson of the 1990s is to persevere with the thrust of our economic reforms, encompassing continued liberalisation of foreign trade, reduction of customs tariffs, clear and decisive policies to encourage FDI…"[36] How did the finance minister and his top economic advisors arrive at this "central lesson of the 1990s"? (Of course, the *Economic Survey* does not give the answer.)

The real reason, which these leaders dare not admit in public, should actually be obvious from the facts given above. Foreign direct investment is addictive. It is like drugs: the more the FDI inflows you invite, the more the FDI inflows you need. A simple arithmetical example explains the logic of the process (table 3.5).

We assume that a country obtains each year FDI of $1000, and that the annual rate of return is a modest 20%. This means that investment in a particular year is going to result in 20% profit repatriation in every subsequent year. (Note that the actual rate of return (ROR) on FDI flows to third world countries is much more, but let us take a modest ROR for our calculations.) The net result is shown in the last column of table 3.5. The net inflows, i.e., the actual inflows after all the profits on accumulated FDI have been repatriated, get smaller and smaller each year. By the sixth year, the net FDI inflows turn negative: the profit repatriation by the accumulated FDI over the past five years exceeds the FDI of $1000 that

year. Consequently, the third world country needs a growing volume of FDI inflows if it is to prevent external account bankruptcy. In other words, the country is caught in a FDI-inflow-profit-outflow trap, which is very much like an external debt trap.

Table 3.5: Net FDI Inflow if $1000 is Invested Each Year
(Annual Rate of Return on Investment is 20%)

Year	New Investment (1)	Profit Repatriation on accumulated FDI (2)	Net inflows: (1) minus (2)
1st	1000	200	800
2nd	1000	400	600
3rd	1000	600	400
5th	1000	1000	0
6th	1000	1200	-200

All the third world countries, including India, who have been implementing the Bank-Fund dictated 'SAP' and have opened their economies to FDI inflows, are caught in this trap. They must somehow attract an increasing volume of FDI to prevent financial bankruptcy and keep the capitalist system going.

IV. RECOLONISATION OF THE THIRD WORLD

The third world countries are so desperate to attract foreign capital that national patrimony has also been put up for sale. In many of these countries, the most vital sectors of the economy – infrastructure, financial services and essential services like water supply – had been nationalised in the 1950s-60s in a bid to limit the penetration and control of imperialist capital. All these public sector institutions are now being privatised and handed over to the Western MNCs at throwaway prices. Privatisation of the public sector is in fact one of the most important conditions attached to the SALs given by the WB to the indebted third world countries.

From East Asia and South Asia to Africa and Latin America, third world countries everywhere have been privatising public sector productive assets at an accelerating pace. According to the World Bank report *Global Development Finance 1999* (p.141), privatisation proceeds in "developing countries" in 1997 totalled $ 66.6 billion, "mainly from the sale of large infrastructural projects" – a significant rise over 1996, when it totalled $ 25.4 billion. The report also gives the sectoral break-up of the privatisation revenues (pp.147-148): "Infrastructure-related enterprises - which include power, telecommunications and transport companies – have accounted for the largest share of privatisation revenues since 1994. In 1997, privatisation proceeds from the infrastructure sector amounted to an estimated $ 37.4 billion (56% of the total privatisation revenues in developing countries)…. The primary sector – which includes petroleum, mining, agriculture and forestry – generated an estimated $ 12.9 billion in 1997… The manufacturing sector – which includes steel, chemicals, construction and other sub-sectors – raised $ 7.8 billion in 1997." The report continues, "The financial sector – which includes banks, insurance, real estate and other financial services" – is also on sale, "raising $ 3.4 billion" in 1997.

A substantial part of these assets were sold to foreign investors. According to the same WB report quoted above (p.148), sales of third world assets to foreign investors raised $ 28.8 billion in 1997. The total foreign exchange raised by third world countries through privatisation over the period 1990-97 was $ 98.5 billion. This is the real essence of globalisation – the gradual takeover of third world productive assets by the erstwhile colonial powers. Once again, the wealth and resources of the erstwhile colonies are being put at the disposal of the imperialist predators – to be looted at will.

Argentina has virtually liquidated national sovereignty. There is nothing much left to sell off. Everything that could be privatised has been privatised – transportation networks, airlines, gas, oil and electricity, even streets. Vast tracts of the Argentinean pampas, including farm holdings of as much as 4,00,000 hectares, have been sold out to foreign investors. George Soros, one of the world's biggest speculators, ranks among Argentina's biggest latifundistas, as do the major US grain companies.[37]

In Peru, soon after Fujimori was elected the head of state in 1991, he sold off the petroleum, mining and metal refining enterprises that accounted for most of the country's industrial output.[38] He implemented the WB-IMF dictated reforms so vigorously that it was dubbed as 'Fujishock' by the media. With probably nothing else left to sell, Bolivia sold off its waterworks to a London-based consortium Aguas del Tunari early this year. It promptly hiked water charges provoking widespread riots,[39] forcing the company to flee the country.

We have mentioned earlier that in Brazil, the third world's biggest economy whose GDP is more than twice that of India, the outflow of remitted profits zoomed to an astronomical $ 7 billion by 1998. In a desperate bid to keep the economy afloat, the most precious state enterprises have been put on the auction block - including the oil company and major utilities. The Amazon has also been further opened up to foreign companies for raw material extraction. Consequently, foreign investment has rushed into the country to pick up these offerings, rising from $ 2 billion in 1995 to $ 34 billion last year (1999).[40]

But then, the greater the FDI inflows, the greater the profit outflows. It's a trap, which keeps on tightening.

With the economies of the third world countries dependent on FDI inflows, the foreign investors are in a position to arm-twist the third world countries to sell off their national assets at bargain prices. Thus, the Brazilian government privatised the Vale Company in 1997 over much popular opposition. It was Latin America's biggest privatisation ever. Vale controls vast uranium, iron and other mineral resources and industrial and transport facilities. It is highly profitable, with a 1996 income of over $ 5 billion, and excellent prospects for the future. It is one of the six Latin American enterprises ranked among the 500 most profitable in the world. The government sold off this highly lucrative company for a mere $ 3.3 billion.[41]

After the South Korean economy was brought to its knees in 1997, one of the conditionalities attached to the rescue package organised by the IMF and the Western governments was that 100% foreign equity holding be allowed. Within days, foreign investors moved in to buy out domestic companies at distress prices. A similar conditionality, with similar consequences, had been imposed on Mexico after its economy collapsed in 1994. We shall be discussing the crises gripping these countries in Chapter 7, so we leave them for now.

To Conclude:

It's a return to the era of colonial loot once again, with a difference: the imperialists do not have direct political control over the third world countries. But there is no need for it – they have the third world countries entrapped in a foreign exchange crisis, and hence are in a position to dictate terms to them. The ruling classes of the third world countries are willing to accede to the conditions being imposed – for their own narrow interests of capital accumulation.

In other words: the third world countries are being transformed into economic colonies of the United States and other imperialist powers.

❇ ❇ ❇

The imperialists are not content with just taking over the productive assets of the third world countries. They are seeking to transform the third world economies so that maximum possible profits can be squeezed out of them – to the last drop. To get a better idea of the changes taking place in all these third world countries, we discuss in some detail in the next chapter how the imperialists are gradually taking over, pulverising and remoulding the Indian economy so as to maximise their plunder.

References

1. IMF report, cited in Doug Henwood, *TWR*, No.99, Nov 1998, p.20
2. *EPW*, No. 44, Oct 31, 1998, p. 2763
3. Ibid.
4. UNCTAD figures, *The Hindu*, 9.2.2000
5. UNI report, *THBL*, 12.2.2000 & C.P.Chandrasekhar, *FL*, Mar 3, 2000, p.9
6. *THBL*, 3.2.2000
7. UN report, *EPW*, No.9, Feb 28, 1998, p.461
8. *TOI*, 14.2.2000
9. Chakravarthi Raghavan, *TWR*, No.110-11, Oct-Nov 1999, p.19
10. *TOI*, 1.9.1996 - cited in *AIE*, No.21, p.41
11. James Petras & Henry Veltmeyer, *MR*, July-Aug 1999, pp.43-44
12. John S.Saul & Colin Leys, *MR*, July-Aug 1999, p.31
13. James Petras & Henry Veltmeyer, *MR*, July-Aug 1999, p.44
14. Cited in Prof.Alejandro Nadal, *TWR*, No.110-11, Oct-Nov 1999, p.31
15. *ET*, 4.1.2000
16. CRR, *The Hindu*, 28.1.2000

17. Arun Ghosh, *The Indian Economy, 1998-99: An Alternate Survey*, Delhi Science Forum, New Delhi-19, p.52
18. Jayati Ghosh, *FL*, Sept 24, 1999, p.106
19. Paul Sweezy, *Modern Capitalism and Other Essays*, MR Press, New York, 1972, p.22
20. CRR, *The Hindu*, 13.1.2000
21. Badar Alam Iqbal, *THBL*, 11.2.2000
22. S.Majumdar, *HT*, 14.11.1999
23. Frederic Clairmont, *EPW*, No.1-2, Jan 8, 2000, pp.26-27
24. Calculated from World Bank, *1999 World Development Indicators*
25. Ibid.
26. Michael Dawson & John Bellamy Foster, *MR*, July-Aug 1996, p.43
27. Sarah Anderson & John Cavanagh, *TWR*, No.97, Sept 1998, p.38
28. Jayati Ghosh, *FL*, Dec 18, 1998, p.94
29. John Vidal & Marc Vilner, *TWR*, No.97, Sept 1998, p.12
30. Sarah Anderson & John Cavanagh, op.cit., p.37
31. James Petras & Henry Veltmeyer, op.cit., p.42
32. UNCTAD, *WIR-98*, cited in ibid., pp.42-43 & 57
33. Jayati Ghosh, *FL*, Sept 24, 1999, p.106
34. Sushil Khanna, *EPW*, Nov. 6, 1999, p.3239
35. Quoted in Noam Chomsky, *Profit over People*, op.cit., p.53
36. *THBL*, 29.2.2000
37. Frederic Clairmont, *EPW*, No.6, Feb 6, 1999, p.326
38. James Petras & Morris Morley, *EPW*, No.30, July 27, 1991, p.PE-105
39. Reuters Report, *THBL*, 10.4.2000
40. Vijay Prashad, *FL*, Sept 24, 1999, p.60
41. Noam Chomsky, *Profit over People*, op.cit., p.71 & World Bank, *Global Development Finance*, 1999, p.142

" I see in the near future a crisis approaching that unnerves me and causes me to tremble for the safety of my country .... corporations have been enthroned and an era of high corruption will follow, and the money power of the country will endeavor to prolong its reign by working upon the prejudices of the people until all wealth is aggregated in a few hands and the Republic is destroyed."

- US President Abraham Lincoln, Nov 21,1864, in a letter to Colonel William F. Elkins.

- Cited in MR, Sept 1999, p. 52

Woodrow Wilson, President of the United States of America, wrote while he was in office in 1913 :

"The masters of the government of the United States are the combined capitalists and manufacturers of the United States."

- Cited by Leo Hubermann, MR, Sept 1950

ECONOMIC COLONISATION OF INDIA

We have seen in the previous chapter how the Indian economy is also caught in the FDI-inflow- profit-outflow trap, like most other third world economies.

Therefore, just as is happening in the rest of third world, the Indian ruling classes are also offering the most extraordinary sops to foreign investors in a bid to lure them into investing their billions in the country. In the words of Murasoli Maran, the Union Commerce Minister: “The intention was to make the country one of the most desirable destinations for investment and trade” (speech before a galaxy of Hong Kong businessmen on Feb 24, 2000).[1] The country’s infrastructural assets, its agricultural wealth, its natural resources, even its ‘human resources’ – everything has been put up for sale at rock bottom prices. We take a closer look at this extraordinary ‘SALE’ – in the case of the crucial infrastructural and financial sectors – in Part-A of this Chapter. With the imperialists in a position to dictate terms to India, they are seeking to transform the entire orientation of the Indian economy so as to maximise their plunder. We take a look at these conditionalities in Part-B of this Chapter.

PART A

SALE OF INDIA’S PRODUCTIVE ASSETS TO MNCs

I. SALE OF THE INFRASTRUCTURAL SECTOR

Most of the country’s infrastructure is in the public sector. All of it is being privatised and handed over to the foreign MNCs at atrociously low prices. India’s big corporate houses are also getting a share in these privatised assets, often as junior collaborators of the MNCs.

Thus, only recently, the GOI sold 18% of its holdings in Gas Authority of India Limited (GAIL). Of this, 5% was acquired by Enron Corporation, and 1.3% by British Gas. Both these competitors of GAIL were thus able to buy their way into the company – for a song.

GAIL is a Navratna company enjoying a market share of 95% in the natural gas business in India. Its earnings were nearly Rs.7000 crores in 1998-99 and it made a net profit of Rs.1060 crores that year. The government sold off nearly a fifth of its equity in the company at a price of Rs.70 per share and raised a total of Rs.1085 crores through the disinvestment.

GAIL's shares should actually have been sold for several times the Rs.70 the GOI earned per share, according to experts quoted by V.Sridhar in a recent issue of the reputed Chennai magazine, *Frontline*. Some idea of this undervaluation can be had from the fact that GAIL's scrip was quoted on the Bombay Stock Exchange in June 1997 at Rs.183. Moreover, British Gas had acquired a stake in Gujarat Gas in 1997 from the Mafatlal Group at a price of Rs.270 a share. Since GAIL is a much bigger company and a dominant player in the country's natural gas business, obviously its share could have got more than this latter price too.[2]

Likewise, the government sold a part of its equity in Videsh Sanchar Nigam Limited (VSNL) some time ago at a price of Rs.750 a share, when even the prevailing market price was around Rs.1100 a share.[3]

The loss to the GOI is even more than what the above figures suggest, considering the fact that in all these blue chip companies, the market value of the shares do not reflect even remotely the true value (in terms either of current asset value or of future earnings potential) of these shares. Therefore, if at all these shares were to have been sold, they should have been sold at a very high premium. Instead, the government is selling these shares at a price even below the market price of these shares. The government has put up its most crucial sectors for 'sale'.

Even more scandalous has been the handing over of oilfields discovered and developed by the Oil & Natural Gas Corporation (ONGC) to private consortiums, without even compensating the ONGC for the expenses it had incurred! The Comptroller & Auditor General of India (CAG) has calculated that this decision of the Petroleum Ministry has caused the ONGC a whopping loss of $ 330 million, or Rs.1244 crores.[4]

There is more to this scandal. The terms on which the GOI has handed over these oilfields are simply horrifying. The government has committed itself to buying oil from these companies at the international price, which has been at around $ 25 a barrel in recent days - whereas ONGC's average

cost of production of crude oil (including capital servicing charges) was $ 5 a barrel in 1990. (We are quoting Arun Ghosh, a former member of the Planning Commission, and who was in charge of the oil sector in that body). That is, we are buying our own oil, from oilfields discovered and developed by our very own company, from foreign corporations – to whom we have benevolently handed over our oilfields – at five times the cost at which our company was producing the same oil! It is simply mind-boggling.

According to calculations made by Arun Ghosh for Mukta and Panna oilfields which have been given away to a consortium of Enron (of Dabhol fame) and Reliance, the total annual revenues - after deducting all costs including capital servicing charges - of the consortium in 1994 (when oil prices were at $ 18 a barrel) should have been at least $ 440 million, on an equity of $ 400 million.[5] Today, when oil prices have gone up to $ 25 a barrel, this consortium should be earning at least $ 700 million annually – a fantastic return of 175% on equity. And a conservative estimate at that.

Such are the terms on which the country's assets, built up by the sweat and blood of the Indian people over the last fifty years, are being handed over to the bandits from the West.

The MNCs are not satisfied with just that. They are remoulding each and every sector of the economy, so that the maximum possible profits can be extracted and transferred to their coffers abroad. To illustrate what is happening, we take up the power sector as a case study, and discuss the transformation being made.

CASE STUDY : THE POWER SECTOR

One of the first areas thrown open to foreign investment by the GOI – to plug the gap in the current account deficit – was the power sector. This is one of the most crucial areas of the infrastructure and was hitherto virtually entirely in the public sector. Opening up the power sector to foreign investment has been one of the conditions of the World Bank's 'Structural Adjustment Programme' imposed on the indebted third world countries.[6]

The First Phase: Inviting Foreign Power Producers

In the first phase of power sector 'reforms', the government drastically cutback public sector investment in power generation and invited private, especially foreign, investors to set up new power plants. There are roughly half a dozen global suppliers of power generating equipment who dominate the international market. This market is facing its worst recession in decades, with installed capacity being many times more than the demand.[7] The government could have dictated terms to these MNCs. But beggars cannot assert. With the WB breathing down its neck, the government has approached the MNCs on its knees. Sensing the weak position of the GOI, the foreign power utility companies and power equipment manufacturers, who have close links amongst themselves, have been operating as a cartel and arm-twisting the Indian government into granting more and more concessions.

The final terms on which the GOI has cleared the various power projects being set up by these MNCs have been simply scandalous. One such concession is the assurance of a minimum post-tax return of 16% per annum on equity. Since these companies would be buying power equipment from their affiliates abroad, the actual (guaranteed) returns are going to be far higher because they can easily inflate the capital costs. As we shall see later, this is what has been happening. In addition, the government has also offered to protect the profits of these companies against any depreciation of the rupee. This makes the investments virtually risk-free!

Even by a conservative estimate, the effective rate of return works out to more than 25%. This is far more than what is available to these investors in their own markets (which in any case are saturated) – the prevailing interest rate in the international financial markets of around 6-8% is a comparable benchmark.[8]

Not only that, the investment is risk-free and guaranteed! Yet, all these reforms are being done in the name of ending public sector monopoly and throwing open the power sector to competition by inviting private sector investment.

The Enron saga -

One of these power projects cleared by the government is the infamous Enron power project being set up by the Dabhol Power Company (DPC), a subsidiary of Enron, a US-based MNC, at Dabhol in Ratnagiri district of Maharashtra. Phase I of the project was commissioned in May 1999 and Phase-II is expected to be completed by end-2001. We discuss the terms on which this project was finalised in some detail - it illustrates what has been going on in the entire power sector.

The Maharashtra State Electricity Board (MSEB) has contracted to buy 2000 MW of electricity from the DPC for a period of 20 years. Under

the terms of the power purchase agreement (PPA) signed with the DPC, MSEB is committed to purchasing this power.[9]

In June 1999, MSEB began purchasing power from the DPC. The cost of this was an exhorbitant Rs.4.96 per unit.[10] This is more than double the cost at which MSEB has been purchasing power from other, domestic, power producers: the Tata Electric Company (TEC) supplies it power at between Rs.1.80 to Rs.2.05 a unit, while in the case of National Thermal Power Corporation (NTPC), the rate is even lower at between 80 paise to Rs.1.60 a unit.[11] The extent to which Enron has inflated its capital costs – in order to arrive at this exhorbitant cost of electricity generation – is evident from a comparison of the cost of this project to the cost of a similar project executed by it at Teeside in England. The latter cost, according to an Enron brochure, is half the cost of the Dabhol plant.[12]

Under the terms of the PPA, the tariff charged by the DPC has two components: the ‘capacity charge’ and the ‘fuel costs’. The former is indexed to the US inflation rate, and the latter to international fuel prices. In addition, Enron is also protected from the depreciation of the rupee. Therefore, in the coming years, the cost of electricity supplied by the DPC is bound to go up, if not for any other reason, then at least due to the depreciation of the rupee.

Let us now calculate the outflow in foreign exchange due to this project. The charge per unit of electricity supplied works out to roughly 11.25 cents a unit, at an exchange rate of Rs.43.50 to a dollar. Within another 2 years, once the full project is commissioned, the annual off-take, at 2000 MW, for 365 days x 24 hrs/day, would be 17.52 billion KWH, costing $ 1.97 billion annually and $ 39.4 billion over the next 20 years (the life of the PPA).[13] This much is going to be the outflow, on a total one-time investment of $ 2 billion[14] - of which only a part would be foreign investment! And this is not counting any further increase in international fuel prices! (Since April 2000, when these lines were written, fuel prices have gone through the roof.)

Even more significantly, this payment is obligatory: the assets of the MSEB, the Maharashtra government, and even the assets of the GOI, are mortgaged to Enron, by way of sovereign guarantees extended by both governments.

All these costs, when the project was not needed at all! This is so starkly obvious that even the WB, in a prick of conscience, has admitted to it. It refused to sanction a loan for the project on the ground that what

Maharashtra needed was a 'peaking', not a large base load station.[15]

The prediction of all independent experts is now coming true. The Enron project has forced MSEB to reduce its off-take of power from its other, much cheaper, suppliers. It has stopped buying between 200 and 250 MW of power from the TEC (available at Rs.1.80 a unit) and has also had to backdown its own Chandrapur thermal power station (cost of this power being Rs.1.20 per unit). The loss to MSEB on this account alone works out to Rs.460 crores per year.[16] And phase-II of the Enron project is yet to be commissioned!

How this project was contrived, sidelining all expert opinion even by GOI's own official advisors, bending all rules, subverting the laws of the country, is another story. It is very well documented by Abhay Mehta, the noted energy analyst, in his book *Power Play: A Study of the Enron Project* (Orient Longman, New Delhi).

The starkest example of the subversion of the law is that even the Central Electricity Authority (CEA) was bypassed while signing the PPA. Under the law, clearance by the CEA is mandatory. On December 2, 1996, the Bombay High Court, while delivering its judgement on a writ petition filed against the project, commented, "This case has highlighted to the people as to how even after 50 years of independence, political considerations outweigh the public interest and the interest of the State, and to what extent the government can go to justify its actions…"[17] Yet the Court dismissed the petition on dubious grounds, and the Supreme Court declined to hear an appeal filed against the judgement – it in fact even did not give the petitioners a fair hearing.[18] One can only call it strange, perhaps bizarre!

The same story repeated time and again -

The same sordid saga has been repeated in all the other seven projects sanctioned by the GOI for quick completion. All these projects, which are being set up by US and European MNCs, have artificially inflated their capital costs to get a higher rate of return than the 16% guaranteed by the government. The extent to which they have padded their capital costs can be gauged by the following statistic: in the case of Enron's Dabhol power plant, the officially quoted capital cost of a similar power plant set up by the same company in Malaysia at about the same time was 40% less.[19] According to calculations made by the National Working Group on Power Sector (NWGPS), the average total capital cost of the foreign firms for

gas-based plants comes to Rs.4.03 crore per MW, and for coal-based plants Rs.5.06 crore per MW. Had BHEL done the job, the capital cost of these plants would have been just Rs.3 crore or so per MW.[20] Consequently, the price of electricity generated by these foreign power plants would also be very high.

The total agreements signed by the GOI with foreign power companies up till December 1998 are for setting up of 75,000 MW of power generating capacity.[21] With the outflow for just 2000 MW of this being nearly $ 2 billion a year (in the case of Enron's DPC), the total outgo of foreign exchange if only one-third of this capacity (i.e., 25,000 MW) is actually set up will be around Rs.30,000 crores, or $ 10 billion a year (as per calculations made by the NWGPS, and also the Indira Gandhi Institute for Developmental Research) ![22]

Was it at all necessary? -

Yet there was no need for Enron or any of the other foreign power producers. That is because BHEL, the domestic public sector company which has the capacity to produce top-grade power generating equipment, has large unutilised capacity due to lack of orders. BHEL is an internationally renowned power equipment producer; it supplies equipment, project and services to over 50 countries worldwide; it has also supplied equipment to 65% of the 61000 MW installed capacity in the country today;[23] and its costs are far lower than the costs of the foreign power producers as we have seen above. During the Eighth Plan, most of the private power projects failed to materialise (total capacity installed till December 1998 was a mere 1589 MW[24]), and for the Ninth Plan (1997-2002), even the most optimistic officials project private sector capacity to reach 7000-8000 MW.[25] On the other hand, BHEL, which has the capacity to produce power equipment for plants up to 5850 MW annually, had an average annual production during the 1990s of equipment for only 3200 MW.[26] That is, the total capacity added by all the foreign power producers put together during the 1990s as well as the capacity they would add in the coming years could have been added by the BHEL alone had the Indian ruling classes so wished. But then, the native rulers have decided to sell away the interests of the nation for their narrow interests of profit accumulation. Accordingly, they are submitting to the dictates of the MNCs, who desire that domestic capabilities be dismantled, domestic competition be throttled, so that they are free to loot and plunder at will. It brings back memories of the British Raj – the British had cut off the thumbs of the local artisans to destroy India's manufacturing industry and end Indian competition to British exports.

Note further that had BHEL been given the orders to put up these power plants, the additional costs to the Indian economy as a whole would have been virtually zero, since investment in setting up the plant to manufacture the power equipment (i.e., BHEL) has already been made and is lying idle. Not only that, the entire economy would have got a boost, since all industries supplying inputs to BHEL would have also got orders, leading to employment generation too. Instead, with equipment being imported, this economic activity will be generated abroad.

The Second Phase: Dismantling SEBs

By mid-1990s, the second phase of the power sector reforms began. The World Bank pressurised the Centre, and the Centre cajoled various State governments into hiring World Bank experts, who promptly recommended splitting up (or unbundling) the State Electricity Boards (SEBs) into three separate units – for generation, transmission and distribution.[27] Once this is done, the next step obviously would be privatisation of all three. Taking the cue, Delhi now began prodding the State governments to implement these recommendations. As some State governments are resisting the World Bank dictates, the Centre has now proposed a new legislation, the 'Electricity Bill, 2000', to force them to restructure their SEBs.[28]

The dismantling cum privatisation process of the SEBs is in progress in Orissa, Andhra Pradesh, Karnataka, Haryana and UP, while a number of other States have begun preparations for the same.

Myth about increased competition -

The advocates of this system claim that this will bring in competition and hence improve efficiency and lower costs. Prime Minister A.B.Vajpayee himself stated this while urging the State Power Ministers to implement power sector reforms during the Power Ministers' Conference held on February 26, 2000.[29] According to the Prime Minister, the Union Power Minister and the World Bank experts, the monolithic structure of the SEBs, plus the fact that they are in the public sector, is responsible for their losses running into thousands of crores of rupees.

The entire set of recommendations made by the World Bank 'experts' are simply ridiculous. The very suggestion of splitting up generation, transmission and distribution is simply absurd, illogical. That is because

electricity cannot be stored. The output, supply and consumption of power has to be simultaneous. Power generation, transmission and distribution must therefore function in a perfectly coordinated, even synchronised, manner.

The argument that unbundling of the SEBs would end monopoly and bring in competition is blatant falsehood. There is no possibility, even in theory, of competition in transmission or distribution. Further, there is little possibility of competition in generation in a situation of power shortage. Not only that, even when there is a surplus, there is no free competition, as we have seen in the case of Enron's Dabhol power plant – the higher cost Enron electricity has to be compulsorily purchased by the MSEB! Behind the smokescreen of competition and efficiency, what is happening in reality is that in place of public sector monopoly – where at least there was some public accountability, a private sector monopoly (in majority of cases, foreign) is being created which would be accountable only to its shareholders who of course desire greater and greater profits. That this is what is going to happen is borne out from the case of Orissa, the State where the restructuring and privatisation of the SEB has been virtually completed. The State's distribution network has been divided into four zones and privatised. Three of the zones have been taken over by Bombay Suburban Electricity Supply (BSES), while the fourth zone has been given to AES Transpower, a US-based multinational. Each distribution company is a monopoly service provider in its zone. Transmission is still in the hands of Gridco, the State-owned transmission company. When it is privatised, it would also obviously be transformed into a private monopoly. In generation also, far from there being any competition, control of all thermal generating stations in the State (other than the NTPC-owned Talcher power plant) has been handed over to a single company – the same US MNC AES Transpower mentioned above which also controls a distribution zone.[30]

Who is responsible for the losses? -

What about the losses of the SEBs? If indeed the public sector character of the SEBs is responsible for their mounting losses, then why is it that after their privatisation electricity prices are being hiked? Clearly, the real reason for the losses of the SEBs is not their being in the public sector. Actually, it is the elites who are responsible - they have squeezed the electricity boards dry. Firstly, it is by now well known that the biggest defaulters in making payments to the SEBs have been the State governments themselves (for power consumed by them).[31] For instance, 40% of the dues of the UPSEB are from the UP government.[32] The other category of big defaulters are the industrial consumers, who simply let their dues mount, and then get the government to waive them at the cost of the health of the SEBs.[33] Another reason for the losses is that the rich farmers have deliberately been supplied electricity at very low rates. Fourthly, the corruption of the ministers and the bureaucrats adds to the woes of the SEBs. A committee set up by the Supreme Court to examine the reasons for the failings of the UPSEB squarely put the blame on the Power Minister and senior bureaucrats.[34] Now, the electricity boards are being privatised. Private companies are going to invest for profits. But the elites and their political representatives are not willing to give up their self interests. So, the ordinary customers are being made to bear the costs by raising electricity prices.

All this is not to argue that there is no inefficiency in the SEBs, or that there is no corruption at lower levels. There is after all little moral incentive for an ordinary employee to be honest and hardworking in a country whose top leaders are implicated in scams to the tune of thousands of crores of rupees and yet are able to twist the police and judiciary around their fingers and walk away scot-free. Through the exhaustive arguments given above, all that we want to say is that the real intention of the power sector reforms is not to address the ills of the SEBs, but to use the losses of the SEBs as an excuse to sell off public assets to foreign and domestic private companies and allow them to make astronomical, monopoly profits.

Sending electricity prices upwards -

The terms on which the SEBs are proposed to be privatised make it obvious that the cost of electricity is going to go through the roof. A simple investigation will substantiate this. To privatise all the three separate units, of generation, transmission and distribution, the assets of each would have to be revaluated. That increases the capital cost several fold. Now, a rate of return of 16% on capital must be given to the power generating company. A similar rate of return must also be given to the transmission and distribution companies. It does not need much imagination to understand the implication of all these profit guarantees on the final price of electricity to the consumer. The hardest hit would be the rural consumers. The cost of supplying electricity to rural areas is typically very high because of the dispersed distribution network. At present, it was possible to supply electricity to rural areas at affordable rates because of cross-subsidy. With the World Bank demanding an end to all such subsidies, the rural poor will soon be left in darkness.

We are not exaggerating. The reforms have just begun and already the price of electricity has started to climb. In Orissa, tariffs have already gone up by 76% in the last three years.[35] The increase would have been much more, but for the fact that transmission is still in the hands of Gridco, a State government undertaking, and it has not been given the freedom to charge reasonable prices for transmission which would give it some profit at least. Consequently, Gridco is on the verge of bankruptcy, its outstanding liabilities have risen to nearly Rs.4000 crores.[36] In Andhra Pradesh, the electricity bills of the ordinary consumers have doubled after the privatisation of the SEB, provoking widespread protests. For a family consuming 100 units per month, the monthly bill has gone up overnight from Rs.120 to Rs.215, and for a family consuming 200 units per month, it has shot up from Rs.330 earlier to Rs.510 now.[37]

Much more hefty hikes are to come in the days ahead. The *Times of India* recently carried a report quoting K.Ashok Rao (an eminent and much respected leader of the All India Power Engineers Federation) and other top leaders of various trade unions that the World Bank has recommended that by the year 2000 (at 1994 constant prices), tariffs should be raised by 549.6% in the domestic sector, 612.8% in agriculture and 420.7% in public lighting.[38] As if these hikes are not enough, the World Bank Managing Director, Mr. Peter L. Woicke, stated during a recent visit to India that the government should remove existing ceilings on tariffs for private sector power projects, and allow competition to decide the right tariff.[39]

Once the privatisation of the SEBs is completed and the foreign power companies consolidate their monopoly control over the power sector of the country, they will be in a position to dictate terms to the GOI. The tyranny of the private monopoly operators is very well brought out in a recent incident. During the recent cyclone which ravaged Orissa, the distribution company controlled by the US corporation AES Transpower suffered enormous losses. The CEO of AES, Dennis Bakke, demanded Rs.300 crores as compensation from the government for these losses, failing which he threatened to triple the rates at which the company supplied power to consumers.[40] The foreign investors pick up all the profits – which in most cases are guaranteed - while the government exchequer bears all the risks!

We have seen above that just the partial privatisation of the power generating sector is going to lead to a massive outflow of profits from the country into the coffers of the MNCs. With the full privatisation of not just the generation, but also the transmission and the distribution sectors, this drain is going to be transformed into a deluge!

❊ ❊ ❊

The same story, of subverting indigenous development in the name of inviting FDI into the country, of kowtowing to the wishes of foreign investors and self-destroying domestic capabilities, is being repeated in every sector of the infrastructure – the oil sector, the transport sector, the telecom sector, and so on.

Does it not make the heart bleed, O fellow citizens!

II. SALE OF THE FINANCIAL SECTOR

For an underdeveloped country like India, the public sector banks and insurance companies have played a crucial role in its development plans. These sectors have mobilised hundreds of thousands of crores of rupees worth of small savings from the common people, and put them at the disposal of the government for investment in national priorities like agriculture, small industries, housing, rural electrification, development of backward areas, and the like. They have provided the funds for investment in infrastructure in the public sector. They have also provided loans to the private sector, which have enabled the country's big business houses to multiply their assets many times over.

Taking control of the financial sector is central to the designs of the foreign MNCs and their governments if they are to transform this country into their economic colony. Economic colonies must not develop according to their own priorities, they must develop according to the priorities of their masters sitting far away in Washington. And so the World Bank, the IMF, and the imperialist governments have demanded that the GOI end its control over these sectors, in other words, privatise them, and allow foreign investors to enter and take them over. The Indian government has duly complied. Its defence for selling off the financial sector to the imperialists: it would lead to FDI inflows. If it has proceeded slowly in implementing financial sector reforms, it is not because of any resistance on its part, but because of the resistance of the bank and insurance employees.

i) THE INSURANCE SECTOR REFORMS

Let us first take a look at the steps being taken by the GOI to privatise the insurance sector. It went about the task according to strict grammar.

The hoary custom had been set during the Raj. The government constituted a committee – the Malhotra Committee – to look into the problems afflicting the insurance industry and recommend measures towards their solution. The committee had its job cut out. In accordance with the wishes of the foreign financial institutions, it recommended the entry of domestic and foreign private entities in the insurance sector and denationalisation of the public sector insurance companies - the Life Insurance Corporation of India (LIC) and the General Insurance Corporation of India (GIC).

Due to stiff resistance by the insurance employees, the government has, for the present, postponed the decision to privatise the LIC and the GIC. Towards the end of 1999, the Lok Sabha passed a truncated insurance bill, throwing open the insurance sector to private and foreign investors. Representatives of the American insurance industry had flown in to watch the event from the Lok Sabha galleries.[41] The tycoons from New York and Chicago cannot be blamed for their exuberance, they only wanted to make an advance survey of the new property they were acquiring, and for free.

While spokesmen of the privatisation lobby have been arguing that entry of the private sector would promote competition, thereby promote efficiency and bring down costs, there seems to be a conspiracy of silence on an important historical experience: that we are returning to pre-1956 conditions in the insurance industry, when insurance was entirely the domain of the private sector.

Reasons for nationalisation of insurance -

Life insurance was nationalised in 1956. 245 Indian and foreign companies were taken over and amalgamated to establish the LIC. Similarly, general insurance was nationalised in 1971-72, four general insurance companies took over the business of over 100 private companies, with the GIC as the holding company.[42]

These decisions to nationalise were taken because the private insurance companies were indulging in innumerable malpractices and even outright swindling. Companies would simply declare bankruptcy and vanish, depriving lakhs of policy holders of their life's hard-earned savings. Most of the big private insurance companies were controlled by India's big business houses; the list included some of the best known industrialists - the Birlas, Tatas, Singhanias and Dalmias - and they would often siphon off the resources raised from policy holders into other enterprises. Legislation had proved totally ineffective in checking these frauds, and eventually the government was left with no alternative but to take over and nationalise the insurance sector.[43]

During the debate in Parliament in February-March 1956 on the nationalisation of life insurance, the then Finance Minister, C.D.Deshmukh, had made the following observation on the ingenuity displayed by the insurance companies in circumventing legislation to defraud policy holders: "... the number of ways in which fraud can be practised which was 42 in Kautilya's days has risen to astronomical figures these days."[44]

The foreign insurance companies: crooks, scoundrels…..

The protagonists of globalisation would argue that that is precisely the reason why they have been arguing for allowing the Western MNCs to enter the insurance sector in a big way – the Indian private sector is undoubtedly unreliable, but surely the foreign investors are most trustworthy and reliable and efficient and…

This too belongs to the realm of pure fiction. Swindling is a global phenomenon in the world insurance industry. Hundreds of insurance companies in the developed countries have been declaring bankruptcy every year, because of speculative investments and unethical practices.[45] Britain's most reputed and venerable insurance company, Lloyds, went out of business some time ago. According to the British Broadcasting Corporation, underwriting 'errors' was a major cause for its mounting losses, which is a euphemism for recklessness and lack of principles.[46] In the US, the number of failures has reached such scandalous proportions that a sub-committee of the US House of Representatives investigated insurance companies' insolvencies. In its report titled *Failed Promises* submitted in February 1990, the committee found the US insurance industry to be marked by "scandalous mismanagement and rascality by certain persons entrusted with operating insurance companies, along with an appalling lack of regulatory controls to detect, prevent and punish such activities." The Report goes on to say:

> *"…relatively few crooks, scoundrels and incompetents are capable of bankrupting huge companies and possibly the entire industry….Fast operators in the industry are ignoring the rules, creating new schemes to enrich themselves, and walking away unscathed."*[47]

The performance of LIC and GIC -

In contrast, the performance of the LIC and the GIC has been simply fantastic, making these companies amongst the best run, most trustworthy and reliable insurance companies in the world. We give in table 4.1 some facts related to the performance of the LIC after nationalisation. (The performance of the GIC has been equally remarkable.)

Table 4.1: LIC: Performance Indicators

ITEM	31-12-1957 (Just after nationalisation)	31-3-1998
1. Premium Income	Rs.89 cr.	Rs.19,252 cr.
2. Life Fund (Sum total of premiums and interest earnings less expenses of management and claims)	Rs.410 cr.	Rs.1,05,832 cr.
3. Overall Expense Ratio (Expenses of management divided by premium income)	27.3%	20.5%
4. Salary Bill as Percentage of Total Income	11.4%	6.5% (in 1992-93)

Source: *AIE*, Nos.26-27, p.147, and R.Padmanabhan, *FL*, April 22, 1994, p.113

a) LIC and GIC have been growing at an annual rate of 15 to 20% consistently for the last several years.[48] Consequently, they have been more than successful in mobilising resources for investment according to national priorities, as is evident from the massive rise in accretion to the Life Fund after meeting all expenses and charges.

b) And so both the domestic public sector insurance companies have contributed huge amounts to successive five-year Plans, over-fulfilling the targets assigned to them. For the Eighth Plan period, the target for funds to be mobilised by the LIC for investment purposes was set at Rs.25,000 crores. The actual amount finally invested by the LIC was Rs.56,097 crores, more than double the targeted figure.[49]

c) A significant part of the investments made by the LIC are in socially purposive schemes. Its investments in housing, roads, rural electrification, municipal sewerage schemes and the like exceed Rs.30,000 crores. Many of these schemes have been granted funds at a lower than market rate.[50]

d) The government of India invested by way of equity Rs.5 crores in the LIC in 1956. Dividend paid by the LIC on this amount was Rs.198 crores in 1997-98, after paying corporate taxes of Rs.563 crores.[51]

e) The most important criterion for evaluating the performance of an insurance company is claims settlement. Insurance is the promise to pay all or part of the costs associated with some future event, based upon the payment of premium by the policy holder. Since this promise is an intangible, this is what makes the insurance business particularly susceptible to fraud and malpractice. On a small equity base, massive funds can be mobilised, making it an ideal hunting ground for fly-by-night operators. It is precisely in keeping this promise and settling claims that the LIC (as well as the GIC) stands head and shoulders above the erstwhile private insurers in India and the foreign insurance companies. **While the international claim settlement ratio (average) is an abysmal 40%, the figure for LIC is an incredible 97%, a world record**.[52]

Yet the native rulers and intellectuals continue to dish out the charade that privatisation of the insurance sector would promote efficiency! These thugs have abdicated all responsibility to the nation and have become commission agents of the imperialists.

Other myths about benefits of privatisation of insurance -

Another ingenious argument being bandied about by the privatisation lobby is that the entry of the private sector into insurance will greatly increase the number of policy holders and thus vastly increase the premium income, which can then be channelised into the infrastructure. They reckon that by this means as much as $ 25 billion of additional investments could be mobilised every year.[53]

This claim is based on the logic that India's 'insurance penetration' is

very low as compared to other countries. Insurance penetration is the total premium collected by all insurance companies divided by the GDP of the country. Total insurance premium (for both life and general insurance) in India in 1997 was just 1.95% of the GDP, whereas for the developed capitalist countries it ranges between 4 to 12% of the GDP.[54]

But this comparison between countries with vastly different per capita incomes is totally meaningless. The Swiss Reinsurance Company's Economic Research Division brings out a series of reports under the title *Sigma*. Its May 1998 report stated, "Demand for insurance depends on disposable income."[55] The amount of income a person would be willing to spend on insurance depends on his income level. In a country where more than 70% of the population lives at or below subsistence levels, obviously the percentage of population with savings to spare for spending on insurance is going to be very small. Therefore, insurance penetration in India is bound to be low as compared to developed countries; if at all comparisons have to be made, they must be made amongst countries with similar per capita income levels. All this is actually simple commonsense.

With this theoretical background, let us examine the extent to which it is possible to mobilise premiums from the limited Indian insurance market for investment in the infrastructural sector, and compare it to the actual performance of the public sector insurance companies. Now, substantial long-term investments in infrastructure can only be made by life insurance companies, general insurance firms cannot afford to make such investments as they often have to settle claims in the short-term. Data put out by the May 1999 *Sigma* report reveals that India's life insurance industry has outperformed the industry of far more developed countries by a huge margin.[56] In other words, the LIC of India has mobilised a far higher share of the country's GDP than could be expected at India's income level.

The reason for this creditable performance is that LIC has gone far beyond what can be called a profitable market (that is, those households who can afford insurance comfortably) into low profit areas. Since nationalisation, LIC has spread out its branches to rural and semi-urban areas in a big way, and such branches now constitute 48% of the total.[57] Through numerous socially purposive schemes, it has helped provide insurance cover to millions of low income households.

All this is something the private insurance companies would never do. Far from expanding the existing market, they would in fact be interested only in taking over the most profitable chunk of the existing market, that is, LIC's better-off clientele. Foreign firms have already given indications to this effect. The Confederation of Indian Industry's (CII) 'expert group on insurance' which is dominated by representatives of foreign firms recently demanded that no conditions be imposed on new entrants (private and foreign insurance companies) as regards procuring rural business.[58]

Another expectation of the votaries of privatisation is that opening up the insurance sector will lead to a huge inflow of FDI as foreign insurance companies have huge funds abroad. Naivete could not stretch any further. As we have mentioned earlier in Chapter 3, in other sectors of the Indian economy that have already been opened up to foreign investment, foreign investors have been reluctant to pour in huge sums of money. Instead, they have been more interested in siphoning off profits out of the country. It is most likely that this will take place in the insurance sector too.

Therefore, the privatisation of the insurance sector is not going to lead to growth in long-term investments into the infrastructure sector. Instead, in all probability, it is going to lead to a decline in such flows as multinational insurance companies transfer profits and surpluses out of the country into their coffers abroad.

Foreignisation of insurance: betrayal of national interests -

The insurance business in the developed countries, like all other sectors of their economies, is in deep crisis. Growth in premium incomes has stagnated for the past several years. The foreign insurance companies are therefore desperate to enter the Indian insurance market, whose growth rate has been stupendous by international standards. They also have their eyes set on the over Rs.one lakh crore of premium income accumulated by the Indian public sector insurance companies. At the insistence of the WB-IMF, the GOI is taking gradual steps to hand over control of the LIC and GIC – and thus control over these enormous funds – to the foreign financial institutions. These '**crooks, scoundrels and fast operators**' (epithets used by United States Senators to describe the US insurance companies) are going to have a whale of a time.

But this sum represents the life-savings of crores of ordinary Indian citizens! Well, since when did slaves start having savings?

The resources mobilised by the public sector insurance companies used to be deployed by the GOI according to national development priorities. But now the government has handed over the reins of the Indian

economy to the imperialists. They will now decide our priorities for us. And so control over the resources mobilised by our financial institutions must also be handed over to them. Elementary logic.

We have stated this many times earlier: the Indian ruling classes have become absolute toadies. This is borne out once again in the ongoing sale of the Indian insurance industry to foreign speculators. Despite the fact that there is no provision as yet under the WTO forcing India to open up its insurance sector to foreign investors! The WTO negotiations on financial services and insurance collapsed because the industrialised countries – including the United States, France, Germany, Japan and Switzerland - were unwilling to open up their domestic insurance markets to foreign insurance companies.[59]

ii) THE BANKING SECTOR REFORMS

So what if the Western countries backtrack on their commitments, the authorities in Delhi keep theirs. They have declared – the financial sector reforms are irreversible. What is happening in the insurance sector is being repeated in the banking sector. To prevent repetition, we highlight only the salient features of this 'Sale'.

The RBI sponsored two reports – the Narasimhan Committee reports of 1991 and 1998 – which did little more than reproduce the substance of a confidential World Bank report dated June 1990 titled *India: Financial Sector Report: Consolidation of the Financial System*.[60] After all, slaves must not use their brains. These reports prepared the ground for the entry of foreign banks and the progressive denationalisation of the public sector banks. In the country's largest bank, the State Bank of India, 45% of the shares are already in private hands, of which a quarter are foreign.[61] It is a matter of time before it is renamed the Imperial Bank of India.

Total deposits mobilised by the country's banking sector had crossed Rs.7,00,000 crores in February 1999.[62] Very soon, control over these enormous savings will pass into the hands of private, especially foreign, banks. They will utilise this capital for furthering their interests of profit accumulation, rather than for national interests. Preparations for changing the orientation of the Indian banking sector in accordance with the wishes of multinational banks and their official representatives, the WB-IMF, have begun. The Narasimhan Committee has recommended that the banking system in the country should focus on maximising profits, and dilute and eventually abandon its earlier social objectives. The GOI has accepted these recommendations and issued the necessary directives to the public sector banks with great alacrity.

The Indian public sector banks must be restructured so that the foreign banks are not too inconvenienced when they take them over. As per the ritual, another committee was set up. An official working group (the Verma Panel) was asked to suggest measures for restructuring weak public sector banks. These are banks overwhelmingly burdened with bad debts, or irrecoverable loans, called Non-Performing Assets or NPAs in banking parlance. The panel has done its job. It has proposed that these NPAs be transferred to an Asset Reconstruction Fund (ARF) owned by the GOI, while the banks shed 25% of their workforce, or as an alternate, reduce the emoluments of employees by 25%.[63]

At no stage has the working group dared to enumerate the factors responsible for the creation of the NPAs which have led to the ruination of the public sector banks. On March 31, 1999, the total value of such assets in the books of the nationalised banks stood at Rs.51,710 crores.[64] It is a very well established fact that the bulk of these are loans made to politically connected individuals and big business houses. **The list of defaulters includes the best-known names of the Indian corporate sector**.[65] Of the three weakest banks identified by the Verma panel for restructuring (six more have been identified by it as being in the 'distress zone' – they should soon be on the operation table), just 15 business houses account for one-third of the NPAs of the Indian Bank, while the top 10 defaulters are responsible for nearly half the bad debts of the UCO Bank.[66] Instead of suggesting measures to recover the loans advanced to these rascals, the Verma Panel has suggested **transferring the bad debts from the books of the banks to an ARF owned by the GOI**. In other words, the burden of these loans will be transferred on to the shoulders of the ordinary taxpayers, while the crooks who plundered the nation's resources will be allowed to walk away scot-free! At the same time, the Verma panel has taken it out on the hapless employees. How on earth are the employees responsible for the bad loans made by the senior management of the banks in connivance with the rich and powerful?

The hypocrisy in the arguments justifying the ongoing reform process can only nauseate. Meanwhile, with their slates wiped clean, and accompanied by a huge reduction in their workforce, the banks will be ready for sale to the MNCs.

PART B

REMOULDING INDIAN ECONOMY TO MAXIMISE DRAIN OF PROFITS

As we have seen above, India's international creditors have seized control of various sectors of the Indian economy and are pulverising them into soft mud so that they can be remoulded to suit their interests. But they are not satisfied. The greed of moneylenders can never be satiated. They want to suck out the very last drop of the sweat and blood of the Indian people, mould it into dollars and transfer it to their coffers abroad. For that, the entire orientation of the Indian economy must be changed. The economic policies must no longer be directed towards the long-term development of the country, but must be reoriented to serve the interests of the imperialists. This transformation of the Indian economy is being carried out under the guise of reducing the fiscal deficit – yet another important conditionality imposed on India by the WB-IMF.

Fiscal deficit is the gap between the government's revenues and expenditures. A part of this gap is filled by borrowing through government securities, and the rest is filled by taking 91-day loans from the RBI (which actually means creating fresh money). According to the World Bank's economic theory, reduction of India's huge fiscal deficit "would materially increase growth and reduce inflation."[67]

For the authorities in Delhi, the 'Commandments' of the World Bank must be obeyed, whatever the costs. And so ever since the reforms began in 1991, each and every budget of the GOI (even though the government has been changing) has made reduction of the fiscal deficit its central task. The pimps who masquerade as intellectuals have been writing lengthy articles in the media warning of impending doom unless the fiscal deficit is curtailed and supporting the government's efforts towards that end.

Let us first examine the validity of the economic theory professed by the World Bank-IMF. We shall examine its consequences for the Indian economy later.

I. REDUCTION OF THE FISCAL DEFICIT

i) THE HUMBUG OF FINANCE

There is actually nothing new in this theory. It is a revival of an old view propagated by the British Treasury in the 1920s – that governments must attempt to balance their expenditure with income. The British colonial government in India had pursued such a policy, with devastating consequences for the Indian economy. According to the 'Treasury View', in an economy there is at any time only a certain pool of savings, and if more of it is used by the government for investment, then less is left over for private investment. Hence, public works can never increase total employment in an economy, since the increase in employment brought about by public works would be counterbalanced by the reduction in employment arising from reduced private investment.[68]

Keynes had convincingly demolished this "humbug of finance" – a phrase used by Professor Joan Robinson to describe the British Treasury view – in the 1930s. It was in fact the central theme of his opus *The General Theory of Employment, Interest and Money* published in 1936. His argument was simple.

There is no fixed pool of savings. Total savings in an economy depend, among other things, on its total income. In an economy, if there is unemployment, it means resources are lying idle owing to lack of aggregate demand. Keynes argued that in such a situation of "involuntary unemployment" and "demand constraint", the government can expand public works for generating employment, and finance these by borrowing, that is, by enlarging the fiscal deficit. This would not reduce the savings available to the other sectors for investment. On the contrary, the demand stimulus obtained from the government, via larger employment and output, would lead to a rise in private sector's income. Thus, government expenditure, far from adversely affecting other streams of expenditure, stimulates total expenditure from these other streams; it leads to a rise in employment, output and incomes, until the rise in private savings equals the increase in the fiscal deficit. In other words, a fiscal deficit finances itself.

Keynes in fact went on to argue that even if the government used the fiscal deficit for no worthier purpose than "to dig holes in the ground", that is still preferable to letting unemployment persist, since 'this digging of holes in the ground' paid for out of savings will increase not only employment but the real national dividend of useful goods and services (again because of the demand stimulus generated by rise in employment).[69]

There were no public sector enterprises in Britain in the 1920s. In a country like India, if the fiscal deficit results in an increase in the savings

of public sector enterprises, then there is in effect no increase in the government sector's deficit. The appearance of the fiscal deficit is entirely due to the convention of making the budget reflect only a part of the government sector's transactions; it has no economic significance. Objecting to an increase in the fiscal deficit in such a situation is even more theoretically illegitimate, it 'out-humbugs' the "humbug" attacked by Keynes.

Note that the above arguments do not imply that expansion of public works can entirely solve the problem of lack of demand and unemployment. It cannot. Keynes also never said so. All that we are arguing is that within the parameters of the capitalist system, for an economy which is gripped by both lack of demand and unemployment, the World Bank argument that reduction of the fiscal deficit promotes growth is sheer humbug.

Keynes believed that the structure of the capitalist system was such that inducement to investment was weak and this would cause depression and unemployment. Hence he had advocated state intervention to remedy the problem to a certain extent. But he had no answer to the question as to why was the inducement to invest chronically weak - in other words, why did stagnation arise in the first place. And that after all lies at the heart of the matter.

Keynes saw clearly that there was a fundamental flaw in the capitalist system, and that there was probably no solution within the system. In the last chapter of the *General Theory*, he even goes on to hint at some radical solutions. While Keynes never did develop this line of thought further, at least he was willing to tackle the question, unlike the economists of our time, who should better be called 'hired prize-fighters'.

ii) THE RETURN OF THE HUMBUG

Despite being consigned to the dustbin by Keynes, this humbug of finance was revived in the developed countries in the late-1970s/early-1980s. Stagnation had come to afflict these economies. One of the ways resorted to by capital to keep the profit accumulation process going was to withdraw the welfare benefits given to the poor and transfer them to the rich. To legitimise this assault on the welfare state, the 'voodoo economics' preached by the British Treasury in the 1920s was revived – that government budgets must be balanced (and hence welfare expenditures must be cut). While transfers to the rich were sought to be justified in the name of promoting entrepreneurism. An economic theory was also invented to back it up – 'supply-side economics'- which claimed that tax breaks to the wealthy would help boost investment. The theory was of course silent on who would buy the goods thus produced in an economy already in the grip of saturation.

This capitalist offensive on the working classes was launched in the United States and Britain during the days when the Conservative governments of Reagan and Thatcher were in power. The policies have continued under the Democratic governments of Clinton and Blair, and have spread to rest of Europe as well.

[Japan has proceeded differently. But that only goes to prove our point once again. The Japanese economy has been in a slump for nearly a decade now. Hence, in a bid to revive the economy, the Japanese government has followed an expansionary policy of increasing government spending in a big way to stimulate demand. In the past two years alone, it has forked out about $ 552 billion in extra spending.[70] Consequently, Central and regional government debt was expected to touch an astronomical $ 6100 billion by March 2001.[71]]

The imperialist countries have sought to impose the same regressive economic model on third world countries – it facilitates the maximum possible extraction of loot. Hence, the reduction of the fiscal deficit has been an important conditionality attached to all Structural Adjustment Loans given by the World Bank to the indebted third world countries. The ruling classes of these countries have willingly implemented this model – they get a share of the increased plunder.

II. THE FRAUD EXPOSED

Before taking a look at the efforts being made by the GOI to reduce the fiscal deficit, we take a look at another pair of policies being pursued by the government. One: implementing supply-side economics – increasing the '**incentives**' given to the rich in the name of promoting investment. Two: increasing interest rates on government borrowings in the name of …. (we don't know).

The astonishing part is: both these policies go towards increasing the fiscal deficit!

But then, the WB-IMF and the GOI were never really interested in reducing the fiscal deficit. More of that later.

i) INCREASING 'INCENTIVES' TO THE RICH

We have mentioned in Chapter 1 that while the country's political leadership maintained a pretense of being socialist and egalitarian, the actual policies implemented by the GOI during the period 1947-90 were in essence meant to serve the Indian capitalist classes. This is also evident in the actual incidence of taxation on the rich.

Actual tax incidence on the rich in India

While on paper direct tax rates in India on income and property may be high, the effective tax rates are very low because of the numerous loopholes thoughtfully left in place by the drafters of legislation. Thus, Indian tax laws permit extremely liberal and accelerated depreciation. There are numerous rebates, like that on Research & Development expenditure. As a result, according to none other than the Revenue Secretary of the GOI himself, corporate tax incidence in India works out to just 19.5 to 20%, whereas it is as high as 30 to 40% in other countries.[72]

Actual tax rates on corporates are in fact much lower than even the figure of 19.5% mentioned above. It is well known that a large number of Indian companies used to avoid paying taxes altogether. A 1996 Finance Ministry study of the top 1500 companies in the Bombay Stock Exchange found that 1047 paid no tax at all, despite earning profits of Rs.14,040 crores.[73] Even after the Finance Minister introduced the Minimum Alternate Tax (MAT) in 1996-97 to bring such companies into the tax net, and asked them to pay a meagre 13% of their book profits as taxes, a very large number of them managed to find ways to pay at rates far lower than the MAT-ordained rate.[74] Not only that, an RBI survey of 1248 non-financial companies conducted in 1998-99 found that one-third of them had found ways to avoid paying any taxes at all.[75]

Other direct taxes like wealth tax and gift tax are at even more ridiculously low levels – between them, they raised roughly Rs.140 crores in 1997-98. While estate duties (taxes on inheritance) simply do not exist in India. All these tax rates are at significantly higher levels in the developed countries.[76]

As a consequence of all these loopholes and concessions, the actual collection of direct taxes as a percentage of the GDP is much lower in India as compared to the developed countries (table 4.2).

Table 4.2: Tax as Percentage of GDP

	INCOME TAX AS % OF GDP, 1994	TAX ON COMPANY PROFITS AS % OF GDP, 1994
USA	11.9	2.5
UK	12.0	2.7
CANADA	14.7	2.4
NETHERLANDS	12.5	3.3
GERMANY	11.5	1.1
INDIA	2.8	1.5

Source: *ET*, 23.3.1998 - cited in *AIE*, No.25, p.48.

Granting more tax concessions to the rich

From the above discussion, it is obvious that even by the norms prevailing in the developed countries, there exists considerable scope in India for increasing government revenues by increasing direct taxes on the incomes of the rich. That is one obvious and sensible way of reducing the fiscal deficit. However, the 'new economics' being dished out by the herd of economic apologists collected by the international financial institutions and the imperialist governments rules out this strategy for reducing the fiscal deficit of the government. Instead, their 'supply-side' economic mumbo-jumbo demands that concessions and incentives be given to the rich: it is supposed to lead to "higher growth and productivity in the medium term" (in the words of N.K. Singh, Revenue Secretary of the GOI).[77] And so the GOI is unabashedly doing just that.

Successive governments at the Centre have been granting more and more concessions to big business. Peak rates of tax for both individuals and corporates have been gradually lowered. Tax sops have been granted to infrastructural projects – the definition of this is so loose that even cellular phone companies are eligible for these benefits.[78] Various State governments have been competing with each other to grant more and more incentives to corporates investing in their respective States.

But probably the most brazen tax concession of all, which was actually a **scandal of colossal proportions**, was the 'Voluntary Disclosure of Incomes Scheme, 1997' (VDIS) which closed on December 31, 1997, amidst tremendous fanfare. Incidentally, this scheme was not named thus by the media. It instead showered accolades on it!

Due to rampant tax evasion by the elites, the size of the black money economy in the country has grown to gargantuan proportions. The Parliamentary Standing Committee on Finance and Black Money estimated that the pool of black money (accumulated over the years) was Rs.11 lakh crores in current rupees in the year 1994-95. Even that is probably a huge underestimate.[79] Instead of taking action against these rascals, the Finance Minister (FM) of the previous United Front government, P.Chidambaram, introduced an **amnesty scheme for tax evaders** in the 1996-97 budget. According to the *Economic Times* (3.3.1997), the VDIS was introduced by the FM after due consultations with leading industrialists "who had expressed their willingness to bring back money kept in tax havens abroad .."[80] Under the scheme, all interest and penalty was to be waived on all income disclosed; individuals and companies would have to pay just the prevailing rate of tax on it (which itself had been lowered in the 1996-97 budget); and that was it: no questions would be asked, no action under the Income Tax Act and Foreign Exchange Regulation Act (FERA) would be taken.[81]

That itself was simply breathtaking. On top of it, the scheme was designed in such a way that the effective rate of tax paid by these crooks to launder their black money turned out to be much, much lower than the officially stipulated rate! The total tax collected by the government under this scheme was Rs.10,500 crores; while according to an estimate made by the RBI Chair Professor at the Indian Institute of Management, Ahmedabad, Bakul H.Dholakia, the aggregate value of assets declared under VDIS '97 was Rs.1,22,100 crores at current prices: implying an **effective rate of tax at 8.2%**.[82] It indeed pays to be a crook.

The next year, the new BJP government at the Centre introduced yet another amnesty scheme titled Kar Vivad Samadhan. This was for those actually caught evading income or excise or customs or any other tax by the tax authorities. All they had to do was pay up 50% of the evaded amount, and all their sins would be pardoned: all penalties, interest, prosecution would be waived.[83] But if you are poor and hungry, and are caught stealing a loaf of bread, you go to jail. **There is no amnesty scheme for the poor and the hungry in a 'free-market economy'**.

This concessions galore has predictably led to a sharp decline in the tax revenues of the GOI. The tax to GDP ratio of the GOI has fallen from 11.5% in 1989-90 to 9% in 1999-2000. Had the tax-GDP ratio not fallen and remained at 11.5% in 1999-2000, the revenues of the GOI would have been up by a whopping Rs.50,000 crores in that year alone - and the fiscal deficit would have halved straightaway.[84]

But the US-WB-IMF-GOI economic logic rules out this strategy for reducing the fiscal deficit.

'Incentives' galore

The debate of public versus private sector, so far as India is concerned, is actually meaningless. Since independence, the public sector and the government treasury have always been at the disposal of the private sector, to be looted at will. The private sector in India has grown with the help of public funds provided by the public sector commercial banks and financial institutions, in the form of both equity and loans. A study undertaken by the Corporate Study Group of the Indian Institute of Public Administration in the early eighties found that the asset holdings of the seven leading Indian corporate families were **less than 1%** of the total assets of the companies they controlled : Tatas – 0.4%, Mafatlal – 0.9%, Birlas – 0.2%, Shri Ram – 0.1%, Singhanias – 0.7%, Thapars – 0.2% and K.P.Goenka – 0.3%.[85] With the entry of the imperialists on the scene in a big way, this flow of public funds to the corporate sector – which now includes both the MNCs and India's native business houses – has become a deluge.

One such scandal is the massive handouts given by the government to 'exporters' via what are known as 'promotion schemes'. Over the years, the total revenue foregone by the GOI in the name of such schemes has been on the rise and is expected to cross an incredible Rs.15,000 crores during fiscal 2000-01.[86] Such has been the scale of these handouts that even the pro-business *Economic Times* was constrained to observe in an editorial some time ago:

> *"There is no agency that monitors the performance of export promotion schemes. In true Gita-style, the government giveth without expecting returns."*[87]

These days, public funds to the tune of tens of thousands of crores of rupees are being unabashedly transferred to the coffers of the big corporates. We have already mentioned earlier the steps being taken by the GOI (all the successive governments at the Centre) to write-off the loans given by

the public sector banks to the corporate sector – totaling over Rs.30,000 crores. A large part of the empire built by the Reliance group has been financed by siphoning off funds from the public sector financial institutions. This was the real reason behind the losses suffered by the Unit Trust of India of over Rs.7000 crores in recent years.[88]

When the Minister of Communications insisted that the private operators in basic and cellular telephony pay up the huge Rs.8719 crores they owed to the public exchequer in license fees alone, the errant Minister was shunted out, the Prime Minister personally took charge and a package was evolved to bail out the licensees. Some of these are the biggest among India's corporate houses – Birla-ATT, Reliance, Tatas, Modicom and Essar.[89] In all probability, a major part of the dues have been waived.

There are many more such 'incentives' being given by the government to the rich in the name of promoting 'growth'. Clearly, 'supply-side economics' is nothing but a huge hoax cooked up by the establishment economists to justify the plunder of the government exchequer by the elites.

ii) INCREASING INTEREST PAYMENTS ON GOVERNMENT BORROWINGS

There is yet another way by which massive sums of government revenues are being transferred to the rich. This method is so brazen that it is simply unbelievable. Once again, the economic apologists have cooked up an economic mumbo-jumbo in an attempt to cover up this monstrosity. Even at the risk of becoming monotonous, we discuss this fraud in some detail below, because it exposes how the country's political leadership, its top intellectuals, its media are nakedly serving the interests of the imperialists and their native compradors, the Indian elite parasitic classes.

Interest payment on government debt is expected to cross Rs.1 lakh crore this fiscal (2000-01), according to this year's budget papers. It is the biggest component of government expenditures. Obviously, one way of reducing the fiscal deficit is by reducing these interest payments.

However, in the new voodoo economics being preached by the WB-IMF-Washington combine, interest payments to financial operators are sanctum sanctorum. They cannot be touched. Cutbacks must be made elsewhere. The new economics has in fact coined a new term, the 'primary deficit', defined as fiscal deficit net of interest payments. Government efforts must focus on reducing the primary deficit.[90]

Till the early 1990s, a considerable part of the government deficit (difference between expenditure and income) was financed by borrowing from the central bank. The RBI would give the government 91-day loans, which in effect meant that the RBI would create fresh money. Interest rate on such borrowing was at around 4.6%, much lower than the market rate. This part of the fiscal deficit is known as the budget deficit. Rest of the deficit used to be financed by market borrowings, of which a considerable part was from public sector financial institutions at low rates of interest.

According to World Bank economics, the budget deficit must be phased out as it is inflationary.[91] Further, it has demanded that the government raise the interest rates on its market borrowings.[92]

The GOI has implemented these WB dictated financial reforms to the letter. Financing the deficit by printing money has been gradually phased out. The government has also gradually raised the interest rate on its market borrowings.[93] In January 1997, the RBI announced that Foreign Institutional Investors (FIIs) would be allowed to invest in government debt.[94]

For a country like India, where unemployment is very high and the economy is demand-constrained, the argument that financing the budget deficit through the printing of money would be inflationary is simply ridiculous, economic nonsense. In fact, in the current context, a monetised deficit would not only be non-inflationary, but also virtuous from the point of view of growth. We have discussed this earlier in this chapter – it is standard textbook Keynesian economics.

We do not know the logic given by the WB in justification of its demand that the GOI increase the interest rates on its market borrowings. In a recent monograph on the Indian economy, the WB has stated that government borrowing crowds out the private sector from the market for credit.[95] It probably feels that increasing interest rates would compel the GOI to borrow less. Again, all this is economic claptrap. Keynes had demolished this theory long ago.

Jayati Ghosh and C.P.Chandrasekhar, two reputed professors at the Jawaharlal Nehru University, Delhi, have made an assessment of the effect of this 'financial reform' on the fiscal situation of the GOI. They have compared the actual fiscal trend with a hypothetical situation where the government continues financing the same share of its fiscal deficit (around 30%) with central bank borrowing (that is, by printing money) as it did in 1989-90. A simple simulation exercise then reveals that the interest burden

in the Budget would have risen from Rs.17,757 crores to only Rs.88,464 crores in 2000-01 as compared with the estimate of Rs.1,01,266 crores recorded in this year's Budget papers. Had the practice of monetising a part of the budget deficit not been done away with, it would have resulted in a savings of Rs.13,000 crores on interest payments in this year alone!

Over the 1990s, the cumulative reduction in the deficit, assuming the expenditures to have been the same, would have been more than Rs.1,00,000 crores.[96] In other words, the voodoo economics being preached from Washington has resulted in **'offerings' of over Rs. 1 lakh crores** to the FIIs and the Indian parasitic classes over the past decade! That is why the high priests in Delhi have been practising it with gusto.

iii) CONCLUSION

From the above discussion, it is obvious that the Fund-Bank and the Finance Ministers of all the governments that have come to power at the Centre are in reality **not interested** in pruning the fiscal deficit. Then why have they been harping upon the necessity of reducing the fiscal deficit of the GOI?

One objective is: it provides them a theoretical justification for pursuing policies which, while strangulating the long term growth prospects of the Indian economy, benefit the MNCs and India's big business houses in the short term. The second objective is: **it provides them with a propaganda tool to justify the deep cuts being made in the social sector expenditures - the so-called 'subsidies' - of the GOI**. Just as it has been happening in the rest of the world, in India too welfare expenditures on the poor are being slashed and the savings transferred to the rich.

All this sounds unbelievable. However an objective perusal of the policies being implemented by the GOI in the name of reducing the fiscal deficit bears this out.

III. REDUCING THE FISCAL DEFICIT: THE HUMBUG IN PRACTICE

We now take a look at the actual policies being implemented by the Indian ruling classes in the name of curbing the fiscal deficit.

i) CUTTING PRODUCTIVE INVESTMENT

Instead of curbing the rising interest payments, or putting the brakes on wasteful subsidies to the parasitic elites, the government is attempting to reduce the fiscal deficit by slashing those expenditures which go towards creating lasting productive assets, called capital expenditures. Right through the reform years, the ratio of government capital expenditure to GDP has almost consistently fallen, from 5.1% in 1989-90 to a dismal 2.6% during the current financial year.[97] This fall is even more eloquently brought out in table 4.3 which compares the average government capital expenditure before and after the reforms began.

Table 4.3: Central Government Capital Expenditure

	1985-90	1991-97
Percentage to total expenditure	30.10	22.70
Percentage to total GDP	6.10	4.00

Source: P.R.Panchamukhi, *EPW,* No.10, March 4, 2000, p.839

Not all capital expenditure is productive. It includes, for example, the military's acquisition of weaponry, which, while a durable asset, does not increase productive capacity. Hence a better measure of productive expenditure would be capital expenditure under the Plan. That has sunk from 2.9% of the GDP in 1990-91 to 1.8% in 1996-97.[98]

In concrete terms, this means that government spending on building rail lines, power plants, canals, factories, oil wells, mines, hospitals and schools has been slashed. The WB justifies this by arguing that governments are inherently inefficient and should move out of the productive sectors of the economy and allow these to be taken over by the private sector, in reality, the multinationals who are being invited to bring in FDI into the country. That is the real purpose behind the propagation of the 'humbug of finance' – to decimate the crucial capital goods sector (oil, telecom, power, heavy machine tools, pharmaceuticals, etc.) of the Indian economy, and allow it to be taken over by imperialist capital.

We have examined earlier the consequences of this policy on one such sector, the electricity sector (which we had taken as a case study to understand what is happening in the entire infrastructural sector). Let us now examine the impact of cutback in government expenditure on what is by far the most crucial sector of the Indian economy for the common

people - agriculture.

Impact on Agriculture

The deceleration of public investment has been particularly marked in agriculture. Total spending, both Plan and non-Plan, under the heads agriculture, irrigation and rural development, and fertiliser subsidies as a percentage of the GDP has declined in each successive budget ever since the reforms began: from 1.99 in 1989-90, it has fallen to 1.45 in 1996-97 and was budgeted at only 1.29 in the 1997-98 budget.[99]

According to the World Bank, this should be no cause for alarm, as rise in private sector investment in agriculture would more than compensate the fall in public sector investment. While there has indeed been some rise in private sector investment, it has not been sufficient to compensate for the sharp decline in public sector investment. Consequently by 1996-97, the latest year for which figures are available to us, total investment had started declining (table 4.4).

Table 4.4: Gross Capital Formation in Agriculture in Real Terms

(at 1993-94 prices)

	TOTAL	PUBLIC	PRIVATE
1993-94	15845	4467	11378
1994-95	18214	4970	13244
1995-96	19944	4776	15168
1996-97	19902	4347	15555

Source: *Report on Currency & Finance*, RBI - cited in *EPW,* No.12, March 18, 2000, p.955

Furthermore, the RBI *Report on Currency & Finance*, 1998-99, states that the bulk of this private sector investment "goes to boost short term productivity…rather than long term asset building." Hence, it explicitly points out, "The sustainability of agricultural growth hinges critically on the behaviour of public investment. The decline in public investment in agriculture, for several years now, appears to have impacted Indian agriculture"; and so it goes on to admit, "average annual growth of 4.5% (in agricultural production) envisaged in the Ninth Five-year Plan period looks a difficult target to achieve."[100]

Actually, this should have been obvious to anyone with the slightest knowledge about the state of the world capitalist economy today. The world over, the rate of return on investment in agriculture is far lower than that in industry. Hence, even in the developed countries, where agricultural productivity is very high, agriculture is able to survive only because governments in those countries have been investing heavily in agriculture, to the tune of hundreds of billions of dollars. It is such investments and subsidies which transformed Western Europe from a food-deficit region in the 1970s to a major exporter of agricultural products by 1986.[101] For a small peasant economy like India, expecting farmers to invest in irrigation, storage and transportation in a big way is simply absurd. Not only that, Indian agriculture is also severely plagued by land degradation. The Ninth Plan document states, "Land degradation is one of the major problems in India. Soil erosion is the most important cause of land degradation. It is estimated that nearly 45% of the geographical area of India is affected by serious soil erosion …"[102] Expecting the small farmers of India to invest the massive amounts needed to restore soil fertility in the country is insane.

The chickens are coming home to roost. As a result of these long years of neglect of the agricultural sector, there has been a sharp deceleration in agricultural growth rates (see table 4.5).

Table 4.5: Trend Growth Rate of Agricultural Production

(per annum)

	1982-83 to 1990-91	1990-91 to 1998-99
Foodgrains	3.20%	1.86%
Non-foodgrains	4.73%	3.23%
All Crops	3.77%	2.42%

Source: S.D.Naik, *THBL*, 25.1.2000

During the nineties, for the first time since the green revolution, population growth has outpaced the growth in foodgrains production. This has occurred despite 12 successive normal monsoons. Consequently, the decade of the 1990s has seen a decline in the per capita foodgrain output in the country, the first decade since independence to have done so.[103]

The crisis gripping the agricultural sector continues to worsen. According to the *Economic Survey* of the GOI, even though 1999 was the twelfth

successive normal monsoon year, GDP from agriculture and allied sectors is expected to grow by just 0.8% in 1999-2000. The foodgrain output is expected to decline by a whopping 4 million tonnes.[104]

One would have expected the 2000-01 budget to take cognisance of the dire conditions in the agriculture sector. The FM in his budget speech does indeed state that "sustained and broad-based growth of agriculture is essential for alleviating poverty, generating incomes and employment, assuring food security and sustaining a buoyant domestic market for industry and services."[105] His speech is replete with talk about the rural orientation of the 2000-01 budget. But when it comes to hard numbers, the gap between rhetoric and reality couldn't be more: Central Plan outlays for agriculture, irrigation and rural development have all been slashed![106] Given the performance of the previous years, actual spending on these areas may turn out to be even lower.

It is not that there is no money. It is a question of priorities. In areas where the ruling classes deem it necessary to invest, they are even willing to levy extra taxes to raise funds for investment. The Union Cabinet has just recently approved the proposal to transfer all the money accruing from the Re.1 per litre cess on petrol & diesel – roughly Rs.5300 crores per annum – to a dedicated fund which would exclusively be used for the purpose of road development, including the ambitious 13,245 kilometre long National Highway Development Project which is estimated to cost Rs.54,000 crores.[107] Even if we look at the transport sector in isolation, for an oil-deficient country like India, this money would have been better spent on the railways, which are being deliberately starved of funds ever since the reforms began.[108] But big business, especially the powerful auto industry, wants otherwise. The GOI is aping the United States, where there are very few trains as compared to cars and airplanes, because that's what benefits big industry.[109]

Clearly, the policy being followed by the rulers in Delhi is one of deliberately and willfully neglecting the agriculture sector. The country's media and the westoxicated elite is euphoric about the speculative boom in stock prices of Indian software companies, which have overnight led to the emergence of a new breed of paper billionaires and have created an illusion of wealth. However, this '**virtual development**' has bypassed agriculture, the sector which continues to provide livelihood to more than two-thirds of the Indian population. This sector is in the grip of acute stagnation. The country's self-reliance in food has started to slip seriously.

For India's globalising intelligentsia who have seceded from the rest of the nation, things couldn't be better – they can now access carrots, turnips, peas, apples, papaya, watermelons and more from distant lands; but the hundreds of millions of India's masses are headed backwards to the 1960s, when food shortages were endemic and food riots ravaged the land.

We are not exaggerating. The UN Food and Agricultural Organisation (FAO) has warned the "developing countries" to reverse the policies imposed on them by the "Washington Consensus" which have led to the food crises in these countries and has asked them to "become more self-reliant in food production."[110]

(ii) WITHDRAWAL OF SUBSIDIES TO THE POOR

Those who take the meat from the table
Teach contentment.
Those for whom the taxes are destined
Demand sacrifice.
Those who eat their fill speak to the hungry
Of wonderful times to come.
Those who lead the country into the abyss
Call ruling too difficult
For ordinary folk

-Bertolt Brecht

The other area where government expenditure has been drastically scaled down in the name of curbing the fiscal deficit is in the subsidies provided to the poor whose aim was to make available essentials like food, education, health, electricity and water to them at cheap and affordable prices.

The new strategy being followed by the ruling classes all over the globe and in India too to maintain their bottomlines in a period of deepening stagnation is: tax the poor, spare the rich, withdraw subsidies to the poor, transfer them to the rich. Tens of thousands of crores of rupees in subsidies are being given to the rich – in the form of loan write-offs, waiver of license fees and tax dues,

paying them high interest rates (on borrowings from them), and a myriad number of other ways. **In a deft use of language to justify these subsidies to the elite, these are called 'incentives'. On the other hand, expenditures made to provide the bare means of sustenance to the poor at affordable rates are condemned as 'subsidies'** – they are termed as 'inefficient', denounced as 'promoting parasitism'.

The neo-liberal doctrine that each and every sector of the economy must be profitable is nothing but economic rubbish. A society provides free or low cost food, water, education, health, housing, sport, transport and other essentials to its citizens so that they can live like human beings and develop their abilities to the fullest extent. This 'investment' – if one must call it so – is not a waste, it is an investment for the future. Human beings are nature's highest creation, their potential is infinite. However, people must be given the appropriate social circumstances and opportunities to realise their inherent potential. When such 'human beings' pool in their energies and engage in collective labour, they can create heaven on earth. The wealth they will create will be many times the 'subsidies' invested on them. This is simple economic commonsense. The UN *Human Development Report* 1996 stresses the vital importance of government policies in "spreading skills and meeting basic social needs" as a "springboard for sustained economic growth."[111] All the developed countries have a very elaborate social security network for their citizens, including unemployment allowance, medical and educational benefits, and much more. One important reason for the East Asian 'miracle', apart from the political and economic factors discussed earlier, was that governments invested heavily to provide education and health and other welfare benefits to their citizens in violation of the neo-liberal Washington doctrine.[112]

The tragedy with India is not that the government has been spending too much on 'subsidies' to its people, but that it is spending too less. Consequently, even after 50 years of independence, 200 million people do not have access to safe drinking water, 250 million have no access to basic health services, 400 million are illiterate and 700 million lack basic sanitation. These appalling statistics have not been compiled by us, but by the World Bank.[113] Yet the government is cutting back even the meagre sums it used to spend on providing bare minimum essential services – which were in any case very, very skeletal – to the absolute poor, who constitute more than 50% of the country's population (once again a World Bank statistic).[114]

a) Withdrawal of Agricultural Subsidies

All subsidies to the farm sector are being gradually withdrawn. Irrigation and electricity subsidies are being scaled down. A new electricity bill being drafted by the Centre, the Electricity Bill, 2000, states that cross-subsidies are to be eliminated and that the cost of power "will progressively reflect the cost of supply of electricity."[115] This means that rural customers in far-flung areas will soon be paying the highest rates, because cost of supply to them is the steepest.

The World Bank's *India: Country Economic Memorandum (Vol.II, Agriculture)* of 1991 called for a complete phasing out of fertiliser subsidies, "with annual price increases beginning at 30% in the first two years, and declining to 11-20% (except for imported potash) by the fourth year"(p.88).[116] The same document has further recommended that inefficient fertiliser plants be shut down and substituted by imports (pp.40-41).[117]

These recommendations leave one dumbfounded. Importing fertilisers is not only going to send the import bill skyrocketing, it is also going to send fertiliser prices spiralling upwards. That is because India is the third largest consumer of nitrogenous and phosphatic fertilisers in the world[118] ; if it substitutes domestic production with imports, the prices of these fertilisers in the international market are bound to steeply rise. On top of it, the World Bank has demanded complete removal of all fertiliser subsidies. The spiralling fertiliser prices are inevitably going to lead to lower fertiliser consumption, leading to a decline in farm output. This is in fact acknowledged by the World Bank in an internal background paper: "Estimates of (crop) output elasticities with respect to fertiliser price for India... (suggest) that a 10% increase in the price of fertiliser would result in a decline of (crop) output of less than 3% in the short term."[119] In a situation where the foodgrain production of the country is already declining, this is going to have calamitous consequences on the nation's food security. Despite that, every successive government at the Centre, ever since the reforms began, has slashed fertiliser subsidies. This year's budget has further hiked the prices of fertilisers by 7 to 15%.

The withdrawal of farm subsidies is going to devastate India's small and marginal farmers, who operate 80% of the country's farm holdings. This has begun – we discuss this in Chapter 6. We have already examined earlier in this chapter the impact of declining public sector capital expenditure (in the name of curbing the fiscal deficit) on the country's agriculture sector. The intentions of the World Bank are clear and

unambiguous: undermine the country's food security, ruin India's small peasants and debilitate India's agricultural economy – thus creating the conditions for the takeover of the country's agriculture sector by the avaricious multinational agri-business conglomerates. We discuss the global strategy of these gluttonous corporations in Chapter 5.

b) Slashing Education and Health Subsidies

The state of public services in the country was dismal even before the reforms began. The Indian ruling classes have always been very self-centred, to the extent of being shortsighted. All the high-flown talk of socialism was meant to hoodwink the people; the callous elites were never really concerned with the welfare of the ordinary citizens. Hence, social sector expenditures were very low even before the reforms began.

With the onset of the reforms, the Indian rulers have willingly accepted World Bank instructions and even these abysmally low expenditures are being slashed. Consequently, the public services in the country have virtually collapsed. The government is unabashed. Central government's spending on education, health, drinking water and sanitation, rural housing, employment and basic minimum services programmes is budgeted to decline further this year.[120]

India has one of the highest rates of illiteracy in the world. About 35 million, or a third of our children between the ages of 6 and 10 have no opportunities for school education.[121] Large numbers of those who do enter school are 'pushed out' within 2 to 3 years, due to poverty. According to the Ministry of Human Resource Development, only 42 out of 100 children enrolled in grade I in primary schools reach grade VIII.[122] While the country's narcissistic intelligentsia is delirious about the job opportunities available to the tiny number of software engineers abroad, and wild claims are being made about India becoming a 'knowledge superpower' in the twenty-first century, they are oblivious to the fact that just one of every four children in the country can be called functional literates!

Notwithstanding this terrible state of affairs, government spending on education has been coming down. According to the National Policy on Education, the government is required to spend at least 6% of the GDP on education. This target was never reached even during the pre-reform period – it was just 3.6% in 1992. Since then, it has declined further to 3.4% in 1996-97.[123]

The consequences are there for all to see. Fee hikes are taking place.

Cost of education in professional colleges has already gone beyond the reach of even middle class students. Fresh recruitment of permanent teachers has been virtually stopped, and where absolutely necessary, casual teachers are being hired. Schools, colleges, universities – all are being privatised. Capital is taking over the once hallowed temples of learning and transforming them into teaching shops.

The Union Budget for 1999-2000 proposed a grandiose plan of implementing an Educational Guarantee Scheme at the national level. It proposed to provide an elementary school in every habitation within a radius of 1 km. The joke was: there were no funds allocated in the budget for this scheme! It proposed to get the gram panchayats to mobilise funds from the local community for running the school.[124] The funds have all been transferred to the moneybags, the government has declared it has no funds left for the poor, they have to make do with words.

In the health sector, the World Bank has recommended that the government gradually privatise health services, and raise the charges of services provided by the public sector hospitals to cover the costs.[125] In other words, eliminate health subsidies.

The limited public health system – which as it is was inadequate to cover the entire population of the country – had become sick even before the reforms began. The share of health services in the total Plan outlay had steadily declined from 3.3% in the First Plan to 1.7% in the Eighth Plan. The elites were apathetic – they in any case used to go to these hospitals only for laying foundation stones, never for treatment.

Now, the patient is being buried. The allocations to the health sector have declined further. Whereas the WHO recommends that it be at least 5% of the GDP, according to the annual report of the Health Ministry, it has come down to below 1.5%[126]; another reliable report suggests that it has come down to below 1%[127]. Government hospitals are being gradually privatised. Public sector drug companies are heading towards closure or are being privatised.

The new philosophy governing Delhi demands that the government withdraw all controls and allow speculators, manipulators, monopolists - that is, market forces – to set prices. In accordance with this, government controls on drug prices are being gradually diluted. Now only 73 drugs are under price control, as against 378 in 1978.[128] Consequently, drug prices have been rising over the past years – in a country where probably only 30% of the population is able to afford modern medicines. Some idea can be had about the profit margins of drug companies by comparing retail prices to the prices at which these companies supply the same medicines

to government departments. One such study found the mark-up to be more than 500% for half the drugs studied, going up to an unbelievable 5000% in the case of Albendazole![129]

The imminent changes in the Indian Patent Act, 1970, are going to lift prices to a level which are going to make medicines unaffordable for more than 90% of the people. For instance, Ranitidine (Zintac) is sold by Glaxo in India at Rs.17.39 for 10 tablets (of 300 mg each). The same product is sold by the same company in Pakistan, where product patent is in force, at Rs.241.44 and in the US at Rs.1080.72 (all prices for July 1997).[130] There are many such examples.

Impact on nation's health status -

Consequently, the status of health in the country is nothing short of alarming. The Planning Commission itself has admitted that government spending to control and eradicate malaria and other mosquito-centric diseases is simply too inadequate. It was a niggardly Rs.150 crores in 1996-97! The result: incidence of malaria, which was a mere 0.1 million in 1965, has shot up to 2 million cases per annum.[131] Many other diseases like pneumonia, tuberculosis, viral hepatitis, cholera and enteric fever have also been on the rise in recent years.[132] According to the WHO, TB kills a 1000 Indians every day, one every minute.[133] Despite this shocking situation, the Central Health Ministry has declared that it will not be able to extend the Revised TB Control Programme to the entire country due to shortage of funds![134] While tens of thousands of crores of rupees are transferred to the pockets of the Ambanis and Birlas and the MNC guests from abroad. That is capitalism in its true colours.

Worst of all, the Infant Mortality Rate (IMR) – a most sensitive indicator of a country's health status – is also on the rise! It had been declining in the years since independence. Recently released data reveal that the IMR has risen from 71 per 1000 live births in 1997 to 72 in 1998.[135] The rise in the IMR indicates a slideback in a number of areas, the most obvious being maternal health. In a nutshell, it means that the entire health system of the country has collapsed.

The thick-skinned ruling elites are unfazed. The reforms are being accelerated. The Prime Minister has announced the formation of a group headed by business barons Mukesh Ambani and A.C.Muthiah to recommend policy on private investment in health care.[136] And since a majority of Indian citizens are unable to afford the new elite private hospitals coming up all over the country, the government is toying with the idea of opening up the health sector to international trade: providing health services to rich and wealthy patients from all over the world, and exporting India's hospitals and diagnostic clinics to countries of West Asia and Africa.[137] That is the benefit of globalisation – it allows you to forget those grovelling in poverty and disease at home and fly out to build links with the global rich.

c) Rollback of Food Subsidies

The reform, which really rips the veil off globalisation and exposes its rabidly anti-people character, which shows how far away the interests of the Indian ruling classes have moved from the interests of the common people, is the cutback in food subsidies.

- In a country where (according to the latest FAO report, *The State of Food Insecurity in the World Report 1999*) 204 million people, one-fifth of the population, are malnourished: the number of Indians suffering from chronic food insecurity is more than in any other country in the world, even more than in sub-Saharan Africa which is commonly associated with malnutrition and death[138] ;
- In a country where 53% of the under four-year-olds, a staggering 60 million children, are malnourished: India is home to more than 40% of the world's malnourished children[139] costing the country billions of dollars in lost productivity, illness and death;
- In a country where every third child is handicapped at birth in brain development due to poverty-induced maternal and foetal under and mal-nutrition[140] ;

for such an impoverished land, the World Bank has demanded that the government further reduce the already meagre food subsidies![141]

Shocking! But then, capitalism has always been like that. **From the very beginning, capitalism advanced by subjugating, looting and exploiting foreign territories**. Millions had died in famines every year in India, millions had been entombed in the mines in Latin America, millions had perished in holds of ships while being forcibly transported from Africa to work as slaves on the plantations in the Americas – such were the costs paid by the people of the colonies to finance the rise of capitalism in Europe and the USA not very long ago. Today, when capitalism has become moribund in the developed countries, the imperial powers are resorting to undisguised looting of the erstwhile colonies once again in a desperate

bid to keep the capital accumulation process going, inject some vitality into it – and it is going to result in millions dying in man-made famines, drought and epidemics in these lands (now transformed into economic colonies) once again.

Some justification has to be given for cutting food subsidies. The World Bank has fabricated one. It argues that the bulk of rations in the public distribution system (PDS) are being drawn by the non-poor which is why the food subsidy is so large. Therefore, the rationing system has to "identify" the poor and "target" the subsidised rations at them. The rest of the non-poor should be excluded from the PDS, and thus the food subsidy bill can be drastically brought down.[142]

The World Bank had made this proposal in 1990 itself. The reactionary Indian ruling classes have been so eager to withdraw all concessions given to the common people that the rollback of food subsidies began even before the reforms were formally launched in July 1991! The interim budget of the Chandrashekhar government presented on March 4, 1991 had slashed food subsidies by Rs.650 crores.[143] The rollback continued during the reign of Manmohan Singh as FM. The government led by the 'humble farmer' Deve Gowda went one step ahead and introduced the Targeted Public Distribution System (TPDS) in 1997: a distinction was made between the 'Below Poverty Line' (BPL) and 'Above Poverty Line' (APL) households and a system of dual prices was introduced. It was left to the BJP government to complete the first phase of dismantling the PDS. In his budget speech (2000-01), the FM announced that while the allocation for BPL families was being doubled from 10 kgs to 20 kgs per month, the price of foodgrains supplied by the Food Corporation of India (FCI) for the PDS will be set at half the 'economic cost' incurred by the FCI for BPL households, and at full 'economic cost' for APL households. The 'economic cost' comprises the procurement price of foodgrains, costs related to procurement and costs of distribution.

These measures effectively remove APL households from the PDS, because the economic costs of the FCI are quite often above the open market prices.[144]

The new policy announced by Yashwant Sinha has also resulted in a steep hike in the price of foodgrains supplied to the BPL households, by a whopping 68%! Not only that, it has also introduced an in-built mechanism to raise prices every time the procurement prices go up.

Is the food subsidy excessive? -

Let us first examine how much truth there is in the assertion by the WB and the GOI that many middle class (non-poor) citizens are drawing rations from the PDS.

According to GOI estimates made in 1997, the year when 'targeting' of foodgrains to the poor was introduced, roughly 320 million people are living below the poverty line.[145] Out of this 320 million, about 245 million would be adults, and 75 million children. The Indian Council of Medical Research (ICMR) has recommended that the minimum daily cereal consumption for an adult should be at least 370 gm, or 135 kg a year.[146] Children would require roughly 40% of that, that is, 54 kg a year. On this basis, the minimum quantity of foodgrains that should be distributed through the PDS to provide the 320 million poor with a bare minimum of cereals works out to be: [(245 X 135) + (75 X 54)] million kg per year, or 37 million tonnes per year. Actually, even this is a gross underestimate, because since the poor cannot afford a balanced diet and are heavily dependent on cereals, the minimum intake of cereals should be at least 500 gm a day for an adult.

The above calculations have been made considering the government's definition of the poverty line, the income level below which a household is considered poor, which itself has been set up at a very low level. The government's definition of a BPL household is one whose income is below Rs.15000 a year or Rs.41.10 per day. Those households earning Rs.50 a day are considered to be above the poverty line! Clearly then, the use of a very low poverty line has excluded a very large number of undernourished people from the category of BPL. This is borne out by other figures. We have mentioned above that the GOI estimated 320 million people, or 35% of the population, to be living below the poverty line (the BPL category) in 1997. Data on nutritional intakes however indicate that 50% of India's population is malnourished. Further, about 56% of the people are unable to meet their minimum daily energy requirements and 74% are unable to meet their daily protein requirements.[147] Even the World Bank estimated that 340 million or 37% of the Indian people were poor in 1997.[148] All of which means that the **actual amount of foodgrains that needs to be distributed through the PDS should be much more than the 37 million tonnes calculated above**.

But the total foodgrains distributed through the PDS to all the ration card holders in 1995-96, just before the GOI introduced the TPDS to

exclude the 'non-poor' from the PDS, **was just 15.75 million tonnes.**[149]

The conclusion is inescapable: the WB and the GOI are deliberately lying. It is not the case that too many 'non-poor' are drawing rations from the PDS. On the contrary, the PDS in the country is extremely inadequate – it needs to be greatly expanded to meet even just the bare needs of the undernourished people and people at the risk of undernourishment. (Actually, to prove this, the above mathematical calculations are not necessary; the statistics given at the beginning of this section about the appalling nutritional status of the country's population are enough.) However, the WB and the GOI are conspiring to do just the opposite. In the name of 'targeting', millions of poor people have been deliberately excluded from the PDS. An extraordinary example of such exclusion comes from Mumbai: in Dharavi, Asia's largest slum settlement, which has a population of half a million, merely 151 families have been given BPL cards.[150] Even those whom the government is targeting, the officially defined poor, are going to be provided a bizarre 20 kg of rations per family per month (earlier it was 10 kg a month) – which works out to roughly 170 gm per person per day, less than half the bare minimum recommended by the ICMR!

By such devious means, the GOI has succeeded in drastically reducing the total amount of subsidised foodgrains it provides through the PDS. Total allocations for BPL households are expected to be 14.4 million tonnes this year,[151] while the APL offtake should drastically fall given the new prices.

It is simply criminal! The GOI has the money to provide subsidies to the rich to the tune of hundreds of thousands of crores of rupees, but it has no money to spend on providing the most basic necessity of all to the millions of people who are starving: food. Well-meaning citizens normally accuse the politicians and bureaucrats and their intellectual lackeys of being corrupt. In reality, those who rule this country are cool, calculated murderers.

The supreme paradox -

Let us finally take a look at the irony of ironies created by the new economics that governs India's potentates. The FCI is also responsible for buffer stock operations, hence its costs are also included in the food subsidy bill of the GOI. In recent years, the total stocks of rice and wheat with the FCI have been rising and amounted to 31.5 million tonnes in January 2000, against the norm of 16.8 million tonnes.[152] Consequently, the cost associated with maintaining this excessive buffer stock (including storage and interest payments) has also been going up and is expected to cross Rs.3400 crores this year, which amounts to one-third of the total food subsidy bill.[153]

One way of reducing these enormous 'carrying costs' and hence the food subsidy bill was to lower the ration prices and sell off a part of the excess stocks. But 'free market economics' does not permit this. So, the government is willing to pay the cost of storing the foodgrains rather than selling them at subsidised prices.

Another way of getting rid of these excess stocks was by a massive expansion of employment generation programmes. That would have helped generate employment and reduce poverty; in addition, had the schemes been properly designed, they would have directly benefited the economy – for instance, digging of canals would have helped increase agricultural production. But that cannot be done, because that would increase the fiscal deficit. The 'humbug of finance' once again! Let's assume the fiscal deficit goes up by say Rs.100, to be spent on an employment generation scheme. Then, this Rs.100 would be spent on foodgrains, FCI's foodgrain stock would go down by Rs.100, FCI can then repay Rs.100 to the banks from whom it has borrowed to buy the foodgrains. The net rise in government indebtedness is zero. But the fiscal deficit rises, because the transactions of FCI do not figure in the budget.

So, millions of tonnes of foodgrains are allowed to rot in godowns, to be eaten by rodents, in a country, where millions are starving. Heil free market!

Just as we were giving the finishing touches to this essay came the news that the Union government is attempting to lower its rising foodgrain stocks, which have now crossed 40 million tonnes, by selling wheat through the open market to rich traders at a subsidised price of Rs.650 per quintal in northern India, where most of the stocks lie (while it is being sold through the ration shops to APL families at Rs.900 per quintal as on April 1, 2000).[154]

Apparently, the GOI has decided to accept the latest philosophy being propagated in the United States by the leading intellectuals of that land. Two recently published books by well-known American scholars have won wide acclaim: *The Bell Curve: Intelligence and Class Structure in American Life*, by Charles Murray & Richard Herrnstein, and *The Moral Animal: Evolutionary Psychology and Everyday Life*, by Robert Wright. These books argue that those who are rich and successful are so because they have high IQ levels and are genetically superior.[155] These theories thus provide a 'scientific' justification for governments to give subsidies to the well-to-do: the superior beings are being given incentives to perform better, while the poor can be allowed to die of hunger or curable diseases because they are genetically inferior.

References

1. Sushma Ramachandran, *The Hindu*, 25.2.2000
2. V.Sridhar, *FL*, Dec 10, 1999, pp.125-128
3. C.P.Chandrasekhar, *FL*, Nov.19, 1999, p.113
4. Praful Bidwai, *FL*, Apr 5, 1996, p.98
5. Arun Ghosh, *FL*, Nov 18, 1994, pp.102-104
6. Arun Ghosh, *THBL*, 25.1.2000
7. V.Sridhar, *FL*, May 20, 1994, p.119 & N.K.Chandra, quoted in *AIE*, No.16, p.75
8. V.Sridhar, ibid.
9. Arun Ghosh, *THBL*, 21.2.2000
10. Lyla Bavadam, *FL*, Sept 10, 1999, p.110
11. Ibid.
12. V.Sridhar, *FL*, May 20, 1994, p.120
13. Arun Ghosh, *THBL*, 21.2.2000
14. Praful Bidwai, *FL*, May 30, 1997, p.107
15. Arun Ghosh, *THBL*, 25.1.2000
16. Arun Ghosh, *THBL*, 21.2.2000
17. Ibid.
18. Praful Bidwai, *FL*, May 30, 1997, pp.106-107
19. Arun Ghosh, *FL*, Mar 3, 2000, p.17
20. *AIE*, No.16, p.75
21. Prabhat Patnaik, *FL*, Feb 4, 2000, p.115
22. *AIE*, No.16, p.76
23. *FL*, Mar 31, 2000, p.120
24. Prabhat Patnaik, *FL*, Feb 4, 2000, p.115
25. *AIE*, No.28, p.8
26. Prabhat Patnaik, *FL*, Feb 4, 2000, p.115
27. Arun Ghosh, *THBL*, 25.1.2000

28. Indrani Dutta, *THBL*, 21.3.2000
29. *The Hindu*, 27.2.2000
30. Sudha Mahalingam, *FL*, Mar 17, 2000, pp.96-98
31. Arun Ghosh, *THBL*, 25.1.2000
32. Arun Ghosh, *THBL*, 21.2.2000
33. For the example of Maharashtra, see the article by Sucheta Dalal in *Indian Express*, 26.3.2000
34. Sharad Pradhan, *Sakal*, Pune, 21.1.2000
35. Rajaram Satapathy, *TOI*, 29.1.2000
36. Sudha Mahalingam, *FL*, Mar 17, 2000, pp.94-98
37. *The Hindu*, 19.8.2000
38. Archana Srivastava, *TOI*, 20.1.2000
39. *THBL*, 7.2.2000
40. Jayati Ghosh, *FL*, Dec 10, 1999, p.77
41. *EPW*, No. 4, Jan 22, 2000, p.164
42. Jayati Ghosh, *The Indian Economy, 1998-99: An Alternate Survey*, op.cit., p.80
43. Ibid.; R.Padmanabhan, *FL*, Apr 22, 1994, pp.111-112; *In Defence of Nationalised LIC & GIC*, Part-I, All India Insurance Employees Association (AIIEA) pamphlet, 1994, pp.70-76
44. AIIEA pamphlet, ibid., p.72
45. Jayati Ghosh, *The Indian Economy, 1998-99: An Alternate Survey*, op.cit., p.79
46. AIIEA pamphlet, op.cit., Part-II, p.10 & *AIE*, Nos.26-27, p.153
47. AIIEA pamphlet, op.cit., Part-I, pp.45-46
48. Jayati Ghosh, *The Indian Economy, 1998-99: An Alternate Survey*, op.cit., p.83
49. Ibid.
50. *AIE*, Nos.26-27, p.148
51. Jayati Ghosh, *The Indian Economy, 1998-99: An Alternate Survey*, op.cit., p.81
52. Ibid.
53. Union Home Minister L.K.Advani, quoted in *TOI*, 13.12.1998; Finance Minister Yashwant Sinha, quoted in *Business Standard*, 9.12.1999: to give a few examples.
54. *AIE*, No.28, p.20
55. Ibid., p.22
56. Ibid., pp..27-29
57. *AIE*, Nos.26-27, p.148
58. *Business Standard*, 28.11.1999, cited in *AIE*, No.28, p.37
59. Jayati Ghosh, *The Indian Economy, 1998-99: An Alternate Survey*, op.cit., p.82
60. *AIE*, Nos.26-27, p.107
61. Samir Ghosh, *The Indian Economy, 1998-99: An Alternate Survey*, op.cit., p.88
62. Ibid., p.87

63. V.Sridhar, *FL*, Nov 19, 1999, pp.114-116
64. *ET*, 16.12.1999
65. Samir Ghosh, op.cit., p.88; C.P.Chandrasekhar, *FL*, Jan 21, 2000, p.97
66. *AIE*, Nos.26-27, pp..113-114
67. World Bank, *India: Trends, Issues and Options*, May 1990, p. 38 – quoted in *AIE*, No. 2, p. 13
68. Prabhat Patnaik, *FL*, Feb 4, 2000, p.111
69. J.M.Keynes, quoted by Prabhat Patnaik, ibid.
70. AFP Report, *The Hindu*, 23.1.2000
71. Reuters Report, *THBL*, 14.1.2000
72. M.R.Sivaraman, quoted in *Statesman*, 17.5.1995 & cited in *AIE*, No.24, p.80
73. *AIE*, No.25, p.47
74. Ibid.
75. *AIE*, No.28, p.62
76. *AIE*, No.25, p.79
77. Quoted in *ET*, 26.3.98 & cited in *AIE*, No.25, p.81
78. Pragati Kapoor, *ET*, 8.1.2000
79. *AIE*, No.25, p.51
80. Cited in *AIE*, No.22, p.49
81. *AIE*, No.25, pp.54-56
82. B.H.Dholakia, *ET*, 15.1.1998, cited in *AIE*, No.25, p.71
83. Arun Ghosh & others, *The Indian Economy, 1997-98: An Alternate Survey*, Delhi Science Forum, New Delhi-19, p.23
84. Editorial, *TOI*, 8.2.2000
85. *The Telegraph*, 23.6.83, cited in *AIE*, No.24, pp.86-87
86. *THBL*, 1.4.2000
87. *ET*, 3.2.1998
88. Excerpts from the *Economic Survey*, GOI, in *THBL*, 29.2.2000, p.III, Article 1.46
89. Samir Ghosh, op.cit., p.89
90. Praful Bidwai, *FL*, July 16, 1999, p.109
91. *AIE*, No.2, p.13 & Macroscan, *THBL*, 7.3.2000
92. *AIE*, No.22, p.16
93. Macroscan, *THBL*, 7.3.2000 & *AIE*, No.22, p.16
94. *AIE*, No.22, p.22
95. *THBL*, 22.2.2000
96. Macroscan, *THBL*, 7.3.2000
97. C.P.Chandrasekhar, *FL*, Mar 31, 2000, p.90
98. *AIE*, No.22, p.41
99. Abhijit Sen, *FL*, Apr 4, 1997, p.98

100. RBI *Report on Currency & Finance*, 1998-99, p.III-13
101. Biplab Dasgupta, *FL*, Nov 5, 1999, p.93
102. Planning Commission, Ninth Plan, Vol.I, p.37, quoted by Arun Ghosh in *The Indian Economy, 1998-99: An Alternate Survey*, op.cit., pp.15-16
103. S.D.Naik, *THBL*, 25.1.2000 & Prabhat Patnaik, *FL*, 4.2.2000, p.113
104. Editorial, *THBL*, 6.3.2000
105. Ibid.
106. C.P.Chandrasekhar, *FL*, Mar 31, 2000, p.92 & Arun Ghosh, *THBL*, 7.3.2000
107. P.Manoj, *THBL*, 5.4.2000 & *THBL*, 7.4.2000
108. For details, see *AIE*, No.20, pp.26-29 & *AIE*, No.16, pp.42-43
109. Noam Chomsky, *Class Warfare*, op.cit., p.52
110. Noam Chomsky, *Profit Over People*, op.cit., p.71
111. Quoted by Noam Chomsky, ibid., p.32
112. Joseph Stiglitz in *Research Observer*, World Bank, Aug.1996 - Quoted by Noam Chomsky, ibid., p.32; also recognised by Amiya Kumar Bagchi, *EPW*, No. 18, May 2, 1998, p.1026
113. *ET*, 13.7.1999
114. Ibid.
115. Sudha Mahalingam, *FL*, Apr 14, 2000, p.90
116. *AIE*, No.19, p.22
117. *AIE*, No.18, p.39
118. *AIE*, No.18, pp.71-72
119. *AIE*, No.19, p.23
120. Editorial, *The Hindu*, 2.3.2000
121. M.S.Swaminathan, *The Hindu*, 21.4.2000
122. Jandhyala B.G.Tilak, *Mainstream*, May 20, 1995, p.17
123. P.R.Panchamukhi, *EPW*, No.10, Mar 4-10, 2000, p.839
124. EPW Research Foundation, *EPW*, Nos.10-11, Mar 6-13, 1999, p.575
125. Imrana Qadeer & others, *The Indian Economy, 1997-98: An Alternate Survey*, op.cit., p.86
126. K.R.Nayar, *FL*, Feb 4, 2000, p.128
127. Imrana Qadeer & others, *The Indian Economy, 1997-98: An Alternate Survey*, op.cit., p.82
128. D.P.Dubey, *FL*, Oct 17, 1997, p.92
129. S.Srinivasan, *EPW*, No.9, Feb 27, 1999, pp.514-17
130. B.K.Keayla, *FL*, Apr 17, 1998, p.74
131. D.Sampathkumar, *THBL*, 28.2.2000
132. K.R.Nayar, op.cit.
133. *The Hindu*, 23.4.2000, p.I (magazine)
134. *EPW*, No.52, Dec 26, 1998, p.3288
135. Editorial, *TOI*, 7.3.2000

136. Agencies report, *ET*, 12.12.1999
137. Editorial, *EPW*, No.40, Oct 2, 1999, p.2823
138. K.P.Prabhakaran Nair, *THBL*, 6.4.2000
139. Dr.Patrice Engle, Chief of Child Development & Nutrition, United Nations Children's Fund, in *The Hindu*, 21.4.2000
140. M.S.Swaminathan, *The Hindu*, 21.4.2000
141. World Bank, *India: Trends, Issues, Options*, May 1990, quoted in *AIE*, No.3, p.5
142. *AIE*, No.3, p.5 & *AIE*, No.23, p.37
143. *AIE*, No.3, p.4
144. Madura Swaminathan, *FL*, Mar 31, 2000, p.98
145. *AIE*, No.23, p.39
146. Madura Swaminathan, *FL*, May 16, 1997, p.102
147. Madura Swaminathan, *FL*, Mar 31, 2000, p.99
148. Editorial, *HT*, 5.6.1999
149. *AIE*, No.23, p.46
150. Madura Swaminathan, *FL*, Mar 31, 2000, p.99
151. Ibid.
152. Ibid. & Harish Damodaran, *THBL*, 7.2.2000
153. Harish Damodaran, *THBL*, 7.2.2000
154. C.P.Chandrasekhar, *FL*, Sept 1, 2000, p.93
155. Carol Upadhya, *EPW*, No.2, Jan 14, 1995, pp.87-88

Former US Trade Commissioner Mickey Kantor, on economics and politics:

"Economics and politics have never been closer", he added (in an address to a meeting of leading financial officers of giant corporations). "We are in each other's pocket. We are joined at the hip economically .... It's only natural that companies will influence countries' policies," Kantor said.

-The San Juan Star, Feb 11,1997
(Cited in MR, May 1997, p. 53)

If the Americans had never committed genocide against the Indians; if they had never incited wars of annihilation between the native peoples of the land, if there had never been a Trail of Tears: if America had never organized and commercialised the kidnapping and sale into slavery of a gentle and defenceless African people; if it had never developed the most widespread, brutal, exploitative system of slavery the world has ever known ; if it had never sundered and torn and ground Mexico into the dust; if it had never attacked gallant, defenceless Puerto Rico and never turned that lovely land into a cesspool to compete with the cesspool it created in Panama; if it had never bled Latin America of her wealth and had never cast her exhausted people onto the dung heap of disease and ignorance and starvation; if it had never pushed Hiroshima and Nagasaki into the jaws of hell - if America had never done any of these things - history would still create a special bar of judgement for what America did to the Philippines. (From Nelson Perry, Black Fire [New York: 1984]).

- Cited in MR, Jan 2000, p. 48

DESTRUCTION OF THIRD WORLD AGRICULTURE

We have seen in the previous chapter the impact of the conditions imposed by the governments of the developed countries and the international financial institutions on the Indian economy. The economies of all third world countries are being similarly transformed. All these economies are being transformed into appendages of the global capitalist system dominated by the giant multinational corporations of the developed capitalist countries. The whole system is being structured in such a way so as to maximise the global capital accumulation of these MNCs. In this chapter, we take a look at the changes taking place in the most crucial sector of the third world economies – the agricultural sector.

We have seen above how the various conditions imposed by the imperialists on Indian agriculture are going to lead to:

(i) Flooding of the Indian market with cheap food imports from the West.

(ii) Ruin of Indian agriculture due to sharp cutbacks in public sector capital investment in agriculture.

(iii) Ruin of small and marginal farmers due to gradual withdrawal of all agricultural subsidies (as a result, farmers have started committing suicides – we discuss this in the next chapter).

Similar policies have been imposed on all indebted third world countries who have taken SALs from the WB.

The actual intentions of the imperialist countries in imposing all these conditions are simply macabre. They are seeking to impose a new division within the world agricultural economy.

The overwhelming bulk of earth's bio-diversity in general, and botanic diversity in particular, is concentrated in the earth's tropical regions, which are in the main confined to the underdeveloped countries. These lands produce a very wide range of crops, and that too, throughout the year. In the developed countries of the North, there is only one natural crop-growing season, and the range of crops is also very limited.

The United States and the European Union have massive surpluses of the low-value agricultural products produced on their lands, especially of foodgrains. One-third of US agricultural production is now exported.[1] This has made them heavily dependent on third world markets. At the same time, the developed countries are big importers of the high-value agricultural products – fruits, vegetables, flowers – grown in the third world countries.

Therefore, the developed countries are seeking to force the third world countries to curb their production of foodgrains – so that they will have to import these from the North – and confine themselves to producing high-value agricultural crops for export.

On the face of it, this model appears to be beneficial to third world countries, as theoretically, it should lead to a rise in net foreign exchange earnings. But this is a myth. In practice, nothing of this sort is going to happen; instead, it is going to spell ruin for these countries.

The force behind this drive towards globalisation of world agriculture are the huge agribusiness corporations of the North. In the US, corporations manufacture and sell 95% of American food.[2] Monopolisation has proceeded to such an extent that the four largest firms process from 57 to 76 per cent of the corn, wheat and soyabeans in the United States.[3] These giant agribusiness corporations are seeking to control the agricultural production of the third world countries too. They already control the international trade in agricultural commodities. A recent World Bank report stated that just 3 to 6 MNCs market between 50 to 95% of the global exports of nearly each and every primary commodity – from wheat, rice, coffee and bananas to timber, tobacco, natural rubber and jute.[4] It is these same agribusiness conglomerates who have been behind the intense US efforts to globalise agriculture – which led to the signing of the GATT Agreement on Agriculture (AOA) in 1994 (the agreement was rammed down the throats of the third world countries by the US and other developed countries). The original US proposal to the Uruguay Round was in fact drafted by Cargill's (one of the world's biggest agribusiness MNCs) former vice-president, also a former official of the US Department of Agriculture.[5]

The conditions imposed on the third world countries by the WTO AOA as well as by the WB-IMF combine (as a part of the SAL conditionalities) are preparing the ground for the entry of MNCs into third world agriculture. The MNCs are adopting a two-pronged strategy to gradually take control over third world agricultural production. One is to enter into direct contracts with third world farmers who are required to produce specific crops using

specified agricultural inputs. Since the third world governments are gradually cutting back investment in agriculture, MNCs are in fact being encouraged by them to move in, provide support services to farmers, and procure crops directly from them. This process has begun in India. The US conglomerates Pepsi and Cargill have signed agreements with the governments of Punjab and Gujarat to begin contract farming with farmers as well as provide inputs like seeds and storage facilities to them.[6] The second strategy is: take over production directly. The WTO Agreement on Agriculture enables the West to flood third world countries with highly subsidised food imports. At the same time, the third world countries are also being pressurised to end all State support to agriculture in the name of reducing the fiscal deficit. Both these steps are plainly going to ruin small farmers, enabling the multinational agribusiness conglomerates to take over their lands and set up huge farms to produce and export 'exotic' crops. This process has also begun in India, as we shall see in the next Chapter.

Having thus gained control over the agricultural production of third world countries, the imperial powers will be in a position to enforce the global agricultural division of labour discussed earlier. Agriculture in third world countries would be reoriented to produce luxury crops for exports, displacing foodgrain production whose shortages would be made up by imports from the developed countries – at prices dictated by the MNCs! The consequences are obviously going to be: third world countries would have to pay through their noses when they import 'low-value' foodgrains, while their earnings from their 'high-value' exports are going to be relatively low because their prices are going to be dictated by the buyers, the MNCs.

We are not indulging in flights of fancy. India has already experienced the consequences of the growing hold of a handful of agribusiness corporations on world agriculture. India's sugarcane crop failed in 1993-94, leading to a shortage of sugar in the domestic market. The GOI decided to go in for imports to ease the situation. In November 1993, price of sugar in the London Market was around $280 a tonne. Prices started rising the moment it became clear that India would be going in for sugar imports, and by June 1994, they had shot up to around $410 a tonne.[7]

The consequences of control over world agriculture by a handful of avaricious agribusiness conglomerates go far beyond 'monopoly prices'. These MNCs are moving towards gradually acquiring complete control over the world's food supply. The costs of this surrender of food security by the third world countries is going to be incalculably high. Because for any people, food is the most fundamental of all necessities, after air and water. By controlling food supply, the erstwhile colonial powers will gain a vice-like grip over the economies of the third world countries – they can then impose any conditions they desire.

The developed countries have been enormously successful in imposing this neo-colonial project on their former colonies. Chile is the largest supplier of off-season fruits and vegetables to Europe and North America; more than 50% of its fruit exports are controlled by five MNCs.[8] Brazil is the world's largest frozen orange juice exporter. Columbia has emerged as the world's second largest exporter of fresh cut flowers. The Caribbean countries have become big exporters of fresh fruits and vegetables to the US, while many African countries are emerging as big exporters of these 'exotic' crops to Japan, Europe and the Middle East.[9] While on the other hand, by 1994, agro-exports from the US accounted for 36% of wheat trade worldwide, 64% of the corn, barley, sorghum and oats, 40% of the soyabeans, 17% of the rice, and 33% of the cotton.[10]

The treacherous Indian ruling classes are deliberately pushing Indian agriculture into the same neo-colonial snare. Control over Indian agriculture is being handed over to the rapacious agribusiness multinationals – to be pulverised and remoulded to fit into their plans of maximising their global profit accumulation.

References

1. Martin Khor, *TWR*, No.100/101, Dec 1998/Jan 1999, p.32
2. Philip McMichael, *MR*, July-Aug 1998, p.104
3. William D.Hefferman, ibid., p.151
4. World Bank, *Global Economic Prospects and Developing Countries, 1994*, p. 41
5. Philip McMichael, *MR*, op.cit., p.105
6. Nidhi Nath Srinivas, *ET*, 17.7.1999 & Nidhi Nath Srinivas, *ET*, 10.12.1998
7. *AIE*, No.14, pp.14-16
8. Philip McMichael, *MR*, op.cit., p.106
9. Meera Nanda, *EPW*, No.4, Jan 28, 1995, p.PE-21
10. Philip McMichael, *MR*, op.cit., p.103

IMPACT ON PEOPLE

We now take a look at the impact of globalisation on the people in our country and rest of the third world.

PART A
SITUATION IN INDIA

I. THE EMPLOYMENT SCENARIO

i) How many jobs do MNCs create?

One of the biggest myths about globalisation, about foreign capital inflows and entry of MNCs into the Indian economy, is that it would help create jobs and thus alleviate the scourge of unemployment. In the preface to UNCTAD's *WIR-99*, the UN Secretary-General Kofi Annan claims this to be one of the benefits of FDI inflows.[1]

The reality is otherwise. MNCs create very few jobs. They do not create many jobs in their parent countries too. The latest technological developments enable them to dominate global markets while employing very few people. As mentioned in Chapter 3, the world's 200 biggest corporations control well over a quarter of the world's economic activity. But they together employ just 18.8 million people worldwide, which is less than three-fourths of 1% of the world's workforce (of 2.6 billion people).[2] Furthermore, the new information technologies have enabled the MNCs to continuously increase their stranglehold over the world economy with less and less workers. Consequently, MNCs have become net job destroyers in recent years – the world's 500 largest firms have shed more than 4,00,000 workers yearly over the past decade, notwithstanding the upsurge in their combined revenues.[3]

FDI flows also do not create many jobs. In fact, a very large proportion of FDI flows create no jobs at all, because they go towards funding cross-border mergers and acquisitions rather than into 'greenfield' investment. (We have discussed this in Chapter 3.)

Even in the developed countries, unemployment has been rising and is at its highest levels since the Second World War. The situation is so bad that it was described as "nightmarish" by Western leaders at a G-7 summit some time ago:[4] **there are now more than 36 million unemployed in the OECD countries**.[5]

Therefore, expecting the MNCs to create jobs in a big way in third world countries, and in India too, is nothing but a pipe-dream. This is admitted to by the UN's *Human Development Report*, 1993. It points out:

> *"transnational corporations (TNCs) with subsidiaries in developing countries… have made substantial investments without creating large number of jobs. In 1990, there were at least 35,000 TNCs with more than 150,000 foreign affiliates….around seven million are directly employed in developing countries (by TNCs) – less than 1% of their (i.e., developing countries') economically active population. In addition, probably an equal number are employed indirectly as suppliers, for example, or through service companies. This total is still relatively small, however, and the proportion of the world's economically active population employed by transnationals appears to be falling."*[6]

These abysmally low employment figures are not a statistical error, they are corroborated by UNCTAD's *WIR-99*. It states that employment in affiliates of TNCs located in third world countries is typically a small share of total employment in these countries, "amounting to not more than 2% of their workforce" (page xix).

Seven million people are directly employed by TNCs in the entire third world – that is a figure smaller than the annual fresh entrants into the Indian labour market![7] That should explain why, despite all the high expectations generated by the entry of MNCs into India, they have created very few jobs. Of these, a few are highly paid jobs – graduates from the IIMs (Indian Institute of Management), the IITs (Indian Institute of Technology), and a few other elite management and engineering colleges have never had it so good. Then, Indian software professionals are getting well-paid jobs in Western countries or in their subsidiaries in India. These constitute a very small fraction of the total number of jobs that need to be created in the country to make a dent on the appalling unemployment

levels. But the media has been highlighting these extremely limited jobs being generated by the MNCs and the software industry – creating an impression even amongst the common people that globalisation is going to solve our unemployment problem in the near future.

ii) How many jobs are MNCs destroying?

On the other hand, in comparison to the few jobs that they have been creating, the MNCs have been destroying many more jobs. Faced with competition from these highly capital intensive mega-corporations, Indian private sector big business houses have begun restructuring their operations, and are shedding lakhs of workers every year. For example, Tata Iron & Steel Company (TISCO) has already laid off about 20,000 workers, and plans to shed at least an equal number in the coming years. Likewise, the public sector, which employs 70% of the organised sector workforce, is also being restructured by the GOI under instructions from its creditors - the WB-IMF and the imperialist governments. As we have discussed earlier, the aim is to shut down some of these undertakings, while handing over the rest to the control of the MNCs. Towards that end, the public sector undertakings (PSUs) have virtually stopped all fresh recruitment, and in addition, have also begun retrenching workers in a big way, using the strategy of offering voluntary retirement schemes (VRS) to their employees. Steel Authority of India Limited (SAIL) has already downsized its workforce to 1,60,000 from a peak of 2,50,000 in the mid-1980s, and plans to introduce a fresh VRS later this year to further reduce manpower to around 1,00,000 in three-four years.[8] Over 40,000 have opted for VRS in National Textile Corporation. According to the media, a total of 2.18 lakh workers in central PSUs have opted for VRS, but there is no official disaggregated data available for verification. The available data from the Ministry of Industry reveals that 1.18 lakh workers have opted for VRS so far.[9] In the coming years, tens of lakhs more are going to be pushed out of their jobs as public sector banks and insurance companies, railways, electricity boards, public transport undertakings and many more are privatised and handed over to giant foreign corporations. The World Bank has stated that "a minimum 4,00,000" railway employees are "redundant labour" and recommended that they be retrenched.[10] The Departments of Post & Telecommunications intend to retrench 2,00,000 workers, while the nationalised banks plan to shed 4,00,000.[11] In the banks, the first steps have already been taken under the guise of 'restructuring the weak public sector banks'.

Consequently, during the 1990s (according to an editorial carried by the *Economic Times* on 6.1.99): "growth and employment have parted company. Even recent good growth years like 1995-96 saw net declines in employment." According to the Labour Ministry, "there has been a marked deceleration in the average annual rate of growth of organised sector employment from 1.68% during the eighties (1980-90) to merely 0.82% during the nineties (1990-97)."[12] Over the seven-year period from 1990-91 to 1997-98, total organised sector employment increased from 26.8 million to just 28.3 million.[13]

Globalisation and the entry of the MNCs into the Indian economy are also leading to the virtual decimation of India's small-scale industrial sector. Of India's half a million joint stock companies, over 4,00,000 are private limited companies. These 4,00,000 companies together with countless unregistered business partnerships are the backbone of the nation's small-scale commerce and industry, which employs millions of workers.[14] Ever since the economic reforms began in 1991, the small-scale industries (SSIs) have been facing acute difficulties due to drying up of orders from funds-starved public sector firms and from recession-hit large private sector firms. Input prices have also gone up. The ancillary units supplying parts to large firms are being asked by the latter to supply their products at increasingly reduced prices – since big firms are attempting to cut their costs in the face of increasing competition. During the pre-reform period, in order to support the SSI sector, production of a number of items had been reserved for this sector by the GOI, and interest rates charged to small and medium enterprises was also lower. After the reforms began, banks have gradually phased out all subsidised credit to this sector, and these units have been finding it increasingly difficult to tap the liberalised financial markets.[15] In addition, the GOI has been taking gradual steps to effectively end all reservation of items for the small-scale sector, by making these items freely importable. Of the 812 items reserved for this sector, 634 have already become freely importable.[16] Import restrictions on the remaining are to go by April 2001. These small-scale producers are thus being asked to compete with deceptively subsidised products dumped on the Indian market by the recession-hit highly automated plants of the Western countries.

Therefore, small-scale industries have been downing their shutters in tens of thousands. Some time ago, the *Times of India* carried a report titled "In Thane-Belapur belt, factories' carcasses line roads and dispirited

workers loaf outside." The report stated:

> *"In the Thane-Belapur belt, almost 750 of the approximately 1800 units have closed down in the last couple of years. Over 50,000 workers have lost their jobs… The same story is repeated across the country, from Vapi to Chikhalthana to Asansol."* [17]

From the above, it is obvious that the total number of jobs being destroyed by the MNCs is far more than the miniscule number of jobs they have been creating. Consequently, the unemployment situation, which was already bad when the economic reforms began in 1991, has become "**alarming**" – a word used by the Prime Minister himself while speaking on the unemployment problem in the Rajya Sabha on March 16, 2000.[18]

We do not have reliable data on the total number of unemployed in the country, since the government does not believe in regularly collecting and publishing data on new jobs created and unemployment. But one thing is obvious to every common Indian youth – most degrees (except for a few from elite institutions), diplomas and vocational training courses have become irrelevant. There are simply no jobs.

The situation is set to further worsen in the coming days. Capitalism knows no compassion, it is ruthless in its quest for profits. Quite opposite to what many people assume, the welfare state in the advanced capitalist countries was not an automatic by-product of capitalist development there. It was most reluctantly conceded by the ruling capitalist classes after intense struggles waged by the working people. In India too, the ruling classes granted limited welfare benefits to the people because of the militant movements of the Indian working people during the 1940s-50s. Since the 1970s, working class struggles have suffered major setbacks the world over. Seizing the opportunity, capitalists have launched a vicious counter-offensive to win back all the concessions granted earlier. The welfare state is being rolled back in all the Western countries – from the US to Europe to Japan.[19] In India too, in response to the demands of the MNCs and India's private sector big business houses, the government is taking steps to modify labour laws to make it easy for companies to retrench permanent workers, employ contract labour, and 'outsource' a part of their operations. In January 1999, it announced the setting up of a Second National Commission on Labour (SNCL). One of its main objectives is "to suggest rationalisation of the existing laws so as to make them more relevant and appropriate in the changing context of globalisation and the opening up of the Indian economy."[20] Clearly, the recommendations to be made by the Commission are a foregone conclusion.

The SNCL is to submit its report in October 2001.[21] But the government is in a hurry. It has already announced its intention to amend the Contract Labour Act to enable employers to engage contract labour. Section 25(O) of the Industrial Disputes Act is to be deleted to enable employers to close down units.[22] The Labour Ministry has begun working on a new Bill which seeks to remove employees earning a gross monthly salary of over Rs.10,000 from the definition of a 'workman'.[23]

Clearly, not only are unemployment levels rapidly going to rise in the coming days, in addition, the quality of available jobs is also going to rapidly deteriorate.

II. IMPACT ON THE UNORGANISED SECTOR

The workers in the organised sector and the small-scale industries constitute less than 20% of the country's total workforce, which was estimated at 314 million as per the 1991 census.[24] The rest, the overwhelming bulk of India's workforce, comprises of subsistence farmers, agricultural workers, small plantation owners (like rubber growers), fisherfolk, dairy workers and the like, and those working in traditional manufactures like handlooms. Globalisation is threatening to destroy the very livelihood of these hundreds of millions of working people. Let us examine what is happening.

i) Fisheries, Dairy Sector, Handlooms

We have mentioned in an earlier Chapter that on December 16, 1999, the GOI signed an agreement with the US to completely eliminate all QRs on imports by April 1, 2001. The Exim Policy for 2000-2001 announced on March 31 this year lifted QRs on imports with respect to 714 items. 37 of these items are textile products. Fish and fishery products, milk and many agricultural products also figure prominently on the list of items that are now freely importable.[25] The Exim Policy is going to affect the sustenance of millions in India's unorganised sector in a major way. They will now have to compete with these highly subsidised imports from the developed countries – an impossible task!

Millions of fisherfolk & fishworkers are the mainstay of the fish economy of India. They have already been fighting attempts by successive governments to permit foreign fishing vessels to operate in Indian waters.

Now, their livelihood is faced with a new kind of threat. More than 60 fishery items are now off the QRs list, and hence fish prices are expected to crash under the impact of large-scale imports.[26]

The efforts of the National Dairy Development Board (NDDB) have led India to the first position in the world in milk production. It is one of the most fantastic success stories of post-independence India. India's dairy sector today provides 8 to 10 crore people in the rural areas additional livelihood. The liberalised import of milk powder is going to undermine this vibrant sector.[27]

The largest component of traditional manufactures is the handloom sector which employs, according to various estimates, between 10 and 20 million people directly, while also generating further employment in associated activities such as loom-making, dye-making, etc. Another related sector is the powerloom sector, which is also in the unorganised sector and employs probably another six million people. After agriculture, these two sectors are far and away the country's largest employers. Steep increases in yarn prices due to massive exports have already wreaked havoc in the handloom and powerloom industries, with unemployed weavers facing starvation and suicides.[28] Now, the new Exim Policy is going to sound the death knell for this sector, as developed country producers, plagued by overcapacity, resort to dumping highly subsidised textile products on the Indian market.

ii) The Agriculture Sector

The farm sector employs more than two-thirds of the country's workforce. The situation of the small and marginal farmers, who constitute more than 80% of India's farmers, is best encapsulated in a single piece of statistic: in recent years, there have been an increasing number of newsreports from various states about peasant suicides. In 1997-98, a spate of suicides were reported from Andhra Pradesh, Karnataka, Maharashtra and even Punjab. By June 1998, the toll was unofficially estimated at over 377 in Andhra Pradesh alone. The following year, more such suicides were reported from Maharashtra and Punjab. Press reports have mentioned that peasant suicides have also occurred in Bihar, Uttar Pradesh, Madhya Pradesh and Haryana.[29] In the first half of this year, according to official figures, 26 farmers are reported to have committed suicide in Andhra Pradesh; the actual figure is higher.[30] State governments have attributed these suicides entirely to crop failure – on account of erratic monsoons or natural calamities or pest attacks. But India's hardy farmers have faced such calamities since ages. Obviously, the real reasons that forced them to take their own lives lie elsewhere.

We have previously discussed in various chapters the impact of globalisation on Indian agriculture. Capital investment in agriculture is declining. It has adversely affected investment in irrigation and other farm improvements – in a country where over 60% of the lands have no irrigation and are dependent on rains. The gross neglect of the agricultural sector by the country's planners is evident from the fact that by investing relatively minor sums, the total irrigated area can be increased by a whopping 12% or 9.5 million hectares.[31] Consequently, a majority of the country's farmers are even today at the mercy of the rain gods.

In addition, the cost of farm inputs has been escalating as successive governments at the Centre have been slashing fertiliser, irrigation and electricity subsidies ever since the reforms began. In the words of the Commission on Agricultural Costs & Prices (CACP) in its report of 1996-97 on price policy for rabi crops:

> *"Between 1990-91 and 1995-96, while the prices of wheat, as measured by the average of wholesale price indices, increased by 58%, that of fertilisers increased by 113%, that of irrigation 62% and insecticides by 90%. With the recent revision in the administered prices of petroleum products, the prices of diesel would be higher by 75% than their level during 1990-91. It may be mentioned here that these account for about three-fourths of the expenditure on inputs purchased by the farmers from the non-farm sector."* [32]

This sharp rise in input prices is ruining not just the small and marginal farmers who consume most of their crop and have negligible marketable surplus; even those farmers who produce primarily for the market are finding agriculture to be increasingly unprofitable despite the periodic increases in support prices declared by the government. Firstly, because "except for paddy and wheat growers in surplus producing regions, the prices realised by them (i.e., the farmers) are generally not the administered prices" – we are quoting from the same CACP report mentioned above.[33] Secondly, because often the support prices are too low to compensate for the increase in input prices. [Note that it is the traders and not the small farmers who benefit from the increased market prices during years of scarcity or from export of agricultural produce. The small farmers sell their produce immediately after their crop comes in to the traders, who are able to

manipulate prices downwards at the time of harvest; the small farmers are unable to hold on to their crop for better prices in the future, because of poverty. Thus, it was the traders-hoarders-speculators who had benefited from the steep rise in onion prices in 1997-98, which had shot up to Rs.30 a kilo; the small farmers had sold off their crop to traders before the prices zoomed, for as low as Rs.2 to Rs.3 a kg.[34]]

As if this was not enough, the credit provided by the banks to the agricultural sector has also been declining. The two Narasimhan Committee reports on banking sector reforms have recommended that banks should focus on maximising profits. Therefore, they should phase out concessional lending to the agriculture sector. Also, the target for agricultural lending (of 18% of net bank lending) should be done away with.[35] As a result, bank lending to the agricultural sector as a proportion of net bank lending has been falling over the reform years and is now at a woeful 12%.[36] Even before 1991, bank credit to agriculture had been grossly inadequate and covered only a small portion of the actual credit needs of this sector. With even this limited credit being slashed, farmers are becoming more and more dependent on local moneylenders for their credit needs, who charge exorbitant rates of interest. Many of those peasants who have committed suicide in recent years had become heavily indebted to local moneylenders-traders.[37]

This multi-pronged onslaught launched by imperialist capital on Indian agriculture has acutely worsened the condition of the tough Indian peasants. This is the real reason for the series of peasant suicides in the country since 1997-98. With their economy already in distress, the caprices of the rain god or the havoc caused by a pest attack proved to be the last straw. It drove these peasants to such desperation that they decided to end their lives.

Thus it is globalisation - the various conditions imposed by the WB-IMF on Indian agricultural sector as a part of the economic reforms imposed on a bankrupt Indian economy by India's creditors – that is responsible for pushing the economies of millions of India's small and marginal farmers into a precarious state, driving many to suicide. However, the bloodsucking leeches from the North are not satisfied. They have arm-twisted the Indian government into accepting yet another economic reform – liberalisation of agricultural imports – which is going to be a 'death sentence' for Indian peasants.

Of the 714 items on which QRs were lifted this year, as many as 229 are agricultural commodities.[38] By March 2001, all remaining restrictions will disappear. Some of the major commodity groups that have become, or will soon become, freely importable include sugar, edible oil, oilseeds, wheat, pulses, coarse grains, cotton, rice, maize and natural rubber.[39] We have discussed in Chapter 2 how the developed countries have succeeded in retaining the subsidies they provide to their farmers – to the tune of hundreds of billions of dollars a year. At the same time, these countries, together with the international financial institutions under their control, are arm-twisting the third world countries, including India, to eliminate their already low level of agricultural subsidies. The opening up of the Indian market to heavily subsidised imports of agricultural commodities from the West is going to totally ruin the economy of the already crisis-ridden Indian peasants, driving them off their lands and into the urban slums. They will be followed by the agricultural workers: because these farms will be taken over by giant agribusiness corporations from the West, who are going to engage in highly mechanised farming.

The elites are of course delighted with import liberalisation. They can now dine on, among other things, Russian caviar, wash it down with Colombian coffee, served in Wedgewood crockery. All these goodies have now become freely importable. The well-heeled no longer have to pay for them through their overseas numbered accounts. The costs of this are going to be borne by the hundreds of millions of poor peasants and agricultural workers, who are going to be pushed off their lands, off their jobs, into penury.

It appears too horrifying to be true! So, we conclude this section by quoting Edward Goldsmith, the founding editor of *The Ecologist* and a cult figure of the environmental movement. He came to India exactly a week before US President Bill Clinton – the world's most famous salesman of globalisation. In an interview to Pritish Nandy, he spoke of the impact globalisation is going to have on the Indian peasantry. These are his words:

> *"(I)n India, how do you think farmers with less than two or three acres of land will survive…(globalisation)? They will not. They will be pushed into the slums, every one of them. And when your farming community goes, so will the small shopkeepers, street vendors, service castes. They will all go because they depend on the farming community. So you will marginalise and make destitute some 600 to 700 million people.*
>
> *"…Can you imagine the impact of making 700 million people destitute? No one has ever done this in the history of the world! That will be the inevitable consequence of globalising your country. It will destroy India."* [40]

III. IMPACT ON POVERTY

The Indian elites recently had a big ego massage. The US President Bill Clinton during his visit to India earlier this year patted them on their backs and stated that the US "applauds India's success in opening its economy, its achievements in science and technology, its commitment to a new wave of economic…reform, and its determination to bring the benefits of economic growth to all its people." Madeline Albright's Asia Society statement was even more wild; she stated that India's economy is the great "unreported success story of the 1990s."[41]

These statements may have been music to some Indian ears, but they were certainly news to most Indians. Because this "economic growth" and "success" of the 1990s has bypassed hundreds of millions of Indians. They have been left behind in India's own cesspool of poverty. Not only that, millions more have sunk below the poverty line over the past decade.

Globalisation is not only destroying millions of jobs in the organised sector and small-scale industries, it is also devastating the livelihood of hundreds of millions working in India's unorganised sector. On top of it, successive Indian governments have been hiking the prices of all essentials – water, electricity, kerosene, bus fares, education and health charges. Even food has not been spared. Food subsidy has been slashed. Consequently, food, which accounts for a major part of the consumption of the poor, has experienced especially large increases in price during the 1990s.

The result is that growth and poverty alleviation have parted company. The RBI's *Report on Currency & Finance* 1998-99 states that the average GDP growth was higher at 6.5% per annum between 1992-93 & 1997-98 as compared with the average of 5.8% per annum between 1980-81 & 1990-91.[42] On the other hand, data on consumption expenditure collected by the National Sample Surveys (NSS) of the Central Statistical Organisation, on which official as well as most other estimates of poverty are based, reveal that the declining trend in the incidence of poverty during the 1980s (poverty declined during the 1970s also) has been reversed in the 1990s!

Drawing on the NSS data, Dr.S.P.Gupta, Member of the Planning

Commission, has made estimates of the trends in incidence of poverty up to 1997 (results of NSS surveys are now available until early 1998). His estimates show that during the 1980s, the percentage of people living below the poverty line fell from 44% in 1983 to 35% in 1990-91. The absolute number of poor too declined, from 323 million to 291 million. However, during the 1990s, the incidence of poverty rose from 35% in 1990-91 to 37% in 1997, and the number of poor Indians rose from 291 million to 349 million. Using the same NSS data, another expert researcher, Dr.Gaurav Datt, also comes to roughly the same, though less striking, conclusions.[43]

If the results of the January-June 1998 NSS half-yearly survey – drawn from a smaller sample than the earlier surveys - are taken into account, they reveal that the situation has probably deteriorated even further. The number of people living below the poverty line has probably crossed 40%.[44] Even if we ignore the 1998 results and assume that the percentage of poor has remained at 37, with a population of over 1 billion today the number of people living below the poverty line exceeds 370 million!

A World Bank working paper published in 1999 has also admitted that poverty has risen in India during the 1990s. The WB defines poverty as those living on less than one US dollar a day. The report estimated that the number of people living below the poverty line in India rose from 300 million in the late 1980s to roughly 340 million by the end of 1997.[45]

The WB at least occasionally talks about the record of poverty and growth in the post-reform period. However, the Indian ruling classes simply refuse to discuss this aspect in any context. They only talk of GDP growth rates, FDI figures, export data, stock market indices, and so on. In their definition of development, the people on the streets find no mention even in the footnotes.

IV. TO CONCLUDE

Such then are the costs to be paid by the Indian economy and the Indian people, so that the Indian capitalist classes can continue with their profit accumulation, and the Indian elites can satiate their urges for the world's latest luxuries. A summary of these costs would include:

- Destruction of the long-term growth prospects of the Indian economy.
- Handing over control of the Indian economy, including the industrial, financial and agricultural sectors, to the rapacious MNCs and their foreign governments.
- Undermining India's food security; destruction of indigenous capabilities in the crucial infrastructural sector; handing over control of the savings of crores of Indian poor and middle classes to foreign crooks and speculators.
- Large-scale unemployment in the organised sector and small-scale industries; destruction of livelihood of the hundreds of millions working in the country's unorganised sector.
- Drought, famine, epidemics to ravage the land.

The Indian ruling classes have sold their souls to the Devil for a price that would have shamed Faust.

PART B

SITUATION IN REST OF THE THIRD WORLD

A similar tragedy – of poverty, unemployment, disease, destitution – is being wrought all across the third world, in all those countries whose elites have decided to betray their nations, secede from their people, become collaborators of the imperialists and allow these ex-colonialists to re-enter their countries and plunder their wealth and natural resources.

The plight of the ordinary people in these countries is far more worse than in India, because they began globalising their economies much earlier, during the early 1980s itself. Let us take a look at the condition of the people in these countries. It will also give us an idea of the fate that is going to befall all of us, the common Indian people.

At the 10th Session of the UNCTAD held in February 2000 at Bangkok, the Secretary-General, Mr. Rubens Ricupero, in his report stated that the 'developing' countries have not so far benefited from the globalisation of their economies. In fact, the effects have been generally adverse. He stated that there have been sharp declines in real incomes for large segments of the population, rising unemployment, increases in the incidence of poverty, and a deterioration in health and educational services and in school attendance.[46]

Describing the effect of globalisation on the third world countries as 'adverse' is certainly a big understatement – it has been catastrophic. Davison Budhoo, an IMF economist who resigned in disgust in 1988, stated in an article titled 'IMF/World Bank Wreak Havoc on Third World':

> *"….the greatest failure of these programs (IMF-WB SAPs) is to be seen in their impact on the people…. it has been estimated that at least six million children under five years of age have died each year since 1982 in Africa, Asia and Latin America because of the anti-people, even genocidal, focus of IMF-World Bank SAPs. And that is just the tip of the iceberg…. some 1.2 billion people in the Third World now live in absolute poverty (almost twice the number ten years ago)…On the environmental side, millions of indigenous people have been driven out of their ancestral homelands by large commercial ranchers and timber loggers…. It is now generally recognised that the environmental impact of the IMF-World Bank on the South has been as devastating as the social and economic impact on peoples and societies."* [47]

Especially ravaged during the past two decades have been the regions that have been most severely subjected to structural adjustment: Africa and Latin America.

Africa has been squeezed dry like a lemon. The 1980s have been described as a '**lost decade**' for Africa. By the early 1990s, per capita income in Africa had plunged to the level it had held at the time of political independence in the 1960s.[48] The 1990s saw some growth, but this no longer trickles down, and the condition of the people has continued to worsen. At the beginning of the twenty-first century, the continent has become so marginalised that the only image of Africa left in the eyes of people all over the world is of a continent of starving people.

Over the last three decades, the number of countries defined by the UNCTAD as least developed has nearly doubled – from 25 in 1971 to 48 now.[49] And two-thirds of these countries are in Africa.[50] The Economic Commission for Africa estimates that "close to 50% of the population (of Africa) live in absolute poverty. This percentage is expected to increase at the beginning of the next millennium…"[51] The Nigerian economist, Bade Onimode, in his book, *A Future for Africa: Beyond the Politics of Adjustment*, writes: "(Africa's) crisis and the IMF & WB Stabilisation and Structural Adjustment Programmes have generated and exacerbated a

serious decline in the African economy, and created the catastrophe of suffering facing the rural and urban poor, women, children, workers, peasants and other vulnerable social groups." Onimode goes on to observe that "a generation of Africans has been lost, and a second is under serious threat, while the marginalisation of Africa has accelerated alarmingly in most spheres."[52] Another leading scholar, David Planck, while writing about the re-positioning of Africa within the global capitalist system, states:

> *"Recent developments in Mozambique and elsewhere suggest that the most likely successor to post-colonial sovereignty will be neo-colonial vassalage, in which the Western powers assume direct and open-ended control over the administration, security and economic policies of 'deteriorated' states under the banner of the UN and various donors."* [53]

But then, since comparison with Africa might be unpalatable to most Indians, let us move on to Latin America*.

The force of the 'adjustment' programs struck with such fury in Latin America that in less than a decade, by the early 1990s, all the gains of the 1960s and 1970s had been wiped out. Per capita income was down to where it had been in the late 1970s.[54] In the 1990s, imperialist capital returned to Latin America once again. But these flows were only short-term injections, which would create a temporary impression of recovery. Soon after the announcement of 'recovery', a trigger-event would lead to an outflow of capital, precipitating an economic collapse, necessitating intervention by the IMF-WB, bailout, humiliating conditionalities. Then, capital would flow back into the bankrupt country once again, and the cycle would start all over again. We discuss this 'cycle' in the next Chapter.

* Note that when we refer to Latin America, or give statistics on Latin America, Cuba is excluded. Cuba is the only country in the Americas where children do not go hungry, have medical care, are not subject to violence in the schools and in the streets, and where their educational level is second to none – things about which even Clinton's America cannot boast of.[77] Probably that is why the US is so incensed with Cuba, has declared it to be a 'rogue state', and has imposed sanctions on it.

Extract From the resignation letter of Davison L. Budhoo sent to the Managing Director of the International Monetary Fund, Michel Camdessus. An economist of repute, he was with the IMF since 1966 and resigned on May 18, 1988.

"I resigned from the staff of the International Monetary Fund after over twelve years and after 1000 days of official fund work in the field, hawking your medicine and your bag of tricks to governments and to peoples in Latin America & the Carribbean & Africa. To me resignation is a priceless liberation, for with it I have taken the first big step to that place where I may hope to wash my hands of what in my mind is blood of millions of poor and starving peoples. Mr. Camdessus, the blood is so much, you know, it runs in rivers. It dries up too, it cakes all over me; sometimes I feel there is not enough soap in the whole world to cleanse me from the things I did in your name and in the name of your predecessors and your official seal.

But I can hope, can't I?.... that people can stand up and take notice of what I have to say...because the charges I make are not light charges - they are charges that touch at the very heart of Western society and Western morality and post-war inter-governmental institutionalism that have degenerated into fake and sham under the pretext of establishing and maintaining international economic order and global efficiency."

(SOURCE : Davison L. Budhoo, *Enough is Enough*, The Apex Press, New York, 1990)

Each IMF-WB 'solution' imposed on the hapless Latin American countries has, on the one hand, further deepened imperialist penetration and control, and on the other hand, further undermined the economies of these countries and impoverished the people.

Two decades of structural adjustment have destroyed the small-scale industrial sector. It is estimated that thirty-eight thousand medium-sized enterprises in Argentina operated by small capitalists have over the past decade either gone bankrupt or are saddled by crippling debt. In Mexico, this development has resulted in the formation of an organisation of bank indebted producers (El Barzon) which has amassed a membership in excess of seventy-five thousand.[55] There are no jobs in the big industries too. Instead, these too have been retrenching workers by the tens of thousands.

Consequently, unemployment figures have lost all meaning for Latin America. There are simply no jobs. People have been forced into the informal sector to survive. A report of the International Labour Organisation (ILO), prepared for a regional conference in Lima, Peru, in mid-1999, estimates that over the past decade, over 85% of the new jobs have been created in the informal sector – micro-enterprises, farming and small-scale services.[56]

Capitalists and imperialists have taken advantage of rising unemployment to push down wage levels. The ILO report quoted above states that workers' buying power had fallen dramatically over the past decade and was now 27% below what a salary bought 20 years ago in 1980 for minimum wage earners.[57] Other, equally reputed, estimates state that in countries like Argentina and Venezuela, wages were below the levels of the 1970s.[58]

And so, in the cities of Latin America, the new urban poor are not simply the 'rural migrants', but also downwardly mobile workers and lower-middle-class people who have been fired from their jobs and have found employment in the burgeoning informal sector. Further, this growing army of urban poor is finding that the opportunities available to the earlier generations for incremental improvement have now simply dried up, no such avenues now exist.[59]

The costs of 'adjustment' have been exclusively borne by the poor. Cuts in social spending and elimination of basic food subsidies have pushed peasants towards malnutrition and hunger. An increasing number of people are depending on community-based charities and soup kitchens for survival.

The third world elites are globalising their economies not because of naivete or out of compulsion; on the contrary they are willing and active participants in the economic recolonisation of their countries - because they themselves are indulging in naked loot of their own economies in the name of privatisation - liberalisation - globalisation. Peru's Alan Garcia regime, Venezuela's Democratic Action regime of Luschini, Brazil's Sarney regime, ruling regimes of Argentina, Chile... all have been accused of stealing millions of dollars of public money (See Petras & Morley, 'Latin America : Poverty of Democracy & Democracy of Poverty', *EPW,* July 27, 1991). The ruling elites of these countries are ardent advocates of the free flow of money across borders - so that they can ship their profits to other lands. Indeed, the third world wealthy have for years been shifting vast sums to bank deposits, real estate operations, enterprises and securities in the United States & Western Europe. According to an estimate made in the mid-1980s by David Felix, professor of economics at Washington University in St. Louis (USA), wealthy Latin Americans had salted away at least $180 billion outside their continent - that amounted to half the region's foreign debt then (Harry Magdoff, *MR*, Feb 1986, p. 9) ! Yet wages and budgets have continued to be slashed, while capital flight has continued. Nor has there been any interest in, or discussion of, recapturing these assets to reduce foreign debt. That is not an impossibility - it has been done before by the governments of the advanced capitalist countries when national interest demanded it. For instance, during World War I, the governments of Britain and France had forced their nationals to hand over their foreign securities to them - which they had used to help cover their current account deficits (Harry Magdoff, ibid.).

Slashed public health and education budgets have resulted in increased payments and deteriorating services. Cuts in maintenance of water, sewage and other public services have resulted in a resurgence of infectious diseases.[60] Diseases like tuberculosis and cholera, that had been thought to be banished by modern medicine, have returned with a vengeance throughout the continent.[61]

Poverty has reached unheard-of levels. The Economic Commission for Latin America & the Caribbean (ECLAC) estimates that over the course of structural reforms implemented in the 1980s, the poverty level in the region increased from 35 to 41% of the population. Since then, the rate of poverty has further climbed and is estimated to be at 60% of all households.[62]

In Ecuador - a major producer of bananas, coffee, cacao and oil, a country flush with possibilities of growth – 63% of the population is officially below the poverty line.[63] Brazil is South America's biggest economy. It purchases nearly 20% of US exports and is host to thousands of US-owned factories.[64] The Brazilian economy collapsed again in 1998 – the third time in less than two decades - leading to yet another IMF bailout accompanied by a fresh round of conditionalities. Michel Chossudovsky, Professor of Economics, University of Ottawa, comments:

> *"In a country where more than half the population is already below the poverty line, the impact of the IMF bail-out will be devastating. Large sectors of Brazil's population of 160 million people will be driven into abysmal poverty. Entire regions of the country will be pushed into recession."* [65]

In November 1999, the World Bank sanctioned a $3 billion emergency loan for Argentina. Its statement on Argentina praised the government as one of Latin America's most successful reformers.[66] Indeed it is – some 45% of the children under 14 live in poverty.[67] Chile, another of Latin America's bigger economies, is probably the country with the longest running 'free market economic reform programme' in the world. It began way back in 1973, after General Augusto Pinochet's bloody coup against the democratically elected government of President Salvador Allende. Chile recently won praise from the *New York Times* as the "economic star of Latin America"[68] and is considered to be one of the success stories of the IMF-WB SAP. Orlando Caputo, one of Chile's best known economists, explains why: "Over the past 20 years, $60 billion has been transferred from salaries to profits."[69] And so, for the working people, real salaries have declined 10% since 1986, and are 18% lower than they were during the Allende period; one-fourth of the nation lives in absolute poverty; and a third of the nation earns less than $30 a week.[70]

Income inequalities throughout the continent, already among the worst in the world, have drastically exacerbated. As Enrique Iglesias, president of the Inter-American Development Bank, reports: "the bulk of the costs of adjustment fell disproportionately on the middle and low-income groups, while the top 5% of the population retained, or in some cases, even increased its standard of living."[71] Argentina provides the clearest example. In 1975, the ratio of income received by the top and bottom quintiles of income earners was eight to one. By 1991, this income gap had doubled, and by 1997, it was twenty-five to one.[72] In the extreme but not atypical case of Brazil: 20% of the population controls over 80% of the wealth; 1% of all landowners hold 44% of the agricultural land;[73] the richest 10% of the population earns about 44 times more than what the poorest 10% earns.[74] The same tragedy has been unfolding in other Latin American countries also: growing social inequalities in the distribution of wealth and income; at one extreme the sprouting of a handful of huge fortunes and an associated process of capital accumulation, and at the other, the deepening and extension of grinding poverty.

This has torn apart the social fabric. It explains why drug trafficking is rampant in Columbia – per capita income there has been stagnant since the early 1980s; in the province of Medellin, home to one of the world's most notorious drug cartels, unemployment is at 50%.[75] Likewise, crime has skyrocketed. It is concentrated among the young people and is directly linked to family disintegration and lack of jobs. The following event that occurred in Brazil some years ago eloquently brings out the link between globalisation, poverty and crime:

> *"In 1991, the kidnappers of Francisco Jose Coeho Vieira, a Brazilian businessman, demanded a ransom of thirty-two thousand dollars – in food. When twenty tons of meat, sugar, pasta, beans, rice and milk were left near a Rio shantytown, a line of slum dwellers half a mile long battled for the goods. After fifteen minutes, everything was gone; five people were injured in the melee."*[76]

This wrenching restructuring has totally transformed Latin American society: into a **first-world/fourth-world** society. It has pushed down more than three-fourths of the population from third world welfarism to fourth

world immiseration. On the other hand, for the elites – who constitute less than 10% of the population – their countries have entered the first world. For, they share a 'first-world' lifestyle: they send their children to overseas universities; they belong to private country clubs where they swim, play tennis, and do aerobic exercise; they get facelifts at private clinics and travel in luxury cars on private toll roads; their homes boast of the world's latest consumer gadgets; they communicate via computers, faxes and private courier services; they live in gated communities protected by private police; and they frequently vacation and shop in New York, Miami, London or Paris. They have most of their savings in overseas accounts. Despite the ups and downs of the domestic economy, they benefit from the globalised system.

All this sounds very familiar. The same transformation is taking place in India too.

References

1. Cited by Prof.Alejandro Nadal, *TWR*, No.110/111, Oct-Nov 1999, p.30
2. Sarah Anderson & John Cavanagh, *TWR*, No.97, Sept 1998, p.38
3. Frederic Clairmont & John Cavanagh, *EPW*, Feb 5, 1994, p.284
4. P.Sainath, *FL*, Mar 10, 1995, p.104
5. Praful Bidwai, *FL*, Jan 9, 1998, p.100
6. Quoted in *AIE*, No.15, p.8
7. *AIE*, No.15, p.8
8. R.N.Sinha, *THBL*, 12.5.2000
9. M.V..Srinivasan, *EPW*, No.28, July 10, 1999, pp.1873-74
10. World Bank Report on India's transport sector, reproduced in *ET*, 16.4.1995 & quoted in *AIE*, No.16, p.51
11. D.Bandopadhyay, *Mainstream*, May 13, 1995, p.13
12. Anita Katyal, *TOI*, 28.5.1998
13. Arun Ghosh, *The Indian Economy, 1998-99: An Alternate Survey,* op.cit., p.27
14. Jawid Laiq, *TOI*, 4.3.2000
15. Sushil Khanna, *EPW*, No.45, Nov 6, 1999, pp.3235-36
16. Sudha Mahalingam, *FL*, Apr 28, 2000, p.16
17. Shabnam Minwalla & Sameera Khan, *TOI*, 15.11.1998
18. PTI report, *The Hindu*, 17.3.2000
19. See for instance: Vijay Prashad, 'Another America', *FL*, Nov 19, 1999; & various issues of *MR*

20. T.K.Rajalakshmi in: *FL*, Apr 14, 2000, p.95 & *FL*, Feb 26, 1999, p.104
21. *THBL*, 28.3.2000
22. Interview: M.K.Pandhe, *FL*, Mar 3, 2000, p.20
23. Rishi Raj, *Indian Express*, 22.4.2000
24. Arun Ghosh, *The Indian Economy, 1998-99: An Alternate Survey*, op.cit.,p.27
25. V.Sridhar, *FL*, Apr 28, 2000, p.18
26. Ibid., pp.18-19
27. Interview: Dr.M.S.Swaminathan, *FL*, Dec 24, 1999, p.23
28. *AIE*, No.15, p.4 & *AIE*, No.14, pp.17-18
29. *AIE*, Nos.26-27, pp.3, 24
30. Parvathi Menon, *FL*, May 26, 2000, p.130
31. *AIE*, No.22, pp.33, 35
32. *AIE*, Nos.26-27, p.28
33. Ibid., p.29
34. Ibid., pp.124-125
35. Ibid., pp.107-108
36. N. A. Majumdar, *THBL*, 27.1.2000
37. Parvathi Menon, op.cit., pp.130-131; *AIE*, Nos.26-27, pp.4-24, 36-39
38. V. Sridhar, *FL*, Apr 28, 2000, p.18
39. Editorial, *THBL*, 28.2.2000
40. *Bombay Times, TOI,* 28.3.2000
41. Praful Bidwai, *FL*, Apr 14, 2000, p.102
42. S.D.Naik, *THBL*, 25.1.2000
43. C.Rammanohar Reddy, *The Hindu*, 8.1.2000; also CRR, *The Hindu*, 30.12.1999
44. Editorial, *TOI*, 20.4.2000 & also Arun Ghosh, *THBL*, 4.4.2000
45. Editorial, *HT*, 5.6.1999 & Ramesh Chandran, *TOI*, 3.6.1999
46. S.D.Naik, *THBL*, 15.2.2000
47. In Kevin Danaher, ed., *50 Years is Enough: The Case Against the World Bank & the IMF*, Boston: South End Press for Global Exchange, 1994, pp.20-22, quoted in *MR*, Sept 1995, p.10
48. Walden Bello & others, *Dark Victory*, op.cit., p.2
49. Mr. Rubens Ricupero, Secretary General, UNCTAD, quoted in S.D.Naik, *THBL*, 15.2.2000
50. John Mihevc, op.cit., p.11
51. Quoted in John S.Saul & Colin Leys, *MR*, July-Aug 1999, p.16
52. Bade Onimode, *A Future for Africa: Beyond the Politics of Adjustment,* London: Earthscan, 1992, p.1, quoted in John S.Saul & Colin Leys, ibid., pp.21,32
53. Quoted in John S.Saul & Colin Leys, *MR*, July-Aug 1999, p.21
54. Walden Bello & others, *Dark Victory,* op.cit., pp.2,52

55. James Petras & Henry Veltmeyer, *MR*, July-Aug 1999, p.48
56. Robert Evans, *TOI*, 23.8.1999
57. Ibid.
58. G.S.Fields & A.B.Newton in *Labour Markets in Latin America*, S.Edwards & N.Lustig, eds., Washington D.C.: Brookings Institute, 1997, cited in James Petras & Henry Veltmeyer, *MR*, July-Aug 1999, pp.49-50
59. James Petras & Henry Veltmeyer, ibid., p.52
60. Ibid., p.53
61. Walden Bello & others, *Dark Victory*, op.cit., p.52
62. James Petras & Henry Veltmeyer, op.cit., p.50
63. Vijay Prashad, *FL*, Apr 23, 1999, pp.60-62
64. Jayati Ghosh, *FL*, Feb 12, 1999, p.110
65. Michel Chossudovsky, *FL*, Dec 4, 1998, p.95
66. Adam Entous, *ET*, 12.11.1998
67. John Cherian, *FL*, Nov 26, 1999, p. 64
68. Marc Cooper, *FL*, Apr 17, 1998, p.51
69. Ibid., p.52
70. Ibid., pp.51-52
71. Walden Bello & others, *Dark Victory,* op.cit., p.52
72. James Petras & Henry Veltmeyer, op.cit., p.50
73. Vijay Prashad, *FL*, Sept 24, 1999, p.60
74. V.Sridhar, *FL*, Sept 24, 1999, p.61
75. Walden Bello & others, *Dark Victory,* op.cit., p.52
76. Ibid., p.53
77. Frederic Clairmont, *EPW*, No.10, Mar 4, 2000, p.770

Once I built a railroad
Made it run
Made it race against time
Once I built a railroad
Now it's done
Brother, can you spare a dime ?

-E.Y. "Yip" Harburg

Speculators may do no harm as bubbles on a steady stream of enterprise. But the position is serious when enterprise becomes the bubble on a whirlpool of speculation. When the capital development of a country becomes a by-product of the activities of a casino, the job is likely to be ill-done.

John Maynard Keynes (1936)

FINALE: ENTRAPPED IN SPECULATIVE WHIRLPOOL

The Indian economy is in serious crisis – it has been tottering on the verge of external accounts bankruptcy for quite some time now. Although globalisation had been undertaken ostensibly to improve the balance of payments position of the country following the foreign exchange crisis of 1991, the opposite has happened – the external accounts position has rapidly deteriorated. Although the country's political leadership does not admit this reality, all the facts point in this direction. The *Economic Survey* of the GOI, 1999-2000, partially admitted to this when it noted that: "FDI inflows, however, continue to be lower and this is a source of serious concern, particularly given the medium term target of US$ 10 billion of FDI inflows."[1]

We have discussed in detail in the previous Chapters why the low volume of FDI inflows has become a source of 'serious concern' for the Indian economy. Let us briefly recount the main points once again.

The Indian economy was trapped in an external debt crisis in 1990-91. It needed an increasing amount of foreign loans to repay just the servicing charges on its huge external debt, which had crossed $ 83 billion by the end of 1990. The imperialists, taking advantage of a favourable international environment, now decided to withhold additional loans to the GOI, and instead pressurised it to open up the Indian economy to foreign capital flows, and also liberalise (that is, dismantle restrictions on) imports and exports. Since 1991, all the successive governments in Delhi have diligently adhered to these conditionalities.

Trade liberalisation has caused India's trade deficit to zoom from $ 2.8 billion in 1991-92 to $ 13.2 billion in 1998-99. And foreign capital inflows have led to rising outflows – interest and dividend payments went up from $ 3.3 billion in 1991-92 to $ 5.5 billion in 1998-99. The only reason why the country's current account deficit has not spiraled upwards is because of inward private remittances, by and large from expatriate Indian workers in

Table 7.1: India's Balance of Payments, Current Account

in US$ million

		98-99	97-98	96-97	95-96	94-95	93-94	92-93	91-92
1.	Trade Balance	-13246	-15507	-14815	-11359	-9049	-4056	-5447	-2798
2.	Invisibles (net)	9208	10007	10196	5449	5680	2898	1921	1620
	Of which:								
	Investment income (net)	-3544	-3521	-3307	-3205	-3431	-3270	-3423	-3830
	Private Transfers	10280	11830	12367	8506	8093	5265	3852	3783
3.	Current Account Balance	-4038	-5500	-4619	-5910	-3369	-1158	-3526	-1178

Source: *Economic Survey*, cited in *EPW*, No.11, March 11, 2000, p.859

the Gulf countries (table 7.1). (There are practically no remittances from NRIs in the USA or in the East Asian countries, where many are millionaires – it is only the poor artisans and technicians, slaving under difficult working conditions, who send in large remittances to near relatives at home in India.[2])

With imperialists unwilling to extend a large amount of loans, the only way to cover the rising deficit on current account is by opening up the economy still further to foreign capital inflows. Of these, the most desirable are FDI inflows. But as we have pointed out in Chapter 3 above, FDI inflows have been far less than the outflows on account of interest and dividend payments by previously invested FDI: despite the entire productive assets of the country having being put up for 'SALE', the foreign buyers are not finding it attractive enough to bring their billions into the country in a big way. That is the reason for the "serious concern" expressed in the *Economic Survey* of the GOI cited above. (Note that even if the FDI inflows boom, it is going to alleviate the problem only temporarily – because the more the inflows now, the more the profit outflows later. The Indian economy, like the other third world countries, is caught in a FDI-inflow-profit-outflow trap.)

With the actual FDI inflows less than the profit outflows, the Indian ruling classes have been desperately looking for alternate sources of external financing in order to stave off external accounts bankruptcy. The solution found by them is the same as the solution being implemented by all other third world countries caught in a similar crisis. In fact, within the frame of the global capitalist-imperialist system today, there is no alternative solution. This solution, while providing temporary relief, is gradually leading the Indian economy into a new, more devastating, crisis.

This brings us to yet another bizarre development in the world capitalist economy. Way back in 1985, the US magazine *Business Week* in its issue of September 16 ran a cover story entitled "The Casino Society". The introduction (included on the cover of the magazine) read:

> *"No, it's not Las Vegas or Atlantic City. It's the US financial system… the system is tilting from investment to speculation."* [3]

This strange development, which began in the 1970s, has now progressed to such an extent that **speculative capital overwhelmingly dominates the economies of the developed capitalist countries, towering over the production system**. We shall very soon examine this phenomenon. These speculators who dominate the economies of the

US and other developed capitalist countries have at their disposal hundreds of billions of dollars. Obviously, they are on the lookout for new 'investment' opportunities (these should in reality be called new gambling opportunities).

We have discussed earlier that a very large number of third world countries had become severely indebted on their external account by the early 1980s, and had begun to open up their economies to FDI inflows. That only worsened their foreign exchange crisis, as their economies got sucked into the FDI-inflow-profit-outflow trap (discussed in Chapter 3). By the late 1980s, with their balance of payments crises continuously worsening, they began looking for alternate ways to finance the growing gap in their current account. Since speculative capital had come to dominate the economies of the developed countries, they now began to mount pressure on the third world countries to open up their economies to speculative capital inflows too. These indebted countries had no alternative but to comply, with the result that by the early 1990s, foreign portfolio capital flows – a respectable sounding pseudonym for what in reality are speculative capital flows - to third world countries had exceeded FDI flows.

Table 7.2: Capital Flows into Developing Countries

(Annual averages in billions of US$)

	1977-82	1983-89	1990-94
Net inflows	30.5	8.8	104.8
FDI	11.2	13.3	39.1
Portfolio	-10.5	6.5	43.6
Other	29.8	-11.0	22.2

Source: IMF, *International Capital Markets: Development, Prospects & Policy Issues*, Washington, August 1995 [4]

In 1992, the GOI too opened up the Indian stock markets to foreign portfolio capital inflows. Since then, controls on their operations have gradually been relaxed and in fact the government has been giving them all kinds of incentives to lure them into the country. It has led to a surge in portfolio capital inflows. According to the *Economic Survey,* GOI, 1999-2000, portfolio investment in the country between 1992 and September 1999 totaled $16.80 billion, and in fact exceeded the total FDI inflows into the country during this period – which stood at $ 14.53 billion.[5]

This splurge in speculative capital inflows has led the third world economies into devastating crises. But before we discuss that, let us first take a look at what exactly is speculative capital and why has it come to occupy such a pre-eminent position in the world capitalist economy today. For that, it is necessary to take stock of the recent developments in the economies of the developed capitalist countries.

I. THE FINANCIAL EXPLOSION IN THE DEVELOPED COUNTRIES

We have discussed in Chapter 1 that the economies of the US and other developed countries had become mired in **stagnation** in the 1970s. Since then, the virtually **permanent recession** gripping these economies has been deepening. Which means that **new investment opportunities have practically dried up**.

Then, how does one explain the tremendous amount of activity in the stock, bond and other financial markets in recent years? Aren't these precisely the channel through which the country's savings are put at the disposal of entrepreneurs who want to establish new businesses or expand existing ones? And if this is so, how come all this activity does not show up in investment statistics?

The answer to this question is that there are two kinds of activity in a capitalist society that are called 'investment'. One is buying valuable pieces of paper (for instance, what are known as shares) - valuable because they contain promises to pay fixed or variable sums of money under stated conditions; the other is buying real physical assets (like land and machinery) designed to help in producing goods and services to be sold at a profit. At some point in the distant past, these two forms of investment were tied together: the saver bought the piece of paper from the producer (or manufacturer) who used the money to buy real assets and set up a factory or whatever.

The investment process no longer works that way today. There is no necessary connection between financial investment and real investment. In other words, **there is no necessary connection between the stock markets and the productive economy today:** money raised in the stock market need not necessarily be invested in production of goods and services. Strangely, most economic theorising still proceeds on the assumption that such a connection exists.

Financial and real investment have become delinked because real investment is stagnating – there is no profit to be made by investing in expanding the production of goods and services. But corporations and their shareholders always seek to expand their capital, they always seek new investment opportunities. The financial corporations also operate under the same growth imperatives as industrial corporations, they also seek to expand their profits. The solution found by both was exceedingly simple: the industrial corporations poured their money into the financial markets, and the latter expanded in a big way to absorb these investments.

The financial sector thus began to grow relatively independent of the production sector. For instance, take the case of prices of shares in the stock markets. Investors today invest in shares of companies not for dividends, but in the expectation that share prices would go up at a later date, so that they can then sell their holdings and make a profit. As a result, share prices these days have nothing to do with the performance of companies, but depend on the whims of investors - a few huge investors can send the share price of even a floundering company zooming up in no time. **The stock market has thus become a gambling den. It's boom or bust has nothing to do with the performance of the underlying productive economy.**

As stagnation deepened, giant corporations poured in hundreds of billions of dollars into the financial markets into what were purely speculative investments. The latter responded by expanding their capacity to handle these growing sums and created many attractive new financial instruments for speculators to invest and trade in. This process began in the 1970s and really took off in the subsequent decades.

Today, the **financial explosion** has taken on fantastic dimensions. An amazing variety of financial instruments have come into existence. A partial list of major novelties would include: options, financial futures, options on futures, options on indexes, Eurobonds, Sushi bonds, floating rate bonds, currency swaps, floor-ceiling swaps, and so on. With the real economy floundering, trading in these instruments is the one area that has grown at miraculous rates. Thus, the financial futures market came into being in the early 1970s. Here, wagers are made on what interest rates will be there at a later date. In 1995, that is, within a span of just over two decades, the value of contracts traded daily in this market had topped $15.7 trillion. An even faster increase took place in what are known as interest and currency swaps. Almost unknown before 1980, by 1995 there

were a towering $42.14 trillion worth of such contracts outstanding in the global financial markets.[6]

Most transactions in the world's foreign exchange markets also are purely speculative in nature. This began after the developed countries moved to floating exchange rates in March 1973, following the collapse of the Bretton Woods agreement.[7] It opened the floodgates to rampant speculation in foreign exchange markets. The average daily turnover in the foreign exchange markets reached $1.5 trillion in April 1998[8] - this exceeds the stock of aggregate global forex reserves held by all the official agencies put together. (We have data for 1996: the daily global turnover of transactions in foreign exchange markets that year had crossed $1.3 trillion, while the stock of aggregate global foreign exchange reserves held by all official agencies together stood at $1.202 trillion.[9])

Consequently, an overwhelming proportion of international financial transactions today have nothing to do with the actual production of useful goods and services. According to Noam Chomsky, Professor at the Massachusetts Institute of Technology and an internationally acclaimed scholar:

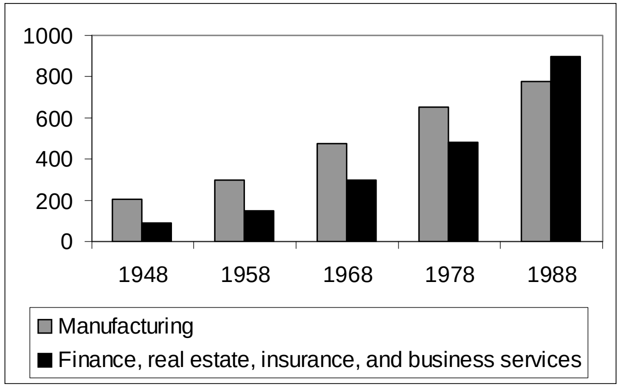
> *"In 1971, 90% of international financial transactions were related to the real economy – trade or long-term investment – and 10% were speculative. By 1990, the percentages were reversed, and by 1995, about 95% of the vastly greater sums were speculative… and very short term: about 80% with round trips of a week or less."* [10]

This lopsided expansion of speculative investment has completely transformed the capital structure of the developed capitalist countries. This is most dramatically highlighted by a comparison between the growth in capital stock in manufactures on the one hand and the broad finance category on the other in the world's biggest economy, the USA. Chart 7.1 reveals the heart of the story. **In 1948, the capital stock in manufacturing was almost 2-1/3 times larger than that of finance – by 1988, it was 14% smaller!** Although the capital stock in manufacturing had continued to expand, its growth rate had slowed down, while capital stock in the financial sector - finance, real estate, insurance and business services – had grown much more rapidly.

Clearly, the old structure of the economy in the advanced Western countries, consisting of a production system served by a modest financial adjunct, has given way to a new structure in which a greatly expanded

Chart 7.1: Net Capital Stock in Manufacturing and Finance

Billions of 1982 Dollars



Source : Editors, *MR*, June 1990, p. 7

financial sector – it should actually be called speculative sector now – has achieved a high degree of independence and sits on top of the underlying production system. Where is all this leading to?

Consequences

A speculative boom can only end in a bust! For instance, if the share prices artificially go up, sooner or later, they have to come down. Likewise, sooner or later, one or the other of the financial institutions or corporations indulging in speculative trading has to place its bets wrong and make enormous losses, possibly even go bankrupt. Because of the interlinkages of the various investors, it can lead to a chain of bankruptcies, threatening the stability of the entire financial system of not just the concerned country but also of the entire globalised world capitalist system. Indeed, there have been numerous occasions since the recession of 1973-75 when a financial implosion seemed to be on the verge of happening. The failure of Continental Illinois in the 1980s, the stock market crash of October 19, 1987, the collapse of Barings Bank in February 1995 (to name just a few of the more publicised instances) – all of these came close to touching off a full-fledged financial panic. Each time what prevented the scenario from unfolding as feared was prompt and massive intervention by financial authorities. For instance, at the time of the stock market crash of 1987,

the US Federal Reserve opened up its coffers to the threatened financial community, throwing tens of billions of dollars into circulation and promising more if needed.[11]

Yet, the financial explosion continues

Despite the possibility of a financial collapse looming large over their economies, Western governments have not been interested in putting the brakes on this explosion in speculative activity. Instead, they have been concerned with facilitating the expansion of the financial sector. There is a rationale behind this apparently strange behaviour. **The speculative boom has been an important force counteracting stagnation.** Not that it has done away with stagnation, but it definitely has contributed to preventing the stagnation from getting worse.

One reason for this is the sharp rise in rentier incomes of those classes associated with the financial explosion. This has acted as an important stimulus to increased consumption, particularly in the area of luxury goods and services. It is no secret that rising stock prices have played an important role in keeping the US economy growing at a healthy rate in recent times. (We've discussed this in Chapter 1.)

The second and more important reason is that the expansion of the financial sector has opened up significant opportunities for investment in information processing and communication equipment, in other words, in areas related to the information revolution. In fact, it would not be an exaggeration to say that the main force propelling the information revolution has been the financial explosion. The rapidly expanding financial sector has been the biggest customer for business computers and hi-tech communication equipment.

Consequently, each time the speculative boom threatens to go bust, the world's leading financial authorities are willing to pour out billions of dollars of taxpayers' money to put out the fire, but they are not willing to remove the inflammable material, that is, bring the financial explosion under control. Not only that, they have been in fact engaged in relaxing all regulations that inhibit the growth of the financial sector. The United States recently took an important step in this direction of far-reaching consequences. On October 22, 1999, all regulatory restraints on Wall Street's powerful banking conglomerates were revoked 'with a stroke of the pen'. Under the new rules ratified by the US Senate and approved by President Clinton, commercial banks, brokerage firms, hedge funds, institutional investors, pension funds and insurance companies can freely invest in each other's businesses as well as fully integrate their financial operations.[12] Other developed countries are sure to follow in the footsteps of the US. Undoubtedly, this deregulation will lead to rapid consolidation – a handful of giant speculative conglomerates will soon gain effective control over the entire financial sector in the US and other developed countries.

The new breed of global investors: Hedge Funds

To illustrate the nature of this new breed of investors (actually, speculators) who have come to dominate the economies of the developed countries, we discuss below one group which has come to occupy a most prominent position amongst them: the hedge funds.

Hedge funds are essentially huge pools of capital contributed by institutions and wealthy individuals that are handed over to a small circle of managers. These managers use this as equity to borrow heavily, borrowing up to $40 for every $1 they have, and then use the funds thus collected for speculative investments in the financial markets. (When such a huge fund invests heavily in the stock market, the possibility of it being able to influence the movement of the stock market greatly increases. It is like placing a bet and knowing in advance how the dice would fall.) The total number of such funds worldwide in 1995 was around 4700. In the US alone, there are over 3000 hedge funds, with an estimated $160 billion or more under management. Even if they borrow $10 for every $1 they have (taking a conservative estimate), this means they control over $1.5 trillion.[13] There are practically no regulations on the activities of these hedge funds. They move like lightning, take giant bets, and invest in nearly everything.

One of these hedge funds that recently came into the limelight was Long Term Capital Management (LTCM). It was one of the bigger hedge funds, and was managed by an apparently infallible team, led by Wall Street whizkid John Meriwether and staffed by Nobel Prize winning economists Myron Scholes and Robert Merton who had invented complicated mathematical models for explaining the behaviour of financial markets (they had won the Nobel Prize for their work; but then, how can you have a model to accurately predict the results of a gambling game?) – they were now using their brand image to make big bucks in the real world of finance. LTCM was able to raise around $3.5 billion from a few

wealthy individuals. It used this as collateral to borrow a hundred times that amount from banks and financial institutions. With over $350 billion to play round with, it undertook financial contracts in derivatives worth $1.25 trillion. To give an idea of what this means, $1.25 trillion is more than three times the size of the Indian economy. Even though these 'whiz-kids' were playing around with such astronomical sums, the US authorities did not consider it worth their while to regulate the functioning of LTCM.[14]

For a while, investors in this hedge fund earned impressive returns on the money they had lent. But it was too good to last. No model can fully predict the ups and downs of a financial market that is dominated by speculators. In 1998, the calculations of Scholes & Merton failed and the fund made huge losses. By early September 1998, the fund was on the verge of collapse.

On September 23, 1998, the US Federal Reserve mobilised 16 banks to come to the rescue of LTCM. They pumped in a total of $3.5 billion to keep the hedge fund afloat. Justifying the bailout, Federal Reserve Chairman Alan Greenspan told the US Congress, "Had the failure of LTCM triggered the seizing up of markets, substantial damage could have been inflicted on many market participants… and could have potentially impaired the economies of many nations, including our own." Some of the world's most prestigious banks had invested in LTCM, including UBS of Switzerland (Europe's biggest bank), the Bank of Italy (the country's central bank), Sumitomo Bank of Japan, Dresdner Bank of Germany and the US investment bank Merrill Lynch.[15]

Globalisation of the world economy has enabled such financial rogues to dominate the world's financial markets!

II. OPENING UP THE THIRD WORLD TO SPECULATIVE CAPITAL INFLOWS

In the late-1980s / early-1990s, the third world countries began to open up their economies to speculative capital inflows – to stave off a worsening BoP crisis. Consequently, the financial explosion in the Western capitalist countries has become globalised. Giant speculative conglomerates – who have been given the glorified name of foreign institutional investors or FIIs by the media apologists – have come to dominate the economies of the third world countries too.

We now take a look at the consequences of this development.

i) THE FPI WHIRLPOOL

Once a third world country opens up its economy to foreign portfolio capital investment (FPI), it gets addicted to it. That is because FPI also drains out profits. Consequently, just as in the case of FDI inflows discussed earlier, the country gets caught in an FPI-inflow-profit-outflow trap. It's economy needs an ever increasing volume of FPI, that is, speculative capital inflows, to stay afloat. There are, however, two important differences between the impact of FDI flows and the impact of FPI flows on the economy of a third world country.

Firstly, portfolio investors operating in third world countries expect much higher rates of return than do investors in the FDI segment.[16] Therefore, the dependency trap in the case of FPI inflows tightens much faster than in the case of FDI inflows. A simple mathematical exercise will explain this.

Just as in the case of the calculations carried in Chapter 3 to explain the functioning of the FDI-inflow-profit-outflow trap, we assume that: the third world country obtains FPI each year of $1000, and that the annual rate of return is 30% (we had assumed a 20% rate of return for FDI in the previous calculation). While in the case of FDI flows, the net inflows turned negative in the 6th year, table 7.3 demonstrates that in the case of FPI flows, the net inflows become negative in the 4th year itself. Which means that the dependency of the third world country on foreign capital inflows for its economy to stay afloat becomes more acute in this case.

Table 7.3: Net FPI Inflow if $1000 is Invested Each Year

Annual Rate of Return on Investment is 30%

Year	New Investment (1)	Profit Repatriation on Accumulated FPI (2)	Net Inflows (1)-(2)
1st	1000	300	700
2nd	1000	600	400
3rd	1000	900	100
4th	1000	1200	-200

Secondly – and this is more significant – FPI flows are fickle. Portfolio

investors do not invest in real assets, but in financial instruments. They make their profits because of their ability to shift large sums of money at lightning speed. The development of information technologies and the linking up of the world's financial markets has made it possible for them to transfer billions of dollars in and out of a country at the tap of a computer key. In contrast, investors in the FDI segment cannot move their capital as quickly – it takes time to sell a factory. Consequently, FDI flows are more stable and long term.

Third world countries obviously seek FDI flows in preference to FPI flows. But there is a limit to which a third world country can absorb FDI, because sooner or later its market has to saturate. Therefore, as the outflows on account of profit remittances rise and its external BoP crisis worsens, it has no option but to turn to FPI to keep its foreign exchange reserves healthy. In any case, in a situation where the global economy is dominated by speculators, these countries are arm-twisted by their international creditors to remove all barriers to speculative capital flows.

But that only leads to even faster outflows. It's like getting caught in the vortex of a whirlpool – you get more and more sucked in, at a faster and faster rate. As a third world country's external balance of payments deficit worsens, speculators start getting worried. All of them know that if the country is unable to attract fresh investment, its forex reserves would decline and they will not be able to remit their profits. But because of this very reason, because the risks of investment have increased, attracting fresh investment becomes increasingly more difficult.

As the situation deteriorates, it requires but an excuse to trigger an exodus. Any economic setback, howsoever small or transient, can serve as the catalyst for the outflow to begin. In no time, the outflow gets transformed into a deluge. Speculators race with each other to get out – it's like a run on a bank. Firstly, because as the outflows increase, the crisis-ridden country's currency devalues, and the value of the holdings of the foreign investors fall, causing losses. The more the outflow, the more the devaluation, and so the greater the losses of those foreign investors who have not yet pulled out. Secondly, once the hapless country's forex reserves vanish, as they soon do, the investors who have not yet pulled out cannot do so now.

Therefore, once the outflow begins, there is no stopping it – till the third world economy collapses.

During the 1990s, the economies of a very large number of third world countries became victims of such a financial collapse caused by volatile capital outflows. The first country whose economy was thus devastated was Mexico in end-1994. After that, the arc of financial destruction moved to Brazil in 1995, South Africa in mid-1996 and Eastern Europe in early 1997,[17] before striking East Asia towards the end of 1997. Despite whatever the corporate media and the servile intellectuals are saying about the reasons for the collapse of the East Asian economies, this was the real reason for the collapse of "the most sustained and widespread development miracle of the 20th century, perhaps all history" (described thus by the United Nations Development Programme (UNDP) only a year before the collapse of the East Asian 'miracle'[18]).

All the facts about the Indian economy point to the inescapable conclusion that it too is trapped in a FPI-inflow-profit-outflow whirlpool and is headed for a similar collapse. "So what", the capitalist pen-pushers will argue, "all those economies which had collapsed have been nursed back to health by the IMF which swiftly intervened and provided bailout funds."

So, before discussing the present state and the future prospects of the Indian economy, we first discuss the chronology of economic developments that led to the collapse of the Mexican economy in 1994 and the meltdown in East Asia in 1997 – the two cases wherein the crisis was the most severe - and their subsequent so-called 'recovery' following IMF intervention.

ii) THE FINANCIAL COLLAPSE IN MEXICO IN 1994

The Background

The revolution that swept across Mexico in 1910-20 was a volcanic social eruption of all the pent-up fury of peasants, landless agricultural labourers, urban workers, middle classes, intellectuals and students who hungered for justice, liberty, land and bread. The new constitution of 1917 was probably the most advanced constitution in the capitalist world at that time. Hopes ran high among the masses. The new classes that came to power carried through some progressive economic, social and political reforms. They implemented what was in essence a capitalist development model, wherein: the great Mexican landed estates ruled over by absolutely parasitic feudal landlords were broken up and land distributed among the peasants (thus decisively ending Mexican feudalism); legislation was implemented to restrict imperialist capital investment; numerous foreign companies controlling vital Mexican assets – including the foreign oil companies - were expropriated; federal investment in public works was

expanded; and a serious attempt was made to develop Mexico's internal market. It laid the foundations for nearly half a century of growth.[19]

But then, as we have discussed earlier, there are limits to capitalist development in the third world countries. It is simply not possible for them to duplicate the development model of the US, Europe and Japan, which is based on massive plunder of the rest of the world (today called the third world).

During the second half of the 20th century, the Mexican economy gradually sank into a structural crisis. To keep the economy growing, that is, to stimulate production and thereby raise profit levels, the Mexican ruling classes now gradually began to open up the economy to foreign, mainly US, capital investment.[20] This led to a rapid increase in profit outflows out of Mexico – they went up from $ 2.2 billion in 1976 to $ 8.9 billion in 1981. The economy also became dependent on import of capital intensive technology to keep the industry running. Imports shot up, and the trade deficit widened to $ 4.2 billion in 1981.[21] Consequently, the balance of payments deficit of Mexico worsened with each passing year, and this called for fresh borrowing from international bankers every year. This meant that debt service payments also rose with each passing year, driving the economy into a 'debt trap' – despite the increased borrowing, the net capital inflows into Mexico gradually turned negative!

In 1982, the debt bubble burst. Mexico's external BoP deficit had topped a whopping $14 billion the previous year, and hence its external debt rose to $80 billion (in 1982). Only a huge increase in external borrowing could have kept the economy afloat, but this time the bankers, anticipating the perils, were unwilling to oblige. In August 1982, the Mexican economy collapsed, Mexico announced its inability to repay its creditors.[22]

Economic Reforms, Globalisation: 1982-1994

Mexico was forced to approach the IMF for a loan to tide over the crisis, and in return, accept an economic programme whose essentials were: removal of restraints on foreign capital inflows, and removal of all barriers to imports.[23] In other words, a further acceleration of the same policies which had led to the crisis in the first place! The only difference was: now, instead of approaching foreign bankers for loans to cover its external BoP deficits, Mexico was to implement policies to attract investment by foreign MNCs.

The other part of the economic reform package called for a massive 'austerity' programme. One of its aims was to curb domestic demand so that domestic producers are forced to export, thereby enabling the country to register a trade surplus and thus repay its international creditors. Towards that end, government expenditures were to be sharply cut, and prices of all goods and services provided by the government were to be raised. Of course, as we have discussed earlier, the burden of this austerity was to be borne exclusively by the poor and the middle classes.[24]

The Mexican ruling classes implemented these policies vigorously. In order to lure foreign investments into the country, they undertook a massive privatisation drive – as we have discussed in Chapters 3 & 4 earlier, privatisation essentially means handing over the country's most important productive assets to foreign MNCs at cut-rate prices. Two-thirds of Mexico's vast public sector was privatised over the next decade.[25] Many of these privatised firms were bought by foreign investors. Foreign investors were allowed to purchase agricultural land too. Large US corporations like Ralston-Purina acquired large land holdings, driving out large numbers of peasants into urban slums.[26] Consequently, foreign investment in Mexico rose from $10 bn in 1980 to $50 bn in 1992.[27]

Simultaneously, the Mexican government dismantled all the remaining restrictions on imports. The trade deficit rose skywards, to touch $30 billion in 1994.[28]

In consequence, foreign exchange outflows increased on account of increased profit remittances by MNCs plus the widening trade deficit. Inevitably, in order to keep its forex reserves at a healthy level and thereby send reassuring signals to foreign investors, during the early 1990s, Mexico was forced to scrap all capital account controls and allow speculative capital inflows. Foreign investment in Mexico's stock markets soared from $1 billion in 1988 to $28 billion in 1993.[29]

The globalisation of the Mexican economy tremendously benefited the Mexican elites. Over the decade 1984-94, the incomes of the top 10% of the population went up not just relatively but also absolutely – by an astounding 22.3% and 20.8% respectively (see table 7.4)! Privatisation of public sector undertakings like telephones and television transformed the Mexican collaborators of foreign investors into billionaires overnight. By early 1994, Mexico had no less than 24 billionaires (in dollar terms).[30]

On the other hand, the harsh austerity measures had catastrophic consequences on the living standards of the ordinary people. Between

1980 and 1990, real wages went down by 40%.[31] By early 1994, unemployment and underemployment affected 50% of the people.[32] The government had been more than successful in cutting its expenditures; President Carlos Salinas proudly announced in his November 2, 1994 address to the nation: "This year, we will achieve the goal of a balanced budget. For the third year in a row, there will be no fiscal deficit."[33] The result: social services for the masses in health, education and housing became grossly inadequate.[34]

As a result, while the top 10% of the population prospered, the relative share in national income of the rest 90% of the population declined over the period 1984-94, meaning that inequality sharply increased. What is more worse, there was also an absolute decline in income of every decile of the Mexican population, except for the richest 10% whose incomes rose by 20.8% as mentioned above. The decline was steeper for the poorest sections (table 7.4).

Table 7.4: Distribution of Household Monetary Income in Mexico 1984 AND 1994

	1984	1994	PERCENT CHANGE	
			RELATIVE	ABSOLUTE
Poorest 10%	1.30	1.01	-22.3	-23.2
Second 10%	2.68	2.27	-15.3	-15.9
Third 10%	3.76	3.27	-13.0	-11.9
Fourth 10%	4.92	4.26	-13.4	-14.4
Fifth 10%	6.20	5.35	-13.7	-14.7
Sixth 10%	7.84	6.67	-14.9	-15.9
Seventh 10%	9.81	8.43	-14.1	-15.0
Eighth 10%	12.77	11.20	-12.3	-13.3
Ninth 10%	16.96	16.30	-3.9	-5.0
Richest 10%	33.76	41.24	+22.3	+20.8
Total	100.00	100.00		

Source: James W.Russell, *Monthly Review,* December 1997, p.30

Mexico in the early 1990s was an acclaimed third world star. MNCs, international bankers, IMF-WB, the US government – all were ecstatic in their praise for Mexico's free market reforms. It had opened up fantastic new investment opportunities for Western capital; the accompanying marginalisation of large sections of the Mexican people was of no concern for them.

In 1994, Mexico was made a member of the Organisation for Economic Co-operation & Development (OECD), the club of the world's richest countries. The IMF wholeheartedly praised Mexico and other Latin American countries for scrapping capital account controls. In its report, *World Economic Outlook, May 1994*, it stated that the resulting surge in portfolio capital flows to these countries in the early 1990s "reflect(ed) the positive economic developments in many of the countries."[35] The World Bank felt Mexico was "expected to sustain big improvements in performance" and that Mexico's experience "shows that it takes almost a decade of consistent progress after the initiation of reforms for the potential gains in GDP growth to be realised."[36]

On November 2, 1994 (that is, just weeks before the Mexican economy collapsed once again), Mexico's outgoing President Carlos Salinas in his final State of the Nation address declared:

> *"For the first time in a quarter of a century, Mexico is beginning a phase of economic expansion that is not supported by excessive indebtedness or an artificial increase in demand. The healthy nature of this recovery will make it possible to sustain growth over the long term without generating inflationary pressures."* [37]

The Financial Meltdown in 1994

In the midst of all this back patting and euphoria, on the ground, the relentless logic of globalisation was unfolding itself. As Mexico's current account deficit worsened – which was inevitable – foreign investors started feeling uneasy. Then, in early 1994, the USA started raising its interest rates in response to its own internal economic problems. A few investors now began to withdraw from Mexico to the safer haven of the world's biggest economy. As a result, Mexico's foreign exchange reserves began to decline – they fell from $26 billion on January 1, 1994 to $17 billion on November 1, 1994. The remaining investors now started becoming increasingly nervous. As we have discussed earlier, in these circumstances, it requires but an excuse for the trickle to turn into a deluge. The full-scale exodus began in December 1994 and by January

30, 1995, Mexico's forex reserves had fallen so low that there was a prospect of default on payments within the next 48 hours.[38]

The Bailout Package and the Subsequent Recovery

It was not just the Mexican ruling classes who were panic-stricken following the meltdown. The US was equally worried – since a very large portion of the foreign investments in Mexico were by US investors, which were now endangered. If these firms lost their money in Mexico, not only would they go bankrupt, the ensuing panic could engulf the international financial markets. So, the US and the international financial institutions moved in quickly to limit the damage and prevent the crisis from spreading. The Clinton administration took the initiative to organise an aid package totaling $47.8 billion, of which the US contributed $20 billion.[39]

Just over a decade after the imposition of the 'structural adjustment reforms' on Mexico following the debt crisis of 1982, the Mexican economy had collapsed again. Once again, default was avoided because of quick money provided by the US and the international financial agencies. Once again, stringent conditionalities accompanied the aid package - Mexico was arm-twisted into accepting yet another round of 'economic restructuring'.

While on paper it was Mexico that was being rescued, in reality, it is the US fund managers who were being bailed out, just as it had been the US bankers who had been bailed out in 1982 at the time of the Mexican debt crisis. In the real world economy today, free market economy is only for the small fry. The big speculators operate in a risk-free environment; if they miscalculate and misjudge and their investments are endangered, the hegemonic powers and the international aid agencies under their control are there to organise a rescue.

The bailout funds restored the confidence of the international investors and funds started flowing back to Mexico. Additionally, the conditionalities imposed on Mexico provided a bonanza for these global fund managers by opening up exciting new investment opportunities for them. Mexico was forced to agree to a further privatisation of its public sector - including basic infrastructural industries like telecommunications, electricity generation, rail and ports – and not impose restrictions on the sale of these assets to foreign investors as it had done earlier. The most visible impact was on the banking sector, which had so far been kept out of the reach of foreign investors:[40] within just a year, foreign investors picked up sizable stakes in some of Mexico's biggest banks.[41] This time, even the vital petroleum sector was not spared: on May Day 1995, Mexico's Congress passed a law allowing private investors into the transportation, storage and distribution of natural gas – it was the first time private investors had been allowed into the petroleum sector ever since its nationalisation in 1938.[42]

The entire orientation of the Mexican economy was changed towards boosting exports. Foreign manufacturers were allowed to set up duty-free export oriented assembly shops near the US border in a big way.[43] In these 'maquiladora' factories, workers rights are curtailed, and they work in abysmal conditions.[44] Consequently, Mexico's exports rose 30% in 1995 and Mexico registered a $7.4 billion trade surplus in that year.[45] The conditionalities also ensured that repayments of the bailout loan became the first charge on Mexico's external accounts. Mexico agreed to earmark all of its oil export revenues and most of its other export revenues to service foreign debt.[46] To ensure this, the bailout package carried a remarkable provision: **the foreign buyers of Mexico's oil exports were to make their payments directly to a US bank, the Federal Reserve Bank of New York!**[47]

In September 1996, barely two years after the near-default situation, Mexico repaid three-quarters of the loan provided to it by the Clinton administration. Investor confidence in Mexico had been revived, MNCs and international speculators were once again pouring their funds into Mexico, and its forex reserves had started to rise once again. The international investing community was jubilant at this rapid turn of events. The US treasury secretary Robert Rubin described Mexico as a "model case" of recovery and held it out as an example for others.[48]

At the same time, the conditionalities have led to even greater inequality and driven large sections of the masses – already suffering from 12 years of austerity – into abysmal poverty. Real wages, which had not yet recovered to the levels of the early 1980s, collapsed again in 1995 and lost a third of their purchasing power in a single year.[49] Unemployment has risen to horrifying levels, more than 7 lakh jobs were estimated to have been lost within just 2 months after the new set of reforms began.[50] Government spending on the poor, already at dismal levels, has become practically non-existent. According to a report by Vijay Prashad, Assistant Professor of International Studies at Trinity College, Connecticut, USA, in the Chennai-based fortnightly *Frontline* in its issue of July 30, 1999: "Since 1994, Mexican state spending on the social side of the ledger (principally

health, education and social security) decreased by 40%."

The impact on the people is of no consequence. The Mexican ruling classes and their international creditors are euphoric about Mexico's 'recovery'. But this recovery is wholly illusory, as it does not at all tackle the underlying cause which had led to the financial collapse – Mexico's dependence on capital imports to keep its economy afloat. On the contrary, the conditionalities imposed on Mexico and willingly accepted by the Mexican elite have only served to increase this dependency: because as more and more Mexican assets are taken over by foreign capital, concomitantly, the profit outflows also increase, making Mexico yet more dependent on capital inflows to keep its forex reserves at healthy levels. Worse still, the second round of reforms have made Mexico yet more dependent on portfolio capital inflows for its economic revival. That is because the austerity measures have drastically reduced the purchasing power of the people, thereby constricting Mexico's internal market, and thus limiting the scope of expanding foreign direct investment in Mexico. It is the outflow of FPI that had precipitated the crisis in December 1994. It can flow out yet again, at the tap of a computer key.

Mexico is well and truly trapped in the vortex of the FPI whirlpool.

iii) COLLAPSE OF THE EAST ASIAN 'MIRACLE', AND ITS SUBSEQUENT 'RECOVERY'

Till before their economies collapsed in end-1997, East Asia had been the most rapidly growing, really the only rapidly growing area of the world economy for the previous two decades. During those boom years, economic pundits, media intellectuals and global investors had been singing the praises of the 'Asian Tigers'. The World Bank basked in the glow of its 1993 report, *The Asian Miracle*. Throughout ruling circles worldwide, the Asian model was touted as proof that open markets and the free flow of capital would be the salvation of humankind.

Then, all of a sudden, towards the middle of 1997, the miracle began to unravel. The meltdown began in Thailand in May-June 1997. After that, it quickly spread to the rest of the South-East Asian countries, humbling even South Korea.[51] By New Year 1998, the crisis was daily front-page news for the world's newspapers; *Business Week* (the US economic weekly), in its January 26, 1998 issue, called it "the biggest threat to global prosperity";[52] and the US Federal Reserve Chairman Alan Greenspan was warning that the crisis could spread to other regions and large investments were needed to prevent turmoil which was approaching panic.[53] The IMF quickly moved to prevent the spread of the Asian 'flu' and announced rescue plans in eye-popping quantities: bailout packages totaling over $100 billion were announced, including a record $57 billion for South Korea, and more was promised if needed.

All kinds of explanations are being offered for the crisis. The IMF claimed that the crisis was caused due to insufficient liberalisation.[54] The World Bank has attributed it to 'premature' financial liberalisation (implying that financial liberalisation is all right) and inadequate supervisory and regulatory institutions,[55] while the business press has variously described it as being due to corruption, crony capitalism or overly regulated markets.

However, **till a few months before these economies collapsed, they were being hailed as success stories of 'globalisation' and 'liberalisation'** by these very institutions, no one was questioning their regulatory mechanisms, and everyone was turning a blind eye to their 'crony capitalism'. The IMF praised Bangkok for its "consistent record of sound macroeconomic management,"[56] while the World Bank exulted, "Thailand provides an excellent example of the dividends to be obtained through outward orientation, receptivity to foreign investment, and a market-friendly philosophy backed by conservative macro-economic management and cautious external borrowing…"[57] Likewise, it was only after a careful review of South Korea's economic 'fundamentals' and glowing letters of recommendations from the IMF and World Bank that it was given the membership of the OECD – the exclusive club of high income, industrialised countries – in 1996, one year before the South Korean economy collapsed.[58]

Clearly, the answers lie elsewhere. For that, we need to delve into a bit of history.

The Background to the 'Miracle'

We have discussed in Chapter 2 the reasons for the growth of the East Asian economies. We repeat the main points of that discussion below, to emphasise the point that the development of these third world countries was due to special historical circumstances.

The US had supported, and sometimes directly installed, authoritarian regimes in all these countries in the post-1945 years and had turned a blind eye to their 'corruption' and 'crony capitalism' - because these regimes were willing to side with the US in the Cold War. These regimes, with the

active help of the US, simply massacred the anti-imperialist and anti-capitalist movements in these countries. They provided safe military bases for the US. Thailand also provided bases for 'rest and relaxation' for the US troops – that is the origins of South-East Asian sex tourism.

Since these regimes were close to the borders of the Soviet Union and China, and people in these countries had powerful anti-imperialist sentiments, it was necessary to help these economies to grow: firstly, to help these regimes gain legitimacy in the eyes of their own people; and secondly, in the ideological battle with the opponents of capitalism just across the borders of these countries (especially Taiwan and South Korea), to showcase these economies as models of capitalist development. So, these countries were provided very high levels of foreign aid, amounting to a significant share of their capital imports.[59]

These dictatorships actively intervened in the economy to promote growth. Local firms were protected from foreign competition, low cost capital was channelled to them to enable them to rapidly grow, and labour costs were held down by repressing trade unions. Foreign banks were prevented from either entering or playing a major role in the economy. These measures enabled these countries to rapidly industrialise.[60] Since the local markets were limited, these countries depended heavily for their growth on foreign markets – and the US, and more reluctantly, its West European allies, willingly allowed growing net exports of these countries into their markets for geo-political reasons.[61]

The Unraveling of the 'Miracle'

By the late 1980s, with the collapse of the Soviet Union and the restoration of capitalism in China by China's new leadership, the international situation had changed. The geo-political reasons because of which the Western powers had propped up these regimes no longer existed. The US now began to pressurise the East Asian countries to open up their markets to foreign investment (we have discussed this with examples in Chapter 2).

In the early 1990s, all these countries, including South Korea, Thailand, Indonesia and Taiwan, began to open up their financial markets to global capital flows and move towards capital account convertibility – as a quid pro quo for keeping open developed country markets for their exports. Domestic corporates, banks and non-banking financial institutions were allowed to freely access international markets, without any commitment to earn the foreign exchange needed to service the costs of such access.[62]

Foreign capital saw quick profits to be made in East Asia: while the rest of the world economy was suffering from low growth, these economies were booming; and exports of these countries were competitive in international markets, guaranteeing high returns.

Capitalists are always on the lookout for new investment opportunities. The moment one presents itself, the logic of competition drives all of them to rush to invest in a big way – ultimately leading to over-investment! The opening up of East Asia provided them with a golden investment opportunity. Capital literally poured into East Asia. By 1994, East Asia was the destination of more than half of all investment flows to developing countries.[63] Auto, steel, electronics, computer chips, fibre optic plants were built pell-mell in the expectation that cheap labour, easy financing, business-friendly governments with draconian labour regulations would guarantee good rates of return for years to come. Investment rates in these economies reached extremely high levels of as much as 35% of the GDP and even more. This was more than three times the average ratio in the OECD countries, almost twice as much as in Latin America and substantially more than in South Asia.[64] Exports zoomed. In fact the rapid growth of GDP in these countries was heavily dependent on exports. Not only South Korea, but also the other Asian countries had very high export to GDP ratios: for Thailand, Indonesia and Malaysia, these ranged, on an average, around 36%, 25% and 85% over 1990-96.[65]

Sooner or later, the party had to end. Once the boom reached its limits, the results were predictable: enormous excess capacity, and severe problems of profitability. From autos to steel to computers, every sector was plagued by **overcapacity**. Take the case of dynamic random access memory chips (DRAMs). The oversupply of DRAMs reached roughly 18% in 1998, as compared to zero in 1995, leading to a devastating collapse of prices. Prices of 64-megabit DRAMs plummeted from $60 in early 1997 to $20 by the end of that year, and were as low as $8 in 1998. This proved to be especially damaging for South Korea, which controlled 40% of the global DRAM market.[66] In the case of the automobile industry, Hyundai & Daewoo continued to pursue massive expansion plans, despite worldwide overcapacity: by 1998, global excess capacity was around 21-22 million cars, which amounted to roughly 36% overcapacity relative to world markets, the equivalent of 80 efficient state-of-the-art plants.[67] Obviously, this couldn't go on indefinitely.

The result of this global saturation was that the export boom began to peter out. Most East Asian countries began to experience a decline in their exports from roughly mid-1995 / early-1996.[68] The problem was worsened by two other factors. One: in order to boost its exports, China massively devalued its currency in 1994. Consequently, China's exports began to cut into the exports of other Asian producers.[69] Two: Western countries began to impose curbs on East Asian exports. (We have discussed the reasons for this in Chapter 2.)

As the saturation deepened and profitable investment opportunities declined, capital began to flow into stock and real estate markets. Prices started climbing, yielding high returns, leading to more capital inflows. It ignited a massive construction boom. With international lenders willing to lend – they saw great profits to be made in East Asia – local manufacturing and construction companies borrowed heavily abroad to invest in skyscrapers, highways, airports and luxury hotels. The boom generated the incomes to keep domestic demand growing at relatively high rates and also led to high GDP growth rates.[70]

East Asia's upswing acquired all the classic characteristics of a speculative boom. Yet the ruling classes did nothing to discourage it. The reason: they had no option! While profit outflows on account of the FDI inflows of the past years were rising with each passing year, fresh FDI inflows were floundering – due to declining productive investment opportunities; the BoP situation was made worse by the declining export incomes; consequently, to keep their economies afloat, **they had no alternative but to encourage speculative capital inflows.** However, the more the speculative inflows, the more the profit outflows – these economies were now trapped in the FPI-inflow-profit-outflow whirlpool.

The speculative balloon needed but a pinprick to burst. It was inevitable that some investors would realise that the economies of these countries were getting increasingly fragile, and would decide to pull out. This began in South-East Asia's weakest link, Thailand: it had borrowed more than the others in the region (as a proportion of its GDP); the proportion of its borrowing which had gone into property speculation was also very high.[71] Once kick-started, the process snowballed, engulfing other countries with 'stronger' economic fundamentals and greater foreign exchange 'reserves'. Whereas private capital flows into South Korea, Indonesia, Malaysia, the Philippines and Thailand had nearly quintupled between 1990 & 1996, soaring from $20 billion to $95 billion per year, in 1997 these countries experienced a net outflow to the tune of $20 billion.[72]

We have discussed earlier in this chapter that **as the BoP situation worsens, foreign investors need but an excuse to pull out**. All of a sudden, foreign investors 'discovered' that some or the other 'fundamentals' of each of these economies was weak. Till only a year before the crisis broke, even though Thailand was running a high current account deficit (8% of GDP, as compared to 2.0 for India today), and its export growth had slowed down from 27 to 6 per cent, both the IMF and the WB had been showering accolades on it.[73] Even after the Thai economic collapse was underway, in the summer of 1997, economists at the World Bank, the IMF, and a number of foreign banks had all proclaimed the fundamental soundness of the Indonesian economy. No Thai-type problems were to be expected there. A month later, capital flight began there too, pushing Indonesia to the edge of catastrophe. The same august bodies now declared that it was the $80 billion Indonesian debt to blame.[74] Likewise, after the South Korean economic collapse, analysts put the blame on the excessive borrowings of the chaebols – South Korea's industrial conglomerates. These same 'hired prize-fighters' had been willing to give recommendation certificates to South Korea just one year earlier – when the debt to equity ratio of these chaebols had topped 400%.[75]

Clearly then, foreign investors did not exit from these economies because of 'adverse' economic fundamentals, but because the investment boom had come up – as was inevitable – against capitalism's inherent contradiction, that **every profit-centred investment and production boom has to end in overproduction**. As productive investment opportunities dried up, foreign capital began to flow into speculation – but then again, **every speculative boom has also to end in a bust**.

Following the collapse, the other contradiction inherent in globalisation now began to unfold itself. The globalising world capitalist economy is dominated by the imperialist powers, who are always on the lookout for opportunities to increase their domination over the world's resources and wealth. In such a world economy, there are limits to capitalist development in third world countries. When these underdeveloped countries seek to overcome these limits by globalisation, that is, by seeking to develop with the help of imperialist capital inflows, it can only lead to economic colonisation of these countries – actually, re-colonisation, since these countries had earlier been the colonies of the imperialist powers.

What is economic colonisation for the people is economic 'recovery'

for the ruling classes and their sycophants – the media intellectuals and economists. Let us now take a look at the bailout conditions imposed by the IMF and the subsequent 'miraculous recovery' of these economies.

The Bailout Strategy

Following the collapse of their economies, all these countries, after resisting to varying degrees, eventually turned to the IMF for relief.

The bailout strategy adopted by the IMF was the same as the one it had adopted in Mexico in 1994-95 and which was said to have worked successfully there. It had two parts. The first part of the strategy was to announce an aid – in reality, a loan - guarantee so large that investors get reassured that come what may, they will get their money back. This has the effect of stopping the panicked withdrawal of capital from the crisis-affected economy. Investors, reassured by the scope of the action, return to the debtor economy. The speculators are thus rescued. Meanwhile, the debtor nation is forced to agree to a structural adjustment programme – so as to ensure that the 'aid' is repaid with interest. This essentially seeks to drastically lower the consumption levels of the people by producing devastating levels of unemployment and forcing wages down. The domestic producers are then forced to export since the internal market is sharply reduced. The resulting forex earnings enable the country to repay its debt. This had worked 'remarkably' well in Mexico – as we have seen earlier.

The second part of this strategy was to force open the markets of the debtor countries to yet more foreign capital inflows – both FDI & FPI; and also pressurise these countries to sell off their valuable domestic assets to foreign investors – this serves to provide an 'incentive' to foreign investors to bring their capital into these crisis-ridden economies. The crisis thus provides an opportunity for the MNCs of the United States and other imperialist powers to buy corporate assets of these countries at fire-sale prices, and thus further increase their grip over the global economy.

In fact, the conditionalities imposed on these countries were actually drafted in close consultations with the world's largest banks and brokerage houses! For instance, the 'big six' Wall Street commercial banks (including Chase, Bank America, Citicorp & J.P.Morgan) and the 'big five' merchant banks (including Goldman Sachs, Lehman Brothers & Morgan Stanley) were consulted on the clauses to be included in the IMF-Korea bailout agreement.[76]

Strategy One: Consume Less, Export More -

As discussed in the previous section, the boom in East Asia in the early 1990s had been artificial – it had been fuelled by massive foreign capital inflows. Once these economies became afflicted with the disease that is a characteristic peculiarity of capitalism, "an epidemic that, in all earlier epochs, would have seemed an absurdity – the epidemic of overproduction", foreign capital exited. Overnight, a wave of plant closures and mass layoffs swept across the region. The IMF-imposed austerity measures, like forcing governments to cut public expenditures, further sharpened the economic contraction. It wrecked havoc on the lives of millions. In South Korea, corporate insolvencies, that had averaged around 3500 companies a quarter during the first three quarters of 1997, shot up to 9500 during the first quarter of 1998.[77] The Indonesian economy went into a state of near-total collapse, and by the middle of 1998, a mere 22 of the 282 companies on the Jakarta stock exchange were viable.[78] These bankruptcies resulted in a severe deterioration in the balance sheets of East Asian financial institutions, forcing governments to siphon funds into the financial system.[79] Many went into liquidation. In Thailand alone, 56 domestic banks and financial institutions were closed down on the orders of the IMF.[80]

This led to soaring levels of joblessness. According to a write-up by David McNally, who teaches political science at York University, Toronto, in the September 1998 issue (pp.1,6) of the famed New York journal *Monthly Review*,

> *"Every day, 10,000 South Korean workers receive layoff notices – 300,000 per month… More than five million Indonesian workers have been laid off since July of last year. The country's jobless number is likely to hit 20 million by the end of 1998, by which time nearly three million will be unemployed in Thailand, almost two million in South Korea, and a million in Malaysia alongside 1.5 million migrant workers facing expulsion."*

20 million jobless Indonesians by end-1998 – that figure represents 22%, or more than one-fifth of Indonesia's workforce; compare that to Indonesia's jobless rate of about five per cent before the crisis erupted in June 1997.[81] In South Korea, which had attained virtually full employment during the boom period of 1991-95, the official rate of unemployment had risen to 8% in May 1999, and if one took into account the 'disappointed'

who had given up looking for jobs, the rate was 10%.[82]

In concert with layoffs has gone the destruction of living standards. David McNally writes in the above mentioned article (pp.6-7):

> *"Between August and December of last year, average incomes were halved in South Korea. That pales beside what's happened in Indonesia where the annual per capita income has plummeted from $1200 to $300. In Surabaya, the country's largest industrial city, the daily minimum wage has collapsed to less than thirty cents from two dollars a year ago. And this at a time when, as a result of the dictates of the IMF, food and fuel subsidies are being eliminated and prices are soaring. By year's end, the number of people living below the poverty line will double to 58 million. And Indonesia is by no means alone. In Thailand, prices of rice and flour jumped 47% in February, spelling a calamity for the poor. More than simply shifts in trade and investment figures, the economic crisis in East Asia is fundamentally about soaring poverty, unemployment, malnutrition and rates of disease. Relief workers in Indonesia report that many mothers, no longer able to afford milk which has tripled in price, are feeding their babies with tea. Rates of malnutrition and school dropouts are soaring. Young women have been particularly hard hit, as factories and stores close and girls are pulled out of schools. In Thailand, the crisis means that thousands more rural families will feel the pressure to sell their daughters into prostitution in Bangkok where, some experts suggest, as many as one million young women work in the sex trade…"*

The large-scale plant closures and the precipitous decline in the living standards of the people produced the desired results: it led to a sharp constriction of the domestic markets of the East Asian countries. Consequently, imports fell, while exports rose as domestic producers went all out to tap foreign markets to escape the recession at home. As in the case of Mexico in 1995, the IMF succeeded in artificially engineering a trade surplus in the crisis-ridden East Asian economies, enabling them to pay-off their international creditors. In South Korea, the severe recession caused imports to decline by almost 36% in 1998. On the other hand, the austerity measures forced down real wages and labour costs, making South Korean exports extremely competitive. South Korean enterprises drove into the export markets with renewed vigour. The government made special credit lines available to exporting firms. This resulted in a 30% rise in export volumes.[83] And so, South Korea's current account deficit, which had stood at $23 billion in 1996 and $8.2 billion in 1997, was transformed into an astonishing surplus of $40 billion in 1998![84] (Actually, South Korea's export earnings in 1998 had fallen in dollar terms despite the rise in volumes, because of the sharp depreciation of the currency, but the import contraction had been much more, hence the surplus.[85]) Likewise, Thailand, which was running a current account deficit of around 8% of GDP in 1996, registered a surplus of $14.3 billion in 1998.[86]

Strategy Two:
Creating Conditions for Increased Capital Inflows -

The IMF also succeeded in its other, explicit, aim of forcing the East Asian countries to put up their assets for sale to foreign investors. Even Korea had to concede, in negotiations with the United States and the IMF, that it would allow foreign investors control over Korean companies and banks, something it had steadfastly refused to do until forced to its knees by the financial crisis.[87]

The foreign investors were presented an unprecedented investment opportunity. With East Asian business groups reeling under a mountain of debt, their assets were on sale at bargain prices. On top of it, the massive depreciation of the local currencies made the prices of these assets even more attractive in dollar terms. Once again, the profligate global fund managers had not only been rescued, they had also been provided a bounty!

Thus, in the case of South Korea, by mid-1998, its stock market had fallen by over 40% and its currency had lost over half its value against the dollar. Consequently, the prices of its assets in dollars were at about two-thirds less than what they would have sold for a year earlier. To illustrate: the market capitalisation of Samsung Electronics, the world's largest memory chip producer, had fallen to a mere $2.4 billion – equivalent to about what it cost to build just one of its state-of-the-art factories.[88] And so, within days of the signing of the bailout agreement, multinational corporations, global speculators, even wealthy Western individuals – all began sniffing out bargains. Procter & Gamble of the US took over Ssangyong Paper Company, Coca Cola bought out the beverage business of Oriental Brewery Co., and so on.[89] George Soros announced that he was sending a team of experts to Seoul to consider a "substantial investment" of about $1 billion – in cash-starved corporations rather than

in the stock markets obviously.[90] Michael Jackson, the entertainer, began negotiations to buy a ski resort from its bankrupt owner.[91] Between November-December 1997 and the first quarter of 1999, foreign capital acquired a stake in 600 South Korean enterprises – 70% of these firms were entirely turned over to foreign ownership and control. Of the total $10.8 billion FDI that entered South Korea during this period, only 20% was intended for new businesses, the rest was for acquiring stakes in South Korean enterprises![92]

As the year 2000 draws to a close, large chunks of South Korea's dynamic and independent automobile industry will also have been taken over by Western automobile companies. On September 1, 2000, the French carmaker Renault completed the purchase of Samsung Motors Company. Daimler Chrysler has acquired a 9.9% stake in Hyundai, South Korea's largest automobile maker, and also has an option to increase its stake by an additional 5% in three years. This, together with the 4.6% of Hyundai owned by Mitsubishi Motors, the Japanese carmaker in which Daimler Chrysler has a 34% stake, makes this German-US group the largest shareholder at Hyundai, ahead of the family of Chung Ju-Yung, the founder of the Hyundai group, which holds a 11.8% stake in the company. Daewoo Motor Company is also on sale. Its sale to Ford Motors had been nearly finalised, but Ford withdrew its $6.8 billion bid at the last minute, leaving General Motors, the world's largest carmaker, Daimler Chrysler and Fiat in the race for Daewoo.[93]

This pattern has been repeated across much of crisis-ridden East Asia. According to an estimate by Salomon Smith Barney, a leading investment firm in the US, overseas companies made acquisitions of $10.7 billion in the region in the second quarter of 1998, up from $4.05 billion in the previous three months.[94]

In a bid to raise dollars and thus keep their economies chugging along, the erstwhile 'tigers' have been willing to sell off their lands and forests too to the rapacious foreign capitalists! IMF's bailout agreement with Indonesia specifically stipulates that FDI would be allowed into palm oil and timber plantations.[95] This would further accelerate the destruction of Indonesia's rainforests – this island nation is home to 10 per cent of the world's tropical rainforests. Much of these are already under control of commercial logging companies, which routinely set the forests ablaze as a part of their logging and planting operations. In 1997, almost two million hectares were set on fire by these predators, with devastating consequences for the global environment and the health of the people of the entire region.[96] The following news report (Reuters) carried by the *Times of India* on May 3, 2000, is even more stupefying:

> **Fancy enjoying the tropical sun on your own deserted island. Indonesia may soon lease some of its 10,000 uninhabited islands to raise much-needed cash and help the economic recovery along.**
>
> **Maritime exploration Minister Sarwono Kusumaatmaja said the government was studying the viability of cashing in on unused islands across the vast archipelago…**
>
> *"It would be for the purpose of using an island as a resort or other purposes..",*
>
> **he told reporters.**

The extent to which the ruling classes of the third world countries are willing to betray the interests of their countries – for a handful of dollars – is simply mind-boggling!

Soon after the IMF intervention, along with the rising FDI inflows, portfolio capital also began to return to the region. One of the conditionalities imposed by the IMF was greater openness to portfolio investment.[97] Thus, for South Korea, according to an assessment made by the IMF's executive board in May 1998, substantial progress had been made in overcoming the financial crisis, and one of the important factors contributing to this was the significant rise in portfolio inflows.[98]

Recovery Proclaimed

The capital inflows, together with the recession-induced current account surplus, restored foreign exchange reserves of the East Asian countries to comfortable levels once again. By the beginning of May 1999, South Korea's usable forex reserves had risen to $56 billion, and the severe economic downturn of 1998 had been converted into an expected growth rate of 2-4% for next year.[99] While in Thailand, after a decline by 8% in 1998, GDP was expected to rise by a modest 1% in 1999.[100]

The US and the international financial agencies and their propagandists, the corporate media, now began to proclaim that the time had come for the much-desired and long-awaited 'recovery' in East Asia. For them, the return of the foreign investors, the comfortable foreign exchange reserves,

and the resumption of positive growth rates were sufficient criteria to announce the end of the East Asian crisis. The IMF Managing Director Michel Camdessus declared that these countries "are now or will soon be on a solid track of recovery", which has the potential of taking these countries on to a "new promising track of high-quality growth".[101] The biannual survey of the South Korean economy conducted by the OECD and released on July 22, 1999 also reflected similar sentiments.[102]

But what about the people? Has the return of foreign investors helped them recover their lost jobs? Have the positive growth rates helped them regain their fallen standards of living? Will 'growth' be more environment-friendly this time? But then, in this era of imperialist globalisation, as we have seen in the case of the Mexican 'recovery' of 1996, all such questions are irrelevant. 'Recovery', 'growth', 'development' no longer have anything to do with the living conditions of the ordinary people, that is, with the eradication or even mere reduction of poverty, hunger, unemployment and disease. All that matters is whether the country is investment-worthy or not? If yes, then capital can then once again resume its profit-making ways. For the capitalists, that is all that is important, the impact of this 'recovery' and 'growth' on the ordinary masses is of no consequence.

In the Financial Whirlpool Once Again

Unfortunately for capitalism, the contradictions inherent in imperialist globalisation place insuperable barriers in the path of this 'recovery', and hence, 'growth' cannot continue for too long.

- The current account surpluses in the East Asian countries cannot continue for long, for two reasons. Firstly, the surplus is because of a massive slump in imports. As growth resumes, imports will rise once again. While the export boom cannot continue forever – in a world economy that is plagued by declining growth. Hence, it should not be long before the balance on trade account goes into the red once again. Secondly, while the sales of valuable domestic assets to foreign investors has temporarily led to increased FDI inflows, it will cause an even faster rise in outflows of profits and dividends in the coming years. Therefore, sooner or later – in fact, sooner rather than later – the surplus in the current account of these countries has to be transformed into a deficit once again.
- In any case, every FDI boom has to result in overproduction, and hence, come to an end. On top of it, the sharp decline in the living

standards of the people because of the IMF conditionalities has resulted in a sharp contraction of the internal market in the East Asian countries. This has further reduced the capacity of these economies to absorb FDI inflows. Consequently, it should not be long before the FDI inflows become insufficient to cover the growing deficit in the balance of payments of these countries.

- That would make the economies of these countries increasingly dependent on portfolio capital inflows to stay afloat. However, portfolio fund managers are no saints, they repatriate profits too. As the profit outflows increase, these economies would become more and more fragile. But then, as we have discussed above, that is precisely the setting which had ultimately led to financial collapse in this region in 1997: the slightest provocation can trigger a massive capital flight, sending these economies into a tailspin once again.

This then is the reality about the 'remarkably successful' recovery of South Korea and other East Asian countries and their 'new promising track of high-quality growth'. As in the case of the so-called 'model' recovery of the Mexican economy within two years after its crash in end-1994, the recovery in East Asia too is purely illusory. Actually, the crisis has worsened. Because this ‘recovery’ has been made possible by selling off the assets of these countries to the imperialists, which is going to lead to increased profit outflows, making these countries even more dependent on imperialist capital inflows to stay afloat! Calling this a ‘recovery’ is like making a drug addict hooked to a more powerful narcotic, and then declaring that he has become ‘normal’.

Before we conclude our discussion of the East Asian crisis, we would like to add:

Isn’t the power of the public relations industry of the corporate world to ‘indoctrinate people with the capitalist story’ simply extraordinary! Take the case of the East Asian financial collapse. Despite all the facts pointing to the contrary, they have been able to convince people the world over that the East Asian meltdown was because of insufficient globalisation, and that the subsequent ‘recovery’ is a result of IMF-supervised globalisation.

Post script

Just as we were completing this essay came a statement by Normal Walter, Chief Economist of the Deutsche Bank group, in the *Economic Times* (11/8/2000):

> *“Currencies across the region (Asia) are all turning weakish. And speculators smell a new game. There is a risk of a replay of the Asian currency crisis….”*

It bears out what we have said above about the so-called ‘recovery’ in East Asia – it is nothing but humbug being propagated by the global media.

III. GLOBALISATION CONTINUES, DESPITE DEEPENING GLOBAL CRISIS

We have discussed earlier in detail that the diversion of capital into speculation instead of into useful productive investment in the developed capitalist countries is because of the deepening stagnation gripping the productive sector. Nearly a third of their productive capacity is lying idle. Capitalists would obviously not invest in additional capacity when their factories and mines are able to produce more than what the market can absorb. Competitive pressures and the hunger for profits drive capitalists to constantly seek ways of putting their capital to work – and so they poured their money into financial assets. This is what gave birth to the financial explosion in the United States and other Western countries.

During the early 1990s, as the third world countries sank deeper and deeper into a BoP crisis, they began desperately seeking any kind of foreign capital inflows in order to prevent their economies from sliding into bankruptcy. And so, along with foreign direct investment, portfolio or speculative capital also poured into their economies. The financial explosion became global.

The world has thus become one big speculative bubble. This has been admitted to by none other than Milton Friedman, probably the biggest name amongst the establishment economists of the past three decades:

> *“If anything, I suspect there is more of a bubble in today’s market than there was in 1929.”* [103]

A bubble needs but a pinprick to go bust! Whether it be the collapse of the Barings Bank because of wrong bets placed by one trader, or whether it be the collapse of the East Asian ‘miracle’ economies because of sudden outflows – without any warning – of billions of dollars: because of the increasing integration of the world’s financial markets, each such collapse in any corner of the world has threatened the stability of the entire global financial system.

On the other hand, the globalised speculative explosion has been an important force countering stagnation. We have pointed out earlier that the financial explosion in the West has helped prevent the stagnation from getting worse. In the 1990s, the spread of this financial explosion to the third world countries has helped Western corporations and banks and speculators to extract extraordinary super-profits from the third world countries. It can in fact be said that whatever growth the economies of the Western countries have experienced in the past two decades, apart from that attributable to an unprecedented peacetime military build-up, has been almost entirely due to the financial explosion.[104]

Consequently, the US and other hegemonic powers and the international financial institutions controlled by them have simply not been interested in imposing curbs on the globe-girdling volatile capital flows that have time and again driven the global economy to the brink of disaster over the past decade. On the contrary, for the past several years, they have been making a big push to free up all capital movements worldwide!

i) The Speculative Bubble is Set to Become Bigger

In September 1997, right in the middle of the East Asian crisis – rightly called the most serious crisis to grip the capitalist system since the 1930s – when speculative capital flows were ruthlessly disrupting entire national economies, the IMF Interim Committee issued a statement endorsing a move to give the IMF greater powers to pressurise third world countries to fully open up their economies to capital flows. In other words, force them to accept capital account convertibility.[105] It then followed this up with a formal decision in April 1998 to proceed with revising the articles of agreement of the IMF with a view to "making the liberalisation of capital movements one of the purposes of the Fund and extending, as needed, the Fund's jurisdiction for this purpose."[106] This means giving the Fund the power to push a member country to liberalise its finances, a power which it did not have till then. In case the IMF is dissatisfied with the progress of a country towards capital account convertibility, it can then withhold bailout money in the event of difficulties.[107]

Thus, the global speculative bubble is to get bigger and bigger!

ii) The Russian Crisis: World Economy on the Brink

The bubble nearly burst at the time of the speculative assault on the Russian economy in July-August 1998.

The crisis had been building up in Russia for quite some time. After years of reform and a series of special financial packages, in July 1998 the Russian economy was in difficulties once again. The IMF announced a new $22.6 billion bailout package to salvage Russia from the brink of an economic collapse. However, this proved to be insufficient to placate the global speculators, who continued to flee Russia in droves. By early August, interest rates soared to new heights in excess of 150%, but even then foreign investors were not interested in keeping their money in Russia. Faced with this situation, the Russian government approached its Western allies for yet one more round of financial assistance.

This caught the IMF and the Western governments unprepared, and they put up their hands. They expressed their inability to come to Russia's rescue. They were just not able to organise at such a short notice the funds needed for yet another expensive bailout within just two months of the previous one - more so because only a few months prior to that, they had poured in over a 100 billion dollars into East Asia. And so, Russia was left to fend for itself.

On August 17, 1998, the Russian government declared a 90-day moratorium on the repayment of privately-held foreign debt in order to prevent a collapse of Russia's private banks - these banks had relied heavily on short-term borrowings from abroad to finance the risky ventures of Russia's capitalists. In addition, it also announced a programme of restructuring the government's short-term rouble debt unilaterally – it forcibly converted that into long-term debt. Foreign investors held roughly $17 billion of that debt, and the new terms announced by the government for its repayment in effect meant that they were going to lose a very large part of the original value of their investments.[108]

This amounted to a virtual default on debt held by foreign investors and creditors. It rattled the global financial system to its teeth. Several of the world's largest financial institutions incurred heavy losses on their Russian businesses, including Citicorp, Bankers Trust, Morgan Stanley, Dean Witter, Barclays and Salomon, the Dresdner & Deutsche Banks, to name but a few.[109] Financial markets around the world plummeted to abysmally low levels. On August 31, the Dow Jones plunged by 554 points in a single day, its second largest decline in the history of the New York Stock Exchange. In a matter of a few weeks (from the Dow's 9337 peak in mid-July), $2300 billion of 'paper profits' had evaporated from the US stock market.[110]

For a few days after the dramatic meltdown of stock markets around the world, panic-stricken leaders of the capitalist world nervously pointed to the need for 'taming financial markets'. British Prime Minister Tony Blair called for an overhaul of the Bretton Woods institutions: "the existing system has not served us terribly well…"[111]; while speculator George Soros was quoted by Reuters[112] as saying: "financial markets are inherently unstable, which can cause tremendous damage to society."

iii) The G-7 Solution to the Global Crisis

It's been more than 2 decades since the financial explosion took off in the Western capitalist countries, and at least a decade since it became global. On innumerable occasions – at least when there is a crisis – authorities and ruling class intellectuals have deplored the outrageous excesses of the financial explosion. Yet, nothing has ever been done – or even seriously proposed – to bring it under control. Quite the contrary: every time a catastrophe threatens, the authorities spring into action to put out the fire – and in the process spread more inflammable material around for the next flare-up to feed on. The reason is simply that if the explosion were brought under control, even assuming that it could be done without triggering a chain reaction of bankruptcies, the overall economy would be sent into a tailspin. The metaphor of the man with a tiger by the tail fits the case to a tee.

We have seen this happening in the case of the Mexican and the East Asian crises – the solution imposed by the IMF has only created the conditions for an even bigger meltdown in the near future.

The same story was re-enacted once again after the crash of the Russian economy. In late October 1998, the G-7 Ministers of Finance hastily gathered in Washington to devise a plan to avert the risks of a worldwide financial meltdown. After hectic consultations, President Clinton announced on behalf of the G-7 the setting up of a 90 billion dollar 'precautionary fund' under IMF stewardship to deter "financial turbulence from spreading from country to country in a contagion process." The stated objective behind the setting up of the fund was "to help protect vulnerable but essentially healthy nations" from currency and stock market speculation.[113]

In reality, the G-7-IMF solution accomplished just the opposite! Instead of taming the speculators, it encouraged them to continue with their deadly games – since the existence of billions of dollars in a precautionary fund (established in anticipation of a crisis) considerably diminished the risks

of conducting speculative operations. In case they made a wrong judgement and invested in a country whose economy later collapsed without warning, the existence of the fund ensured that the country would not default on its obligations to international investors as had happened in Russia. The IMF would not have to depend on clumsy ad hoc negotiations with Western governments and Wall Street bankers to raise the large amounts of quick money needed for its 'rescue operation'. While the IMF would of course impose even harsher economic measures upon the distressed country, the bailout money would be available up-front.

The creation of the fund thus not only insures the speculators from market forces, the terms on which financing is to be provided from the fund are such that they push the country further into their clutches. The fund will be providing financing at an interest rate of 3% or more above the IMF standard lending rate; the repayment period is also considerably reduced: from the standard three to ten years – to one to 2.5 years.[114] Therefore, the debtor country would be forced to depend on accelerated inflows of foreign capital in order to meet the repayment schedules – further enhancing the hold of speculators over its economy.

iv) Applying the Solution to the Crash in Brazil

The G-7 'solution' to the global financial crisis was put to test almost immediately in Brazil (which had already been the recipient of IMF 'medicine' twice before, once in the 1980s and then again in 1994-95). Portfolio capital had begun exiting Brazil since July 1998; in October, the pace of capital flight was running at 400 million dollars a day. Brazil's forex reserves, which were $78 billion in July 1998, fell to $48 billion in September.[115] Had the outflows continued at that pace – and the pace was going to accelerate as the reserves fell – Brazil's reserves were going to vanish in a matter of weeks.

Barely two weeks after the IMF-G-7 scheme was announced, on November 13, 1998, Brazil finalised negotiations with the IMF for a $41.5 billion bailout package.[116]

The agreement commits Brazil to massive austerity measures. Brazil agreed to cut its budget by a whopping $28 billion (including massive layoffs of government employees, dismantling of social programmes, curbs on transfer payments to State governments, substantial increases in sales tax, and so on). The privatisation programme is to be speedened up – public utilities including state telecom and electricity companies are to be sold off at bargain prices to foreign capital, even municipal water and sewerage are to be privatised. The agreement also imposes conditions which would lead to a massive fall in real wages - in a country where as it is more than half the population lives below the poverty line. Historically in Brazil, wages had been adjusted on a monthly basis to the increases in the cost of living. The November agreement explicitly requires wages to be de-indexed.[117]

The agreement would also lead to the destruction of Brazil's domestic industry, traditionally regarded as one of the most diversified in the third world. The steep rise in interest rates, import liberalisation, sharp compression of domestic demand, and stranglehold of foreign capital over domestic banking enabling it to impose a credit squeeze at will – all would result in a 'programmed bankruptcy' of domestic producers. And foreign capital would then be able to buy them out at bargain prices.[118]

Brazil's economy is thus made to pay the price for the excesses of speculative capital, while the speculators escaped unscathed. The timely availability of bailout money helped them to minimise their losses from the collapse of the Real (the Brazilian currency). By keeping Brazil's economy afloat, the money helped prevent a meltdown of Western – mainly US – interests in Brazil:

- Brazil was able to continue the servicing of its huge external debt. The scale of loot on this account alone can be gauged from the fact that while Brazil's external debt rose from $148 billion in end-1994 to $270 billion in March 1999, it had during this period paid $126 billion to its foreign creditors.[119]
- US firms were able to continue exporting to Brazil – 20% of US exports go to Brazil.
- Brazil is home to thousands of US-owned firms. They were able to continue with their operations in Brazil and remit their profits. Brazil is a very important part of their operations – for instance, Coca Cola derives 17% of its worldwide sales from Brazil.[120]

Brazil implemented the reforms to the letter, and on August 23, 1999, the IMF issued a statement expressing satisfaction with the progress made there.[121] The result of the accelerated sale of Brazil's assets to foreign investors was that they poured in a record $30 billion into Brazil in 1999. In April 2000, Brazil's central bank announced that it would pay back all the emergency loans from the IMF before they fell due - following

the example set by fellow Latin American country Mexico. The same news despatch from Reuters[122] announced that "the 1999 currency crisis in the region's largest economy is over"; it quoted Mr. Carlos Kawall, Chief Economist at Citibank in Sao Paulo, in support: "This (payment) signals the return to a normal financial situation for Brazil."

All it means is that foreign investors have returned to Brazil to continue with their multi-billion dollar plunder. Consequently, Brazil's current account deficit has continued to mount – it stood at a whopping $ 25.03 billion at the end of November 1999.[123] Clearly, the recovery is a hoax! It has laid the foundations for an even more devastating crash in the near future.

v) To Conclude…

Because of the unwillingness and inability of the global capitalist classes to impose controls on the globalisation of the financial explosion, the speculative orgies of finance capital are going to continue. They are going to lead to a cycle of cataclysmic breakdowns in more and more third world countries: we are calling it a 'cycle of breakdowns' because within the framework of the global capitalist economy, each time a third world country recovers from a breakdown with the help of an infusion of fresh loans from the IMF-WB, the very nature of this recovery is bound to lead to a collapse once again some time later. This was admitted to by none other than Michel Camdessus, the Managing Director of the IMF, a short while ago: "a number of countries may come under speculative attacks after opening their capital account."[124]

If the above analysis is correct, it means that despite all the claims being made by the Indian ruling classes that the Indian economy is heading towards becoming an economic 'powerhouse', in reality it should be heading towards a financial collapse. Let us see what the facts have to say.

IV. INVITING SPECULATIVE CAPITAL INFLOWS INTO INDIA AND THEIR IMPACT

i) REMOVAL OF CONTROLS ON FII INFLOWS

As mentioned at the beginning of this Chapter, since the FDI inflows into India have been insufficient to cover the deficit in India's current account, the government has been gradually dismantling all restrictions on speculative capital inflows into the economy and also relaxing the controls on their operations within the country.

Over the years, different types of foreign institutional investors or FIIs have been allowed to operate in Indian stock markets – including pension funds, investment trusts, asset management companies, and the like. On January 25 this year, the government went one step ahead and dismantled the distinction between institutional investors and individuals with regards to investments in the stock markets – by permitting individuals with a high net worth to invest directly in the Indian stock markets. So far, only broad based funds had been permitted to invest; with this decision, the notorious hedge funds about whom we have discussed earlier have been given the freedom to operate in India.[125]

FIIs are permitted to invest in all securities traded on the primary and secondary markets. These include equity/debentures/warrants and other securities listed or to be listed on the stock exchanges in India. In order to deepen India's stock markets and thereby make them more attractive for foreign speculators, on March 2 this year, the government lifted a three-decade-old ban on forward trading in securities. With this decision, trading in all kinds of stock market derivatives can now begin in the country. Parliamentary sanction for this decision had been obtained late last year.[126]

The ceilings on investments by FIIs in Indian companies have also been progressively raised over the years. Initially, portfolio investments in primary or secondary markets were subject to a ceiling of 24 per cent of issued and paid-up share capital of a company for the total holdings of all FIIs in that company. In 1997, this ceiling was raised to 30%. And this year, the Finance Minister in his Budget speech announced that, subject to approval by the Board of Directors and a special resolution of the general body of the company, this limit of aggregate portfolio investment in a company was being increased to 40% of its issued and paid-up capital.[127]

The icing on the cake is of course the tax sops. In addition to the above measures which are aimed at creating a favourable environment for speculative capital to operate in, the GOI has granted the most extraordinary tax concessions to speculators. Tax on long-term capital gains has been kept at a nominal 10% (short-term capital gains tax is at higher 30%).[128] In fact, the Indian authorities have been so slavishly courting foreign speculators that till last year's (1999) Budget, the Finance Ministry had been discriminating against Indian investors in the stock markets by setting the capital gains tax on the latter at a higher level: while long-term capital gains tax on non-residents had been brought down to 10%, it had been kept at 20% for residents! It was only after a lot of hue and cry was made for a level playing field that capital gains tax rate for Indian players was

also reduced.[129] The implications of such a tax regime are bizarre: **if you indulge in productive activities, in the production of socially useful goods and services, you are taxed at 30-35%, but if you indulge in speculation, you will be taxed two-thirds less!**

Even such concessions are not enough to attract the whimsical global speculators. And so the government has conveniently left an obvious loophole in the already lax tax regime so as to enable FIIs to pay no tax altogether! It has signed a double-taxation avoidance treaty with Mauritius, which is a well-known tax haven, under which Mauritius-based residents, including FIIs, would be subject to tax only under Mauritian tax laws. And both long and short-term capital gain incomes are totally tax exempt in that country.[130] Which means that all that the FIIs have to do is to obtain a certificate of residency from the Mauritian tax authorities, and they will be **totally exempt from paying even the above-mentioned nominal taxes on their incomes** in India.

The reason for extending such fantastic concessions to FIIs is obvious: international speculative capital is extremely mobile, and all third world countries caught in an external balance of payments crisis are competing with each other to attract it into their economies. In such a global environment, portfolio capital can be attracted into India only on the promise of complete exemption from tax on incomes earned here.

By end-March 2000, a total of 506 FIIs had registered in India and they had made a net investment of $11.4 billion, or roughly Rs.50,000 crores, here.[131] While this investment accounts for a mere 5% of the total Indian market capitalisation of about $215 billion, they have come to acquire a decisive hold over India's stock markets. *The Hindu* recently carried a talk with M.R.Mavya, former Executive Director of the Bombay Stock Exchange, wherein he explained the reason for this state of affairs:

> *"in terms of purchases and sales all of which result in delivery, the FIIs easily account for more than 50% of the total deliveries…It is this large percentage of deliveries by one single group which gives them the muscle-power to influence the market greatly. Moreover, unlike the financial institutions and mutual funds in India, their operations are of shorter duration."* [132]

FII capital is just one of the many types of speculative capital being wooed by the GOI; it in fact has no problems with any type of foreign capital inflows, all that matters is that they must add to the country's forex reserves. We have it from the mouth of the RBI governor:

> *"India can be a safe haven for deposits from corporates and individuals around the world. The $17 billion now in our banks offer positive proof of this confidence. We can enlarge the scope for such deposits. Perhaps there may be a bonus in doing so. Income-Tax authorities willing, even those Indians who now seek the sanctuary of Switzerland, Hong Kong, Nepal and the Channel Islands may be willing to park their funds in the country of their origin itself, provided we ensure fiscal and monetary stability."* [133]

In keeping with this mindset, the GOI has been assiduously soliciting the non-resident Indians (NRIs). While government spokesmen and a slavish media have gone overboard in painting the NRIs as patriots, the reality is that these self-seeking migrants are the least bothered about the 'country of their origin'. NRI deposits are purely speculative in nature, at the slightest risk they can and will be withdrawn, as had happened at the time of the forex crisis in early 1991.

In another set of financial liberalisation measures taken a few months ago, the government has allowed domestic corporates to freely access equity capital abroad, with no clearance required for the issue of American depository receipts (ADRs) and global depository receipts (GDRs). It has also allowed them to access international credit in larger volumes through a substantial relaxation of External Commercial Borrowing (ECB) guidelines. All end-use restrictions on the use of foreign loans, except for investment in real estate and the capital markets, have been removed.[134]

The government is bent on committing hara-kiri. This relaxation of controls on domestic private entities accessing international finance, along with import liberalisation measures (discussed in Chapter 2), has created a situation wherein the use of foreign exchange has been de-linked from any responsibility to earn the foreign exchange needed to pay the costs of relying on foreign funds. These decisions have been taken despite the fact that it's not very long ago that the East Asian economies collapsed: (as we have discussed earlier) one of the reasons for their financial crisis was reckless foreign borrowing by their domestic corporates, and indiscriminate lending by the foreign investors. The latter are in any case not very worried about the security of their investments, the IMF and the WB are there to ensure that they get their money plus profits back.

ii) ESTIMATING THE VOLUME OF SPECULATIVE CAPITAL FLOWS INTO INDIA

As a result of all these above measures, there has been a torrent of speculative capital flows into the country. Such flows constitute a major part of the foreign capital flows into India. Not only that, it is such flows that have played a major role in the rise in India's foreign exchange reserves. While the propaganda machinery of the Indian ruling classes has been euphoric about the country's 'booming' foreign exchange reserves, which have crossed $35 billion, they have been silent about their actual content. To get an idea about the actual worth of these reserves, let us compare their volume with the total potentially volatile capital that has come into the country. That will reveal the vulnerability of India's foreign exchange position.

As per the classification of the Centre for Monitoring Indian Economy (CMIE), the "vulnerable external liabilities" include: (a) portfolio investments by the FIIs; (b) NRI deposits in foreign currency; and (c) trade credits and short-term debt. (Note that while the GOI defines short-term external debt as debt contracted for a year or less, as per the CMIE classification, this should additionally include the long-term debt obligations maturing within the next one year. The Bank for International Settlements (BIS) and the OECD also define short-term debt in the same way as the CMIE does.[135] The latter definition is absolutely correct. It is after all the total debt service payments to be made within the next one year – irrespective of when the debt was contracted – that matter while making a judgement about the soundness of a country's foreign exchange position. If the FIIs come to feel that these have become so huge that the debtor country is going to have difficulties in making the payments, then they are most certainly going to start withdrawing their portfolio investments from that country – before that country runs into a balance of payments crisis. As discussed previously, it was Mexico's rising short-term debt obligations that had precipitated the financial crisis there in end-1994.)

We now proceed to make our calculations of the total potentially volatile capital inflows into India. We make our calculations for end-March 1999. We primarily base our calculations on the procedure adopted by Arun Ghosh – the renowned economist and a former Member of the Planning Commission – to calculate India's vulnerable external liabilities in an article in the well-known publication, *The Indian Economy, 1998-99: An Alternate Survey*.[136] We update his calculations using figures given in the *Economic*

Table 7.5: India's Balance of Payments: Capital Account

in US$ million

		98-99	97-98	96-97	95-96	94-95	93-94	92-93	91-92
1	Official External Borrowings (net)	820	907	1109	883	1526	1901	1859	3037
2	Commercial Borrowings (net)	4362	3999	2848	1275	1030	607	-358	1456
3	IMF (net)	-393	-618	-975	-1715	-1143	187	1288	786
4	NRI deposits (net)	1742	1125	3350	1103	172	1205	2001	290
5	Rupee debt service	-802	-767	-727	-952	-983	-1053	-878	-1240
6	Foreign investment (net): of which	2312	5353	5963	4615	4807	4235	557	133
	A. FDI (net)	2462	3557	2821	2144	1314	586	315	129
	B. Portfolio Investment (net)	-61	1828	3312	2748	3824	3567	244	4
	a. FIIs	-390	979	1926	2009	1503	1665	1	-
	b. GDRs & others	329	849	1386	739	2321	1902	243	-
7	Other flows (net)	-174	-606	-1135	-2235	2604	2800	-245	101
8	Capital Account total (net)	7867	9393	10437	2974	8013	9882	4224	4563

Source: *Economic Survey*, cited in *EPW*, No.11, March 11, 2000, p. 859

Survey of the GOI, 1999-2000. We also make one alteration in his methodology, incorporating an argument put forth by Amiya Kumar Bagchi, the RBI Professor of Economics at the Centre for Studies in Social Sciences, Calcutta.

Table 7.5 indicates the major capital account transactions of India over the period 1991-92 to 1998-99.

a) Portfolio Investments -

The total portfolio investment by FIIs over the period 1991-92 to 1998-99 stood at $7.7 billion. If we add other types of portfolio investments – which mainly comprise of capital raised by Indian corporates abroad through GDRs and repatriated to India – to this, the total inflow of portfolio investment in end-March 1999 was $15.5 billion.

Arun Ghosh takes only the former figure in his calculations. However, A.K.Bagchi points out in a recent article in the well-known Mumbai-based journal *Economic and Political Weekly* that foreign investors can quickly withdraw their money from GDRs too, and therefore he has included this in his calculation of the potentially volatile foreign capital in India.[137] In fact, in a joint contribution to *The Indian Economy 1997-98: An Alternate Survey*,[138] Arun Ghosh, C.P.Chandrasekhar and Jayati Ghosh include all portfolio investments (whether by FIIs or in the form of GDRs issued by Indian companies) in their calculation of India's short-term liabilities, as, according to them, all such investments can be recalled at will. C.R.L.Narasimhan also makes a similar point in an article in *The Hindu* dated 31/1/2000.

We feel this latter argument to be more justified and so we include the total inflows of portfolio investment of $15.5 billion in our calculation of India's 'vulnerable external liabilities'.

b) NRI Deposits in Foreign Currency -

We do not know the exact amount of NRI deposits in foreign currency (FCNR) at the end of March 1999. According to the CMIE, these stood at $11.9 billion at the end of March 1998.[139] The net inflow of all kinds of NRI deposits in 1998-99 was $1.7 billion, of which we can safely assume that at least $1.1 billon was FCNR deposits. Therefore, FCNR deposits by March 1999 would be at least $13 billion.

c) Trade Credits & Short-term Debt -

The total net commercial borrowings over the period 1991-92 to 1998-99 were roughly $15.3 billion. However, we do not know the nature of these borrowings and their maturity. Arun Ghosh has estimated that the total short-term commercial credits and trade credits were roughly $13.9 billion at the end of March 1999.[140]

If we add the outstanding NRI deposits in foreign currency ($13 billion), short-term debt payable within the next one year ($13.9 billion), and outstanding portfolio investments ($15.5 billion), we get a total of $41.9 billion. That was the total potentially volatile capital in the country at the end of March 1999. In comparison, India's foreign exchange reserves stood at $29.5 billion then![141]

S.S.Tarapore, in an article in the *Business Standard* (11/8/2000), has made a more recent estimate (as of March 2000) of the total volatile inflows into India. According to him, "(a)gainst total foreign exchange reserves of a little over US$ 36 billion, the repatriable non-resident deposits, the portfolio investment and one year of debt service payments amount to US$ 46 billion."

These figures imply that a run on our forex reserves is possible at any time the foreign speculators wish. **Our foreign exchange reserves are simply insufficient to prevent an economic collapse the moment the foreign portfolio investors decide to exit from India.**

In fact, our balance of payments position is even more vulnerable than what the above figures suggest. Because the moment foreign capital starts rushing out of the country, two immediate effects would follow: first, private transfers (or remittances from Indian workers abroad) would rapidly dry up – these exceeded $10 billion in 1998-99; and second, exporters would delay the remittances of their export earnings.

All this makes nonsense of the recent claim of Yashwant Sinha, India's Finance Minister, that India is on its way to becoming an "economic superpower". The reality is the exact opposite: **India's rulers have brought the Indian economy to the brink of an economic collapse like that which took place in Mexico and East Asia not too very long ago.** All that the international speculators have to do is to start withdrawing their investments in India – which they can do at the tap of a computer key – and this 'economic superpower' will meltdown.

iii) INDIAN ECONOMY : IN THE CLUTCHES OF GLOBAL SPECULATORS

India's self-seeking elites have driven the Indian economy into a situation wherein it has become hostage to the whims of foreign investors.

Consequently, the entire orientation of India's economic policies has changed, and its central concern has now become the appeasement of global investors, more importantly of the capricious institutional speculators. We discuss below two recent incidents to show how far the country has travelled down the road of economic colonialism.

Incident One: RBI's Intervention in Forex Markets -

We first discuss the recent intervention by the RBI – on July 21, 2000 - in the country's forex and money markets, wherein it suddenly reversed a policy it had been pursuing for the last two years.

The RBI has been consistently pursuing, for more than two years now, an agenda of reducing interest rates and easing money supply – in an attempt to reverse the sluggishness gripping the industrial sector. Towards that end, the RBI had periodically reduced the cash reserve ratio (CRR) applicable to the banking system, as well as the bank rate, or the rate at which the central bank provides credit to the banking system. Then, on July 21, 2000, it suddenly reversed course. It hiked the bank rate by one percentage point, and raised the CRR by half a percentage point.

This sudden reversal in policy took place because the depreciation of the rupee, which had been gradual till then, suddenly gathered momentum. The rupee, which had traded at Rs.43.66 to the dollar in the beginning of May 2000, had fallen to Rs.44.70 around the middle of July. The RBI's intervention came when this gradual depreciation accelerated and the rupee fell by 15 paise within a day, which took it to below the psychological benchmark of Rs.45 to the dollar.[142] The RBI intervention was aimed at halting this accelerated depreciation, despite the fact that the depreciation of the rupee benefited India's exports.

To understand the reasons, one will have to go into why did the rupee fall in the first place. There were two reasons. Firstly, because the country's trade deficit went up sharply in the April-June quarter, up 26% over the same period a year ago. Secondly, investment by FIIs, which had stood at $617 million in April 2000, suddenly turned negative – the outflows totaled $545.7 million in June & July.[143] An outflow of around $500 million in two months does not reflect a complete loss of FII interest in India. However, the RBI started becoming worried. One probable reason for the outflows was the strengthening of interest rates in the US (which, remember, was what had triggered the outflows from Mexico leading to the crash there in December 1994), and the recovery of markets elsewhere in Asia. What if the trend continued? Given the fragile state of India's balance of payments position, there was every possibility of the trickle gradually becoming transformed into a flood. Hence the heavy-handed intervention of the central bank.

There are two main ways in which a squeeze in liquidity (effected by raising the CRR) and a hike in interest rates can help shore up the rupee relative to the dollar in a relatively free foreign exchange market. Firstly, the higher cost of and reduced access to finance would dampen economic activity, and thus reduce import demand. That can be expected to help reduce the trade deficit and thereby strengthen the rupee. Secondly, the higher interest rates would help attract financial inflows from abroad. The consequent increase in dollar supply in the domestic foreign exchange markets could prop up the rupee.

The RBI reversed the direction of monetary policy despite the fact that it would adversely affect the economy. The hike in interest rates and the squeeze in liquidity would adversely affect industry, more so because it occurs at a time when industrial growth has remained sluggish and the demand for consumer durables has weakened.

The interest and exchange rates are two very important indices that have a profound impact on the health of the entire economy, and more significantly, on the living standards of the people. Clearly, the RBI is now to manage them in such a way as to ensure that the 'confidence of the foreign investors' remains unimpaired, more precisely, internationally mobile speculative capital is kept appeased. Obviously, the RBI can best do this if it is freed from all outside interference. And so, in his Budget-2000 speech, the Finance Minister announced a proposal to "accord greater operational flexibility to the RBI for conduct of monetary policy and regulation of the financial system."[144]

The country's central bank – the Reserve Bank of India – has been given a degree of independence from scrutiny and influence of the executive and, more crucially, the Parliament, in order that it can subordinate itself to the requirements of international finance!

Incident Two: The Mauritius Route -

In this second incident we wish to discuss, the GOI went to such lengths to appease the FIIs that even the normally docile media was forced to criticise it in harsh tones. 'Abject Surrender', 'FM buckles in', 'IT Department eats crow' - were some of the comments passed.

At the heart of the dispute was the question whether those FIIs operating

in India who have routed their investments through Mauritius should be taxed under Indian tax laws. Of the total FII portfolio investment of $11.4 billion in India (as of March 2000), roughly 60 to 65% has been routed through Mauritius. As mentioned earlier in this Chapter, the 'Mauritius route' is the preferred choice of FIIs because that nation has a double-tax avoidance treaty with India. Under the terms of this treaty, bona fide residents of Mauritius would be exempt from paying taxes in India, they would be subject to tax only under Mauritian tax laws. And capital gains are totally tax-exempt in that country. Which means that the FIIs have to pay no taxes whatsoever on their fabulous profits in India if they route their operations through Mauritius.

Early this year, some zealous Income-Tax Department officials decided to investigate how many of the FIIs were genuinely resident in Mauritius and whose effective management was vested there, and how many were just 'name board' firms in that country. The tax officials in Mumbai investigated 37 FIIs based in Mauritius, cleared 13 of them, decided that 24 called for further investigation, and made tax demands of Rs.9 crores on seven FIIs. Considering the profit margins of the FIIs, the tax demand made – of less than 0.2% of $1 billion – was absolutely nominal. However, it was enough to set off an extraordinary chain of happenings.

Events unfolded in quick succession, and it was all over in probably less than a 100 hours. The FIIs acted like a cartel. A few started withdrawing their investments, others expressed their displeasure over the I.T. notices. The effect on the stock markets was instantaneous and catastrophic. On April 4, the same day on which reports surfaced in the Indian media about the I.T. notices to a handful of FIIs, the Bombay Stock Exchange sensitive index dropped 361 points, the second biggest decline in its history. (Another factor contributing to the crash was the collapse of the hi-tech stocks in the US following a harsh court ruling against Microsoft by a US Federal Judge on April 3.)

Initially, the government put on a show of bravado. The Finance Minister claimed that India was no 'banana republic' and that the due process of law would be observed. After that, he went on to blame "speculative" forces for unsettling the market, and said that there was no reason for investors to panic.

But far more than the market, it was the government that was nervous. With one FII after another threatening to pull out of India, the government lost its nerve. It announced on April 6, less than 72 hours after the first reports of the tax demand surfaced, that the tax demands on the FIIs were being cancelled, and that the residential status of the Mauritius-based FIIs would never again be questioned – all they would have to do is to produce certificates of residence from that country, and these would be accepted at face value.[145]

iv) REQUIEM FOR SWARAJ!

Is any more proof required about the stranglehold the imperialists have come to acquire over the Indian economy?

That should explain why the GOI has to accept each and every demand put forth by the IFIs and the multinational corporations and banks and speculators of the US and other developed countries, howsoever disastrous they may be for the Indian economy. That should explain why the most precious assets of the country – including power plants, telecom, banks and insurance companies, even agriculture – are being handed over to these brigands on a platter for them to plunder at will; why the most atrocious agreements – like the Enron deal – are being signed; why despite an acute foreign exchange crisis, all constraints on even consumer goods imports are being removed; why the country's most prized natural resources and mineral wealth – including even oilfields – are being transferred to their control; why every time an Indian Prime Minister visits the high priest in the White House, a host of concessions to foreign investors are announced beforehand as tribute to Dollar Almighty.

v) THE TREACHEROUS RULING CLASSES READY THEIR BOATS

The thick-skinned Indian elites are not bothered about the crisis gripping the nation. On the contrary, they have been preparing their boats to sail away the moment the ship of the Indian economy is sucked into the financial crisis whirlpool in which Mexico and South Korea and Indonesia are trapped. These preparations have been going on since long: (a) they have been shipping their capital to tax havens abroad; and (b) the law has been modified to make it easier for them to do so in the coming years.

Let us first take a look at the capital flight from the country. It has acquired frightening dimensions:

- A Reuters report dated December 3, 1992, quoted the Director of India's Central Bureau of Investigation as saying that India was losing billions of dollars annually through illegal money transfers to foreign banks. According to the report, "Some official estimates place India's

losses through illegal transfers at between $5.5 billion and $7.5 billion annually."[146]

- The above may be an underestimate. Three economists at the Florida International University at Miami have made an estimate of the capital flight from the country due to under-invoicing of exports and over-invoicing of imports. They reckon it was $4.4 billion in 1993, $5.8 billion in 1994 and $5.5 billion in 1995. Since this much took place by just one of the many mechanisms of spiriting away funds abroad, the figures for total capital flight will in all probability be much more.[147]

- Switzerland's Deputy Chief of Mission in India was quoted on February 8, 1997, as saying that Indians are reported to have deposits worth $80 billion in secret accounts in Swiss banks.[148] And Switzerland is just one of the many tax havens abroad!

These mind-boggling figures go to prove that the country's system of regulating and keeping checks on transactions involving cross-border trade and investment, running into some $80 billion a year, has been totally ineffective. The reason is straightforward: India's economic regulatory system, whose centre-piece was the Foreign Exchange Regulation Act (FERA), 1973, has been one of the world's softest.

Now, even this weak law has been scrapped and replaced by an even more toothless Foreign Exchange Management Act (FEMA), which came into force on June 1, 2000. This was done not at the instance of the country's notorious mafia gangs and smuggling syndicates, but because of pressure mounted by the country's three 'respected' business lobbies - the Federation of Indian Chambers of Commerce & Industry (FICCI), the Associated Chambers of Commerce & Industry (Assocham) and the Confederation of Indian Industry (CII).[149]

Consider some of the provisions of the new bill:

- We have mentioned above that wealthy Indians have siphoned out of the country billions – probably much more than a hundred billion – of dollars. The new law has loopholes that will enable these crooks and scoundrels to legalise their illegal hoards, and either retain it abroad or repatriate it to India.

- The bill considerably dilutes key provisions of FERA, leaving the government basically defenseless against all illicit transfers of capital abroad. In other words, it paves the way for an even more accelerated capital flight out of the country.

- And if you are stupid enough to be caught, the punishment is going to be mild! Offences under FEMA are not criminal offences; they will involve only adjudication and penalties. The maximum penalty has also been considerably lowered.
- On top of it, if you have the connections in the right places, you may not have to pay the fine too! The new Act vests in the RBI the power to compound offences without the permission of the courts.[150]

We are at loss for a proper phrase to describe the treachery of India's brown rulers. They have buried Swaraj in just half a century. The ominous prophesy by Dr.Ambedkar in his final address to the Constituent Assembly has come true:

> *"On 26th January 1950, India will be an independent country. What would happen to her independence? Will she maintain it or will she lose it again?*
>
> *The point is that she once lost the independence she had. Will she lose it a second time? It is this thought which makes me most anxious for the future. What perturbs me greatly is the fact that not only has India once before lost her independence, but she lost it by the infidelity and treachery of some of her own people."*

References

1. *Economic Survey*, GOI, 1999-2000, p.3
2. Arun Ghosh, *The Indian Economy: 1998-99, An Alternate Survey,* op.cit., p.52
3. Cited in Editors, *MR,* Dec 1985, pp.1-2
4. Cited in Doug Henwood, *TWR*, No.99, Nov 1998, p.20
5. *Economic Survey*, GOI, cited in *EPW,* No.11, Mar 11, 2000, p.859
6. *EPW*, No.33, Aug 17, 1996, p.2202, & Harry Magdoff, *Globalisation - To What End?*, op.cit., p.17
7. Harry Magdoff, *Globalisation - To What End?*, ibid., pp.18-19
8. Chakravarthi Raghavan, *TWR*, No.106, June 1999, p.31 – quoting Bank of International Settlements data
9. *EPW*, No.33, Aug 17, 1996, p.2201
10. Noam Chomsky, *Profit Over People*, op.cit., pp.23-24

11. Editors, *MR*, Nov 1988, p.1
12. Michel Chossudovsky, *EPW*, No.3, Jan 15, 2000, p.103
13. Doug Henwood, *TWR*, No.99, Nov 1998, p.20
14. Neeraj Kaushal, *ET*, 6.10.1998
15. Martin Khor, *TWR*, No.99, Nov 1998, pp.24-25
16. *AIE*, No.21, p.41
17. Patrick Bond, *TWR*, No.98, Oct 1998, p.21
18. Cited by Praful Bidwai in *FL*, Jan 9, 1998, p.100
19. Bernard Rosen, *MR*, May 1994, pp.1-4
20. Ibid., pp.4-5
21. John C.Pool & Stephen C.Stamos, *MR*, Mar 1985, p.18
22. Ibid., pp.12,14,18
23. James W.Russell, *MR*, Dec 1997, p.28
24. John C.Pool & Stephen C.Stamos, op.cit., pp.13,16
25. *AIE*, No.15, p.18; Bernard Rosen, op.cit., p.5
26. Bernard Rosen, ibid.
27. Banco de Mexico, *The Mexican Economy 1993*, June 1993, cited in Bernard Rosen, ibid.
28. *AIE*, No.15, p.21
29. Ibid., pp.19, 22
30. Ibid., p.19
31. Vijay Prashad, *FL*, July 30, 1999, p.60
32. Bernard Rosen, op.cit., p.6
33. Quoted in *AIE*, No.15, p.14
34. Bernard Rosen, op.cit., p.6; see also James Petras & Steve Vieux in *MR*, May 1992 for more specific details
35. Cited in *AIE*, No.15, p.15
36. World Bank, *Global Economic Prospects and the Developing Countries*, Washington, Apr 1994, pp.22-23
37. *AIE*, No.15, pp.11-12
38. Ibid., pp.26, 28
39. Ibid., p.28
40. Ibid., p.30 & D.N.Ghosh, *EPW*, No.5, Jan 31, 1998, p.203
41. 'Where the Global Free Market Backlash Could Hit Hardest', *Global Finance*, New York, March 1996, cited in *AIE*, No.19, p.74
42. *AIE*, No.15, p.31
43. 'Where the Global Free Market Backlash Could Hit Hardest', *Global Finance*, New York, March 1996, cited in *AIE*, No.19, p.73
44. Vijay Prashad, *FL*, July 30, 1999, pp.60-61

45. 'The Case for Mexico's Rescue', *Foreign Affairs*, USA, May-June 1996, cited in *AIE*, No.19, p.75
46. D.N.Ghosh, *EPW*, No.5, Jan 31, 1998, p.202
47. *AIE*, No.15, p.29
48. D.N.Ghosh, *EPW*, No.5, Jan 31, 1998, pp.202-203
49. 'Where the Global Free Market Backlash Could Hit Hardest', *Global Finance*, New York, Mar 1996, cited in *AIE*, No.19, p.68; & William K.Tabb, *MR*, June 1998, pp.35-36
50. *AIE*, No.15, p.32
51. See Wiliam K.Tabb, *MR*, June 1998, pp.26-27 for a more detailed chronology
52. Cited in David McNally, *MR*, Sept 1998, p. 2
53. Cited by William K. Tabb in *MR*, June 1998, p.28
54. Siddharth Varadarajan, *TOI*, 27.12.1997
55. C. P. Chandrasekhar & Jayati Ghosh, *EPW,* No. 5, Jan 30, 1999, p.273
56. Cited by Praful Bidwai in *TOI*, 22.11.1997
57. Ibid.
58. Siddharth Varadarajan, *TOI,* 27.12.1997
59. William K. Tabb, *MR*, June 1998, p. 30
60. Ibid., p. 31
61. Jayati Ghosh et. al., *EPW*, No. 4, Jan 24, 1998, p. 143 & Stephen Gill, *MR,* Mar 1999, p. 4
62. C. P. Chandrasekhar & Jayati Ghosh, *EPW*, No. 5, Jan. 30, 1999, p.277; and also Sunanda Sen, *EPW*, No.30, July 24, 1999, p. 2072
63. David McNally, *MR,* Sept 1998, p. 2
64. Jayati Ghosh et. al., *EPW*, No. 4, Jan 24, 1998, p. 143
65. Sunanda Sen, *EPW*, No. 30, July 24, 1999, p. 2072
66. David McNally, *MR*, Sept 1998, p. 4
67. Ibid., p.3; and William K. Tabb, *MR*, June 1998, p. 29
68. C. P. Chandrasekhar & Jayati Ghosh, *EPW,* No. 5, Jan 30,1999, p.276; and also Sunanda Sen, *EPW*, No.30, July 24, 1999, pp. 2072-73
69. Stephen Gill, op. cit., p. 5; and William K. Tabb, *MR*, June 1998, p. 26
70. David McNally, *MR*, Sept 1998, p. 4; and C. P. Chandrasekhar & Jayati Ghosh, *EPW,* No. 5, Jan 30,1999, p.277
71. William K. Tabb, *MR*, June 1998, pp. 26-27
72. David McNally, *MR*, Sept 1998, p. 5
73. Praful Bidwai, *TOI*, 22.111997
74. David McNally, *MR*, Sept 1998, p. 5
75. Siddharth Varadarajan, *TOI*, 27.12.1997; and David McNally, *MR*, Sept 1998, p.5
76. Michel Chossudovsky, *TWR*, No. 98, Oct 1998, p. 8
77. C. P. Chandrasekhar & Jayati Ghosh, *EPW*, No. 5, Jan 30,1999, p.285
78. David McNally, *MR*, Sept 1998, p. 1

79. C. P. Chandrasekhar & Jayati Ghosh, *EPW*, No. 5, Jan. 30,1999, pp.284-5; and C. P. Chandrasekhar, *FL*, Aug 27, 1999, p. 110
80. Michel Chossudovsky, *TWR*, No. 98, Oct 1998, p. 7
81. Reuters report, *ET*, 24.6.1998
82. Amiya K. Bagchi, *FL*, July 30, 1999, p.62
83. Ibid., p. 65
84. C. P. Chandrasekhar, *FL*, June 18, 1999, p. 104
85. Amiya K. Bagchi, *FL*, July 30, 1999, p.65
86. C. P. Chandrasekhar, *FL*, June 18, 1999, p. 104
87. D. N. Ghosh, *EPW,* No. 5, Jan 31, 1998, p. 203; Bill Tarrant, ET, 6.12.1997; and William K. Tabb, MR, June 1998, p. 36
88. William K. Tabb, *MR*, June 1998, p. 36
89. Amiya K. Bagchi, *FL*, July 30, 1999, p.65
90. C. P. Chandrasekhar, *FL*, Mar 6, 1998, p. 96
91. William K. Tabb, *MR*, June 1998, p. 36
92. Survey by the Ministry of Finance & Economy, South Korea, cited by Amiya K. Bagchi, *FL*, July 30, 1999, p.65
93. C. P. Chandrasekhar, *FL*, Aug 4, 2000, pp. 107-8; and (*New York Times* report), *The Hindu,* 21.09.2000
94. C. P. Chandrasekhar, *FL*, Aug 27, 1999, p. 110
95. Vandana Shiva, *EPW*, No. 14, Apr 4, 1998, pp. 756-757
96. Diane Feeley, *Against the Current 72*, Jan-Feb 1998, p. 17; and Curtis Runyan, *World Watch*, May-June 1998, pp. 12-23: cited in David McNally, *MR,* Sept 1998, pp. 7-8
97. C. P. Chandrasekhar, *FL*, Mar 6, 1998, p. 96
98. C. P. Chandrasekhar & Jayati Ghosh, *EPW*, No. 5, Jan 30,1999, p.285
99. Amiya K. Bagchi, *FL*, July 30, 1999, p.62
100. C. P. Chandrasekhar, *FL*, June 18, 1999, p. 104
101. Cited in ibid.
102. C. P. Chandrasekhar, *FL*, Aug 27, 1999, p. 109
103. Patrick Bond, *TWR*, No. 98, Oct 1998, p. 22
104. Paul Sweezy & Harry Magdoff, *MR*, Dec 1985, pp. 8-9
105. Ranjit Sau, *EPW*, No. 50, Dec 12,1998, p. 3191
106. IMF, 'Communique of the Interim Committee of the Board of Governors of the IMF', Press Release No. 98/14, Washington, 16 Apr 1998: Cited by Michel Chossudovsky, *TWR*, No. 98, Oct 1998, pp. 8-9
107. Robert Wade, *TWR*, No. 98, Oct 1998, p. 29
108. Facts taken from: C. P. Chandrasekhar, *FL*, Sept 25, 1998, pp. 53-54; and C. P. Chandrasekhar, *FL*, Sept 11, 1998, pp. 52-54
109. Jayati Ghosh, *FL*, Sept 25, 1998, p. 115; and Michel Chossudovsky, *EPW*, No. 52, Dec 26, 1998, p. 3311

110. Michel Chossudovsky, *TWR*, No. 98, Oct 1998, p. 6
111. *Financial Times*, London, Sept 21, 1998, p. 1, cited by Michel Chossudovsky, *EPW*, No. 52, Dec 26, 1998, p. 3310
112. Reuters press despatch, Nov 10, 1998, cited by Michel Chossudovsky, ibid.
113. Michel Chossudovsky, *EPW*, No. 52, Dec 26, 1998, , p. 3309
114. Ibid., p. 3310
115. Michel Chossudovsky, *EPW*, Nos. 42-43, Oct 17-24, 1998, p. 2707
116. Michel Chossudovsky, *TWR*, No. 102, Feb 1999, p. 17
117. Ibid., pp. 16,19; and Michel Chossudovsky, *EPW*, Nos. 42-43, Oct 17-24, 1998, p. 2708
118. Michel Chossudovsky, *TWR*, No. 102, Feb 1999, pp. 19-20
119. V. Sridhar, *FL*, Sept 24, 1999, p. 62
120. Vijay Prashad, *FL*, Sept 24, 1999, p. 60
121. V. Sridhar, *FL*, Sept 24, 1999, p. 62
122. Carried by *THBL*, 8.4.2000
123. Stephen Wisnefski, *THBL*, 17.1.2000
124. Quoted by Michel Chossudovsky, *TWR*, No. 98, Oct 1998, p. 9
125. *THBL*, 26.1.2000
126. *THBL*, 3.3.2000
127. Abhijit Roy, *The Hindu*, 26.4.2000
128. Ibid.
129. C. P. Chandrasekhar, *FL*, April 28, 2000, p. 12
130. Abhijit Roy, op. cit. & Editorial, *The Hindu*, 14.4.2000
131. Editorial, *The Hindu,* 14.4.2000
132. Oomen A. Ninan, *The Hindu*, 15.4.2000
133. RBI Governor S. Venkitaraman, quoted in *TOI*, 19.3.1995, cited in *AIE*, No. 15, p. 43
134. C. P. Chandrasekhar, *FL*, Mar 3, 2000, p. 9
135. A. K. Bagchi, *EPW*, No. 45, Nov 6, 1999, p. 3228
136. Published by Delhi Science Forum, New Delhi, 1999, pp. 53-54
137. *EPW*, No. 45, Nov 6, 1999, pp. 3228-9
138. Published by Delhi Science Forum, New Delhi, 1998, p. 33
139. Arun Ghosh, *The Indian Economy 1998-99: An Alternate Survey,* op. cit., p. 54
140. Ibid.
141. *Statistical Outline of India, 1999-2000,* Tata Services Ltd., Bombay-1, p. 172
142. C. P. Chandrasekhar, *FL*, Aug 18, 2000, p. 104
143. Ibid., p. 106; and Editorial, *TOI,* 11.8.2000
144. Editorial, *FL*, Mar 31, 2000, p. 93
145. Facts taken from: Editorial, *The Hindu*, 14.4.2000; Editorial, *THBL*, 8.4.2000; D. Sampathkumar, *FL*, Apr 28, 2000, pp. 14-15

146. Cited in *AIE*, No. 9, p. 62
147. Praful Bidwai, *FL*, June 27, 1997, p. 99
148. Ibid.
149. Ibid., p. 98
150. Ibid., pp. 98-99; and Sudha Mahalingam, *FL*, Sept 11,1998, pp. 108-110

Capital as such is absolutely incapable of limiting itself, irrespective of the consequences even for the total destruction of humanity. For 'capital is the endless and limitless drive to go beyond its limiting barriers. Every boundary is and has to be a barrier for it. Else it would cease to be a capital ...'

- Istvan Meszaros

GENERAL ,
YOUR TANK IS A POWERFUL VEHICLE

General , your tank is a powerful vehicle.
It smashes down forests and crushes a hundred men.
But it has one defect :
It needs a driver.

General , your bomber is powerful.
It flies faster than a storm and carries more than an elephant.
But it has one defect :
It needs a mechanic.

General, man is very useful.
He can fly and he can kill.
But he has one defect:
He can think.

- Bertolt Brecht

IT'S NOT OVER AS YET !

I. THE TRIUMPH OF UNRESTRAINED CAPITALISM OVER THE ENTIRE GLOBE

Over the last two decades of the 20th century, the camp of the Western imperialist countries led by the United States has succeeded in vanquishing all rivals. The former colonial powers have re-established their domination over the entire globe.

i) THE DEFEAT OF SOVIET UNION AND CHINA

Their most important challenger, the rival imperialist bloc led by the Soviet Union, had been vanquished in the second half of the 1980s; since then, the countries of this bloc have completely opened up their economies to Western capital flows.

The other important rival, socialist China, had abandoned its path of development in the late 1970s. During the years after the Chinese revolution of 1949, a class had arisen in China that wished to take China along the capitalist path of development. These capitalist roaders were successful in seizing power in 1976 after a long and bitter struggle. After consolidating their hold, they began the capitalist transformation of China. China’s new ruling class now gave up the previous policy of opposition to imperialism and began to take steps to integrate the Chinese economy into the world capitalist economy. Since the mid-1980s, China has been making attempts to join the multilateral framework governing world trade. Less than two decades later, that now seems imminent. In November 1999, China signed an agreement with the United States wherein it granted substantial concessions in return for which the USA has agreed to support China’s entry into the WTO. (The US has not offered very much else – implying a significant surrender by China to imperialist interests.) That removes the most important hurdle blocking the accession of China into the world trading arrangement.

The concessions granted by China to the US include: 1) trade liberalisation; 2) numerous concessions to foreign firms and investors; and 3) numerous concessions in the financial sector. Clearly, China is set to accelerate the globalisation of its economy in the coming years.[1]

ii) SUBJUGATION OF THE THIRD WORLD

The capitulation of its most important rivals provided the conducive international environment that enabled the Western imperialist powers to succeed in their attempts to reestablish their domination over the third world countries. The imperialists had been forced to retreat and grant formal political independence to these countries after a tidal wave of anti-colonial movements had swept across these countries immediately after the Second World War came to an end. Since it was no longer possible to transform these countries into outright colonies as before – the increased consciousness of the people of these countries had made this impossible – the developed capitalist countries now began searching for alternate ways to keep the former colonial world within the network of imperialism: for control of raw materials and for all available trade and investment opportunities.

Those were the days when a powerful rival Soviet imperialist bloc was in existence. Hence, one strategy resorted to was military intervention – especially in countries where power was in the hands of revolutionary groups who could be expected to confiscate foreign investments and completely severe ties with the mother colonial countries and probably shift to the orbit of the Soviet bloc. The American military intervention in Vietnam was the most drastic of these actions. An illustration of a lesser but effective operation was the overthrow of the Mossadeq government in Iran in 1953, which had nationalised the foreign-owned oil industry. Similarly, in 1954, the United States organised the military overthrow of a regime in Guatemala that had nationalised United States owned banana plantations. In 1965, it despatched 40,000 troops to the Dominican Republic to overthrow the democratically elected government of Juan Bosch, a populist and nationalist: he had been elected President of that impoverished nation after 31 years of repressive rule by the US-supported dictator Trujillo. And these are just a few examples, from a series of US actions dating back to the second half of the 1940s.[2]

Among the newer techniques of control was the extension of massive doses of foreign 'aid', actually loans, to willing third world countries. Its purpose was more than earning immediate profits. The extension of loans

served also as a door opener, paving the way for other forms of imperialist capital penetration: markets, investment opportunities, acquisition of natural resources and assets. Opening up the third world economies to US capital penetration was such a crucial component of US plans to re-establish its hegemony over the former colonial world that President Eisenhower included it in his 1953 State of the Union message:

> *"A serious and explicit purpose of our foreign policy (is) the encouragement of a hospitable climate for investment in foreign nations."* [3]

During the 1970s, as the capitalist development models of the third world countries became crisis-ridden, the ruling classes of these countries began to willingly accept this 'aid' being profusely proffered by the loan-pushers. In the words of Harry Magdoff, one of the editors of the renowned New York journal *Monthly Review*:

> *"...in the 1970s, representatives (of foreign banks) could be found sitting at the doorsteps of ministers of finance all over the world, waiting to be received to offer their loans. In effect, they acted as dope pushers. But the process has never been one-sided: the ruling elites of the third world readily became addicts."* [4]

It was this – the deliberate shoveling of loans down the throats of eager third world countries by the Western multinational banks and the consequent rapid expansion of third world debt - which ultimately led to the debt crisis of the 1980s. Much before the outbreak of the debt crisis in 1982, the foreign bankers knew the third world countries were never going to fully repay their debt. Thus in 1977, Citibank published a brochure on "The Emerging Role of Private Banks in the Developing World". In it there is a list of "canons for lenders". The first canon states: "Do not expect developing countries to be in balance of payments surplus on current account over time; assume that current account deficits are normal to such countries."[5] Implying that the imperialists were biding their time, waiting for the right moment to spring the trap.

By the late 1970s, the balance of payments situation of the third world countries had become such that they were borrowing to repay past loans. Then, in the early 1980s, the Western banks put the brakes on further lending to these indebted countries, precipitating a BoP crisis and pushing these countries to the brink of default.

The foreign exchange crisis provided the imperialists the opportunity they had been seeking for so long: they now moved to gradually acquire control over the economies of the third world countries. We have discussed in considerable detail in the previous chapters the strategy adopted by the imperialist powers to transform the third world countries into their economic colonies.

II. ITS CONSEQUENCES FOR THE VANQUISHED AND THE VICTORS

Ever since their economies sank into stagnation in the 1970s, the capitalists in the developed countries had been seeking new investment opportunities. With all challengers vanquished, they were now no longer worried about the safety of their investments in the far corners of the globe. There now took place a massive rise in global FDI flows and global FPI flows, ushering in what has come to be known as the globalisation of the world economy.

The global media, the Western pundits and their third world toadies have been euphoric about the triumph of unrestrained capitalism over the entire globe. They have announced: the world stands on the eve of a virtually unlimited era of global prosperity; capitalism has finally come of age, it is now going to go about the business of making us all rich.

Globalisation has of course enormously benefited the wealthy classes the world over. The wealth of the world's seven million millionaires grew by 18% in 1999 to $25.2 trillion; and it is expected to leap by an annual 12% to top $44 trillion by 2004 (according to a worldwide survey by Merill Lynch & Gemini Consulting).[6] The propaganda machinery of these opulent classes – the global media – has exclusively focussed on the lifestyles of this class, in order to create an impression of global well-being. Let us go beyond the images created by this indoctrination machine and take a look at what has been actually happening to the rest of humankind, the ordinary people the world over, at the turn of the millennium.

i) THE SITUATION IN THE THIRD WORLD

We have described in detail in the previous chapters the calamitous consequences of globalisation on the people of the third world countries. Here is a brief summary:

- In over one hundred countries the per capita income is lower than it was 15 years ago. At the moment, 1.6 billion people are faring worse

than at the beginning of the 1980s.

- Over 790 million people in the third world are undernourished. It is estimated that 507 million people living in these countries today will not live to see their 40th birthday.
- Two out of every five children in the third world countries suffer from growth retardation and one out of every three is underweight; 30,000 who could be saved are dying every day; two million girls are forced into prostitution; 130 million children do not have access to elementary education and 250 million minors under 15 are bound to work for a living.[7]

The facts are so stark that they are impossible to fudge, and so even the World Bank has been forced to admit in its annual *World Development Report 2000-01* that between 1987 and 1998, the number of people in the world who live on less than one US dollar a day – a poverty line adopted by the World Bank – has increased and not decreased; and that during the 1990s, global inequality has worsened.[8]

ii) THE CATASTROPHE IN RUSSIA

Much hype had been generated in the media after the state capitalist regimes in the Soviet bloc countries collapsed in the late 1980s and these countries embraced the Western model of capitalism and began the globalisation of their economies. It was supposed to usher in a new era of prosperity in these lands in contrast to the stagnation that had set in there since the 1960s. Since the focus of this essay has been on the impact of globalisation on the third world countries, we have not examined the developments in these countries. We take a quick look at the present situation in the region that was once the Union of Soviet Socialist Republics, a decade after it broke up.

This region has suffered the biggest depressionary debacle of all times. In the former Soviet Union as a whole, industrial output has plummeted by an astounding 48.8% and GDP by 44% between 1989 and 1995, according to official data compiled by the United Nations Economic Commission for Europe.[9] Let us take a closer look at Russia, overwhelmingly the biggest amongst the countries the Soviet Union broke up into. The summary below is based on two reports, one by Stephen F.Cohen, Professor of Russian Studies & History at New York University,[10] and another by Praful Bidwai, the well-known freelance journalist.[11]

Russia has suffered an unprecedented all-encompassing economic catastrophe ever since it began its quick 'transition' to 'free market and democracy', under the direct guidance of Western 'experts' and the IMF-WB. GDP has fallen by at least half, and according to one report by as much as 83%; capital investment by 90%; meat and dairy livestock herds by 75%. Except for energy, the country now produces very little. The infrastructure of production, science, technology, transportation, heating and sewage disposal has disintegrated.

Smuggling, black marketeering and brigandage have become Russia's most lucrative activity. Mafia capitalism has flourished: millions of working people have simply not been paid their earned salaries for years! Russia's criminalised elites have been struggling with each other over who will control privatised state property.

The human effects of this have been horrific. Housing, education and basic health care, once available to the vast majority of Russians, stand virtually withdrawn. Some 75% of society lives below or barely above the subsistence level, and at least 15 million people are actually starving; per capita calorie intake has fallen by 32% to just 2250. Russia's bottomless economic collapse has produced crime, unrest and alcoholism. Once eradicated diseases are again becoming epidemic. Male life expectancy has plunged to 57 years – a situation worse than 100 years ago. All this, and more, is indisputable evidence of a tragic transition backward to a pre-modern era.

And so, a decade after the collapse of the Berlin Wall, the Western media has conveniently forgotten the Russian people, except for occasionally carrying photographs of scantily dressed Russian models on its cover pages.

iii) THE IMPENDING CRISIS IN CHINA

What about China? After the collapse of the East Asian economies, this is the country whose booming growth rates are projected as proof for the benefits globalisation is supposed to bring to entire humanity.

All indications are that the party is winding down here too. According to a report by Mark O'Neill in the (Hong Kong) *South China Morning Post* of July 22, 1997, China's economy was facing an acute crisis of massive overproduction:

> *"Official figures show that by the end of 1996, production of 93% of goods was in surplus or adequate with inventories reaching 540 billion yuan (about 501.98 billion dollars), up from 460 billion yuan a year earlier and far above reasonable levels. By 1995, two-thirds of the production capacity of industrial goods was underutilised."* [12]

This statistic of overproduction does not mean affluence for everyone, as happens in every capitalist society. "Some must get rich first" – the policy of the new Chinese ruling class – has to be accompanied by its inevitable corollary: "many must get poor second". There are now estimated to be some 200,000 children on the streets of Chinese cities.[13] In the rural areas, it is estimated that some 150 to 320 million rural workers are going to be rendered surplus as the structural transformation of the economy proceeds ahead[14] - already 30 to 50 million peasants are on the move looking for work, 80% of them young people.[15]

While urban unemployment is presently low – the number of those registered as unemployed was 4.6 million in 1997[16] – it is a problem on the brink of exploding. As globalisation accelerates, China's trade and financial sector liberalisation is going to result in large-scale closure of the over 1 lakh state-owned enterprises which employ over a hundred million people. Over 3 million of them were expected to lose their jobs in 1999 alone, according to China's Labour Minister himself.[17]

As the contradictions inherent in China's 'market socialism' (which is essentially capitalism under the mask of socialism) unfold, China is going to be pushed more and more to the brink.

iv) THE SITUATION OF THE PEOPLE IN THE WEST

Globalisation should have brought prosperity at least to those ordinary people living in the core of the global world economy. Surprising as this may sound, nothing of that kind has happened. Along with launching an offensive against the third world countries, the same urge to protect their profit margins has impelled the capitalist classes in the West to launch an offensive against their own people too and seize back the concessions granted earlier. The welfare state in the developed capitalist countries is being rolled back. This savage offensive has generated shocking inequalities. For instance, in the USA, while the incomes of the richest 1% of the population has exploded over 80% over the past two decades, the bottom 60% have seen their incomes drop absolutely.[18] Consequently, poverty and destitution have returned to the West on a scale not seen since the Great Depression years. A leading British economist estimates that in Britain more than half the people who are eligible to work are living either on poverty incomes or in conditions of permanent stress and inequality.[19] The increasing impoverishment of the US people is best reflected in the increase in petty crime and the rise in prison population: the number of people in US prisons and jails tripled between 1980 and 1996 to more than 1.7 million; the number of women in prison has quadrupled; another 3.8 million are on probation or parole; today, 23% of all black males in the US between 20 and 29 years of age are in prison, or on probation or parole – perhaps the highest such proportion anywhere.[20] What other fate can there be for a society without the ability to provide its members with ways of using their energies for humanely interesting and worthy purposes!

III. A CRISIS OF CAPITALISM

Such are the costs being paid by people in each and every corner of the globe so that the gluttons can continue with their orgy. For all the euphoric talk of a 'new economy' and for all the extravagant claims being made about how the globalised markets are going to usher in a new era of abundance and prosperity for all people throughout the globe, the reality is the stark opposite. For the mass of humankind, it has resulted in: declining living standards, dramatic increases in social inequality, pauperisation of large sections of the population; while it has enabled the gluttons to grab ever more riches, gorge ever more extra helpings from the table: the wealth of the world's 475 billionaires ($1.7 trillion) is today well above the gross wealth of the poorest half of humanity.[21]

The boundless appetite of capital shows explosively the absurd irrationality of the capitalist system. The inequality that it promotes undermines its possibilities for expansion. And the strategy it has pursued at the turn of the 21st century to overcome this crisis – globalisation of the world economy – has pushed the entire global capitalist system to the edge of a global financial collapse, like that which was the prelude to the Great Depression of the 1930s.

What all this implies is that the meltdowns in East Asia, Mexico & Brazil, or the deepening crisis in India, or the catastrophe in Russia, or the growing crisis in the United States & Japan – are not merely discrete failings of a specific economic model. The problems of these national economies are parts of a whole: the crisis-ridden global capitalist economy.

Each of these problems is but a manifestation of the systemic problems that plague global capitalism as a whole.

IV. CAPITALISM AS A HISTORICAL ENTITY

Long ago, towards the end of the 19th century, a noted political scientist had written: It is a peculiarity of the capitalist class, distinguishing it from all previous ruling classes, that there is a turning point in its development after which every increase in its means of power, that is in the first place every increase in its capital, only tends to make it more and more incapable of ruling politically.

There is no doubt that this applies with uncanny accuracy to the capitalist system at the beginning of the new millennium. The last two decades of the 20th century have seen an unprecedented increase in the amount and power of capital on a global scale. With all the rivals vanquished, politically, capital has never been in a better position to rule, that is, to do the things that need to be done for society to function reasonably effectively and with a minimum of destructive conflict and disturbances. While economically, with trillions of dollars desperately seeking investment outlets, and because of the rapid advances in technology, **capital has the capacity today, for the first time in history, to feed, clothe, house, educate and provide health care to the entire human race, to meet the basic needs of all people throughout the world. In reality, nothing of the kind has happened.** Capital has used its power exclusively in its own interest, and in doing so has set the world on the road to disaster. In the above essay, we have talked only of the socio-economic aspects of the global capitalist crisis. We have left out of our discussion another important aspect: capitalism has set the world on the road to an ecological disaster too.

Clearly, capitalism has played out its role in history. It had become stagnant in the developed capitalist countries many decades ago, a fact vividly reflected in the Great Depression; now, the limited possibilities of capitalist development in the third world countries have also become exhausted.

If the above analysis and hence the conclusion drawn from it are correct, then it has very important implications for all those who are dissatisfied with the way the system is working and who wish to do something about it. It means that the capitalist system has reached a stage wherein any action that seeks to improve or reform it, while leaving the system's basic structure and working principles intact – in other words, any action which does not raise the question as to why should profit-making and capital accumulation be the purpose and driving force of economic activity – has no possibility of achieving any significant success. Once this lesson has been well and truly learnt, we can give up the absurd fantasy of acting to reform the system, of trying to make a rotten system work for us. Instead, we must buckle down to the task of fighting to replace it with a system that organises economic activity not for the greater glory of capital but so as to meet the needs of people to lead decent, fulfilling, secure, and to extent possible, creative lives.

Bringing into existence such a system is possible today – it is no longer a utopia that it was earlier – because of the enormous advancement in human knowledge and human capabilities and the giant leaps in science and technology achieved under capitalism over the past three centuries. Having achieved this much, capitalism has now become moribund, it is mortally ill.

The capitalist classes and their propaganda machinery of course wish us to forget the historicity of capitalism. They want us to believe: 'history has reached the end of its voyage, and nothing will ever again change'. They want us to forget everything else about capitalism: its bloody past, its recurrent and ever deepening crisis, the threat of a global financial collapse hanging like Damocles' sword over the entire global capitalist economy, everything that hints at the historically specific limits of the capitalist mode of production.

However, like all other social systems before it, capitalism too is a historical entity. And as the great Buddha said a very long time ago:

Anything that comes into being is also destined to pass away.[22]

V. THE STRUGGLE BEGINS, WORLDWIDE

Of course, even after a social system has played out its historical role and has become an obstacle to the advancement of history, of humankind, it does not disappear from the stage of history by itself. It has to be transformed by the collective action of the ordinary people.

And people are beginning to stir everywhere – from the factories and campuses of East Asia through the fields of Zimbabwe and the ghettos of South Africa to the farmlands of Brazil, the highlands of Ecuador and the

indigenous communities of Mexico. After a long period of sustained attacks by the imperialists in collusion with their own native governments of various stripes, the people of the third world countries are beginning to fight back. The media, which seeks to "**regiment the public mind every bit as much as an army regiments the bodies of its soldiers**" (to quote Edward Bernays, one of the leading figures of the public relations industry, once again[23]), has of course blacked out all news about these struggles. It has suppressed all news about them so as to create an impression that people everywhere are euphoric about globalisation: **the process of "engineering consent" is the very "essence of the democratic process"**, Bernays wrote shortly before he was honoured for his contributions by the American Psychological Association in 1949.[24] However, in contrast to the dismal and often frustrating picture presented by the media about people passively accepting the destruction of their living standards because of globalisation, the reality is that there has been an explosion of popular militancy throughout the third world. Many of these new waves of struggles are simply exhilarating. Although their tactics vary from large-scale land occupations to guerilla armies, and encompass a wide range of other mass action, all of them are openly challenging the neo-liberal regimes and their imperialist backers. While full-blown alternative programs are still being elaborated, all of them are voicing demands that go beyond just resisting globalisation and are challenging capitalism itself. Moreover, a distinguishing feature about all these organisations is the central role that women and young workers are playing. Let us take a look at a few of these inspiring struggles.

i) Brazil,Columbia, Ecuador

The Landless Workers Movement (MST) in Brazil has organised hundreds of occupations covering twenty-four States and has settled five hundred thousand families. Organised as a national-political movement, the MST has successfully unified urban and rural workers in a common struggle against neoliberalism.[25] The growing people's movement in Brazil has so terrified the government that it plans to spend $800,000 on a moat around the Congress building to protect the politicians from the people.[26]

In Columbia, despite intense repression, the Revolutionary Armed Forces of Columbia (FARC) and to a lesser extent the National Liberation Army (ELN) have succeeded in expanding their influence throughout the countryside. The FARC controls half of all rural municipalities and about 43,500 square kilometres of the country's land mass with an army of fifteen thousand militants and support from close to a million people – in a country of 40 million. The Colombian guerillas pose such a serious threat to the government that it has led to a spurt in the flow of counter-insurgency funds, military hardware and other types of aid from a panic-stricken United States to the Columbian government.[27]

In Ecuador – a land that remains imprisoned by its richness in raw materials – the movement of the Amerindians and the working classes against the austerity programme imposed by the IMF in collaboration with the native elites has been scaling new heights every year. In June 1994, the National Indian Confederation of Ecuador (CONAIE), the Indian Movement of Chimboranzo (MICH) and the peasant unions took control of rural Ecuador for two weeks. They had responded to a new agrarian law that privatised access to water and effectively ended the policy of land reform and so created conditions for the big landowners and agri-business corporations to take control of the entire farmlands. Three years later, the CONAIE joined Ecuador's trade union federation (FUT) to organise a series of strikes against the economic reforms. On February 5, 1997, two million people – in a country of 12 million – joined a 'civic strike' as petrol prices rose 350% and telephone rates went up by 800%. The strike movement led to the ouster of Ecuador's clownish neo-liberal President Abdala Bucaram.

However, his successors continued with the IMF-imposed economic reforms and the struggle escalated. Two years later, a general strike shut down Ecuador for a week – from March 10 to March 18, 1999. The President declared a state of emergency and called out the armed forces to counter the strike, but that only provoked more people to join the struggle. Eventually, the President was forced to back down and withdraw some of the IMF dictated policies.[28]

In January this year (2000), the struggle touched a new peak. The powerful coalition of workers and Amerindians, with the help of a section of the armed forces, marched on the capital Quito. They seized the Congress and the Presidential Palace, ousted the government led by President Jamil Mahaud, and installed a new provisional 'National Salvation Government'. However, under pressure from the United States, the military member of the new popular government resigned and the government collapsed. The reins of power went back to the hands of the elites who have installed a new 'constitutional' government. Incredibly, the new regime has continued with the policies of its predecessors.[29]

The people were not prepared to seize power and have for the present returned to their homes, but it is unlikely that they are going to remain there for very long. The struggle in Ecuador is bound to escalate in the coming years.

ii) Africa

A wave of mass protests has been sweeping across Zimbabwe since the mid-1990s, signaling that the people are finally moving out of the shadow of Robert Mugabe's ruling Zimbabwe African National Union (ZANU), which had led the country's freedom struggle (won in 1980), and has been in power ever since. In the 1990s, Mugabe has also taken Zimbabwe down the same path to defacto recolonisation being taken by most erstwhile colonies and imperial possessions: he has rigorously implemented the World Bank designed Economic Structural Adjustment Programme that has led to economic disaster and also reversed the few positive trends in living standards accomplished during the 1980s.

Zimbabwe's independent and democratic trade unions have been in the forefront of the struggle against globalisation. The struggle has been growing in intensity and spread in recent years; in one such strike action in mid-1997, over 100,000 private sector workers were involved, even extending to the agricultural plantations.[30]

In recent years, a new kind of upsurge has engulfed Zimbabwe's vast countryside that has the potential of sparking similar fires throughout the third world. Zimbabwe's land-starved peasants have decided that they have waited enough – they have moved to assert their right over their nation's farms and lands that had been seized by white pirates decades ago. Even though the people won their independence from the white colonialists two decades ago, the lands have remained in the control of the white farmers. Now, people have decided to settle the issue themselves – tens of thousands of Zimbabwe's rural poor have taken over the country's white-owned commercial farms. It has provoked an international uproar – the US, Britain and other imperial powers have denounced this 'illegal' land-grabbing. The reason is obvious: the movement has the potential of spreading to the rest of the continent, including neighbouring South Africa, where Nelson Mandela's regime has redistributed just 1% of the country's land. Already, it has inspired a similar movement in Kenya![31]

Six years after winning their freedom from apartheid rule, the South

African people are waking up to the reality that Mandela's African National Congress (ANC)-led government is betraying the hopes of the country's many decades long freedom struggle. The ANC has not only abandoned anti-capitalism – a cardinal principle of the anti-apartheid struggle; it has not only taken no steps to end the control of the 'white' corporations – many of whom were closely associated with the apartheid regime – over the economy; on top of this, it is now openly embracing a policy that would re-establish the domination of the whites over South Africa, albeit in a different guise: it is globalising the South African economy. It is going all out to entice large-scale foreign investments into the country, it claims that this would lead to 'Growth, Employment and Redistribution' – the so-called Gear strategy. As an incentive to the 'altruistic' foreign investors, it has undertaken widespread privatisation of public utilities, resulting in retrenchment of tens of thousands of public sector workers – in a country where around 40% of the 14 million-strong workforce is already unemployed.

While the government's efforts to change the racial composition of capital has led to the rise of a small black capitalist class, only a tiny minority of the marginalised population can hope to benefit by this 'democratised' capitalism, which has already become bogged down under the weight of its contradictions. The people are realising that while the policy of social exclusion based on race has ended, its place has been taken by the economic forces of the market which create their own pattern of social exclusion and division.

And so a new wave of struggles is sweeping across South Africa. It brought more than a million teachers and public employees out on the streets in 1999, culminating in a one-day strike on August 25 in which six lakh public workers downed their tools nation-wide. The protests have continued in 2000 – the Congress of South African Trade Unions launched a campaign of mass action that began on January 31 and culminated in a one-day strike on May 11, 2000.[32]

With a glorious legacy of militant, even armed struggles behind them, it should not be too long before the South African people advance their struggle to a new, higher plane, challenge capitalism itself, and begin the struggle for a new society where there is no social exclusion of any kind. That should have a profound galvanising effect on the people of the entire African continent.

iii) East Asia

In South Korea, the labour movement has made rapid strides since the late 1980s. In 1995, it finally established the Korean Confederation of Trade Unions (KCTU), a national federation of independent and progressive but illegal trade unions, despite vicious repression by the state. Then, in January 1997, the KCTU launched the largest-ever mass strikes in South Korean history, involving 630,000 workers, against new labour laws that would make mass layoffs possible. The strike movement lasted for more than 20 days; more than a million people participated in the massive public rallies held in support of the strikes. In a mere decade, the South Korean workers had built one of the most combative union movements in the world.

Following the collapse of the South Korean economy in end-1997, the IMF insisted as a part of its $57 billion aid package that the Korean government implement mass layoffs. Since this question had prompted mass strikes less than a year ago, the government invited the KCTU for discussions on the IMF conditions; on February 6, 1998, much to the dismay of union activists, the KCTU leadership signed an accord which, in return for modest concessions, accepted mass layoffs and all the basic conditions of the IMF bail-out. Within days, hundreds of KCTU militants rebelled, voting down the agreement, removing the leaders who had signed the deal, and setting the date for a nationwide general strike. However, they were forced to withdraw the strike call a few days later, when they realised they did not have adequate support for the action.

The South Korean ruling class with active cooperation from the intellectuals and the media has been successful in concealing the real reasons for the economic collapse – whose scale has shocked most Koreans. It has been able to convince the people that it is a national crisis that demands sacrifice from everyone if the health of the economy and national pride are to be restored. Hundreds of thousands have responded to government calls for people to donate gold or US dollars to state reserves. In the midst of this patriotic upsurge, KCTU radicals have found it difficult to mobilise people against the Korean ruling class.

Yet, that is precisely the challenge confronting the radical movement of the Korean working people: countering the traditional patriotism invoked by the Korean government, and counter-posing it with an anti-imperialism that is also anti-capitalist in character. Trying to raise the political horizons of the struggle is no doubt a daunting task. But a decade of struggle has created a militant workers movement with tens of thousands of dedicated union activists. So, the future prospects are undoubtedly bright.[33]

After the setbacks in early 1998, the struggles have forged ahead once again. In April 1999, the KCTU announced a "spring offensive" of strikes and mass rallies against government plans to restructure Korean corporations that would lead to massive job losses.[34]

In Indonesia, the people are finally recovering from the shock of the massacre unleashed by General Suharto when he seized power in 1965 with the active help of the United States in a bloody coup during which at least half a million progressive activists were murdered. Led by the students, the people came out on the streets once again in very large numbers during 1997-98 to launch a heroic movement that ultimately forced 'butcher' Suharto to resign. The courage of the movement was truly inspiring. Students waged months of daily protests, including hunger strikes, demonstrations, and occupations of government buildings in the face of club-wielding police and tear-gas firing soldiers who turned to bullets during Suharto's last days, killing a number of students.

Another enthusing development has been the rise of a small but militant workers' movement alongside the student and youth movement. In July 1997, the banned Indonesian Centre for Labour Struggle (PBBI) launched a strike and community protest movement of 20,000 in Surabaya; a few months later, it organised a strike of 16,000 workers at the state aircraft factory in Bandung. Although these have been small accomplishments, but in the context of police and military repression, the militant determination of the Indonesian workers is nothing short of fantastic. And in the aftermath of the popular movement that toppled Suharto in which the workers also participated, workers' organisations are becoming more confident and self-assertive. Workers at Garuda Airlines in Jakarta have taken strike action, as have 50,000 workers at Maspion Corporation in Surabaya.[35] In 1999, the democratic and militant workers' unions of Indonesia came together to form the Indonesian Front for Labour Struggles (FNPBI) – in a most inspiring development, the young, female, jailed union organiser Dita Sari was elected the general secretary of the FNPBI.[36] Clearly, the foundations are being laid for a new kind of movement of the Indonesian students and working people in the near future that will seriously challenge the onslaught unleashed by globalising capital.

In the crucible of the decaying 'Asian Miracle', new forces of resistance are being created. In the coming years, they should mount a major battle

against the ravages of international capital; out of these struggles, a new 'Asian model' should emerge – a model of people's resistance to capitalist globalisation.

iv) India

Back home, in India too, the people are beginning to stir throughout the country. In this year alone: one lakh electricity workers of Uttar Pradesh went on a historic three-week long strike in January against the unbundling and eventual privatisation of the UPSEB; over six lakh State government employees in Rajasthan went on a stirring 64-day strike in January-February against attempts to cut their benefits; people organised demonstrations throughout the country during Clinton's yatra to India in April to protest against the surrender by the GOI to US interests; working people throughout the country went on a one-day strike on May 11 to protest against the ravages of globalisation; people throughout the state of Andhra Pradesh launched a militant protest in June against the steep hike in electricity prices – the struggle lasted for nearly three months, culminating in a massive protest rally on August 28 in Hyderabad; telecom workers have gone on intermittent strikes against moves by the GOI to corporatise and eventually privatise the telecom sector; thousands of teachers gheraoed the Vidhan Sabha in Orissa in August after the State government announced massive cutbacks in its funding to educational institutions; and these are just a few of the many movements that have taken place all across the country in this year alone against the offensive launched by the unholy alliance of the Indian ruling classes and the imperialists on the Indian people.

In recent years, a very wide cross-section of the Indian people have waged militant struggles against the destructive effects of globalisation on their livelihoods. Fisherfolk throughout the country's vast coastline have fought a heroic battle against moves by the government to open up India's coastal waters to fishing by giant foreign trawlers which will totally destroy their livelihood. Farmers have staged militant protests against seed patents, entry of Western agri-business corporations into the country's farming sector, and slashing of agricultural subsidies by the GOI as a part of its commitments to the WTO. They have even gone to the extent of destroying the fields in Karnataka where Monsanto, the US transnational, was testing its genetically engineered varieties, and have also attacked the establishments of other multinationals like Cargill Seeds and Kentucky Fried Chicken. Lakhs of people living around the 1200 square kilometre Chilka lake in Orissa have been fighting the 'prawn mafia' which has attempted to wrest control over their traditional fishing grounds in order to cultivate prawn, a lucrative export earner; the government in its desperation to earn 'prawn dollars' has simply refused to implement Supreme Court orders favouring the traditional fishermen. Tribals have fought the rapacious foreign and Indian mining companies who have been given permission by an unconcerned GOI to devastate their lands. Insurance workers have waged an intense struggle against the sell-out of the insurance sector to unscrupulous foreign insurance companies. There have been many such spirited struggles. The media has of course played down or simply ignored these movements, while launching a propaganda assault to persuade the people that these are just isolated examples and that the majority holds very different views, that is, it consents to privatisation – liberalisation – globalisation.

These movements are still at the level of resisting the ravages of globalisation and are limited to seeking reform of the existing system. As the crisis gripping the Indian economy deepens, and as the Indian ruling classes intensify their offensive against the people in the name of globalisation, the limitations of this agenda will increasingly become obvious to the people, their political perspectives will widen and the struggle should advance to a higher plane. All indications point to this optimistic conclusion.

v) Mexico

One of the most enthralling of all these worldwide movements is the militant movement of the indigenous people-workers-students-peasants in Mexico, the very backyard of the United States. This movement signals the rebirth of revolutionary politics and the end of the social contract between the working people and the capitalist classes that had been born out of the Mexican Revolution of 1910-20. The capitalists had on their part unilaterally torn apart the contract in the 1980s when they launched a vicious offensive on the people in the name of globalisation, producing widespread distress; the people have now begun their reply, and it has been a fantastic beginning.

The bugle of revolt was sounded by the Indian peasants of Chiapas, one of the most backward regions of Mexico. The Indian peasants have been the most aggrieved victims of Mexican government policies. Under the leadership of the Zapatista Army of National Liberation (EZLN), they began an uprising on New Year's Day, 1994. The struggle is for "work, land, housing, food, health care, education, independence, freedom,

democracy, justice, and peace" – the Zapatistas' declaration of war proclaimed.[37] The rebellion acted as a catalyst for a growing insurgency of Mexican workers. Their revolt paralysed the sixty thousand soldiers mobilised by the Mexican state to crush the indigenous insurrection. On January 7, independent unions carried out the first large-scale mobilisation against the military siege in the Lacandon jungle, while simultaneously demanding the meaningful implementation of the constitutional minimum salary and an end to the dismissal of workers. Tens of thousands of workers participated. Five days later, great columns of workers and students marched from the Monument of the Revolution to the central square of Mexico City, demanding that the government stop its bloody offensive against the Chiapans. Within days, thousands of workers, students and teachers had taken to the streets in all the principal cities of the country, demanding a political solution to the Chiapas conflict, and also demanding that the adverse effects of globalisation on employment and working conditions be reversed. On February 16, striking trade unions seized for several hours the sumptuous building of the Mexican stock exchange, amidst a mood of generalised civil disobedience. The swelling revolt forced the state to apply the brakes to its war-machine.

The Zapatistas have taken numerous imaginative initiatives to reach out to a wide section of the Mexican people and engage them in common or parallel efforts to take control of their own lives and fates. For instance, between August 1994 and February 1995, they held three national conventions with the active support of thousands of workers.

Such efforts sowed the seeds for the birth of a powerful new current in the Mexican labour movement – the Intersindical or the CIPM – which is distinctly separate from the official trade union movement. Its May Day demonstrations have drawn out millions of workers in all the major industrial zones of the country. In contrast to the official trade unions, the Intersindical seeks to bring together all sections of the working people and focuses on issues that affect all of them, rather than looking after the interests of only the organised working class. Unlike the official trade unions, it does not seek to win merely a few crumbs for the workers from the capitalist classes while upholding their rule; rather, it seeks the bottom-up transformation of the Mexican society. Towards that end, it has developed a close alliance with the Zapatistas.

The uprising of the Indian peasants has also catalysed similar uprisings in other States, and within two years, thirteen guerilla fronts had emerged in different States.[38]

With the workers and the peasants out on the streets, can the students be left far behind? On April 20, 1999, the 270,000 students of the National Autonomous University of Mexico (UNAM), the largest institution of higher education in Latin America, launched a protest against government moves to privatise education. The students did not stop at that, they linked up their demands to the struggle against privatisation of the public sector industry and attacks of the ruling classes on the living standards of the youth and workers. The struggle won the support of a wide cross-section of the Mexican people. The strike continued for a historic nine months and finally ended when the Mexican government ordered its elite police force to storm the barricaded campus in the first week of February 2000.[39] The armed crackdown only signals a defeat for the Mexican government, because it reveals its true anti-people nature and exposes it for what it is – the handmaiden of the Mexican capitalist classes. We shall soon be hearing more from the heroic Mexican students.

The Mexican columnist Pilar Valdes had observed some time ago, “Anyone who has the opportunity to be in contact with the millions of Mexicans who live in extreme poverty knows that we are living with a time bomb.”[40] The Zapatistas ignited the fuse, setting off the time bomb. Throughout the third world, there are many more such ‘time bombs’ waiting to explode.

vi) The New Internationalism

A most distinguishing feature of the new radical struggles that have emerged in the third world countries in the 1990s is their internationalism: the struggles have moved to create international alliances, networks and organisations. The Zapatistas have won worldwide solidarity, they have struck a sympathetic chord even in the rich industrialised societies where many people have recognised the concerns of the Zapatistas to be not unlike their own, despite their very different circumstances. The MST of Brazil has played an essential role in promoting the Latin American Peasant Confederation (CLOC).[41] The historic general strike in South Korea in early 1997 saw supporting rallies in 22 nations.[42]

One of the most inspiring examples of this new internationalism was the massive protests in Seattle, USA, at the end of November, 1999, during the Third Ministerial Conference of the World Trade Organisation.

Over 700 organisations and upwards of forty thousand protestors came from all over the world to denounce the WTO, forcing the opening ceremony to be cancelled and throwing the meetings completely out of gear. Simultaneously, similar protest rallies were held in London, Paris and a number of other cities throughout the world.

The rise of this new internationalism is not at all surprising. Imperialism is after all a global system that seeks to organise the exploitation of every crevice on the earth’s surface. So, the struggle against this rapacious international adversary has to be by its very nature international in dimensions. And with the imperialist powers launching a renewed offensive at the turn of the 21st century to gain control over productive enterprises, appropriate assets and dominate markets of third world countries – in other words transform these countries into their economic colonies – there is not only a greater necessity but also a greater probability of building international solidarity today than at any time since World War II.

vii) To Conclude

Our purpose of drawing attention to these important forms of resistance of the ordinary people is not to play down or be over-optimistic about the difficulty of the struggles that lie ahead. Of course, these struggles still have a long way to go before they can even pose a serious challenge to international capital. Our intention was to point out that these struggles underline the historicity of capitalism. They make evident that capitalist globalisation is not a historical endpoint. Rather, with capitalist globalisation, the role of capitalism in making history is coming to an end. Capitalist globalisation has also produced its antithesis in the form of working-people internationalism. Now, it is the struggle of people all over the globe against capitalism that is making history. It is in the worldwide struggle of the people to make a different kind of society - whose basic logic and priority would be the well-being and happiness of the common producers, whose every member would have the birthright to a job, a steady income, a home, health care, and security in old age, which can thus claim to be truly free and democratic - that history, a different kind of history, is being made.

That was the real purpose of writing this longish essay – not to present an academic critique of globalisation, but to interpret the world of global capitalism so as to change it. If we have succeeded in inspiring some of you who have read this essay to its final conclusion to join the working people in adding new pages to their songbook, our purpose has been served.

References

1. C. P. Chandrasekhar, *FL*, Dec 10, 1999, pp. 99-100
2. For a comprehensive list, see the article, 'Pox Americana' in *MR*, July-Aug 1991, by the Editors
3. Harry Magdoff, *The Age of Imperialism*, op. cit., p. 126
4. Harry Magdoff, *MR*, Feb 1986, pp. 3-4
5. Ibid., p. 4
6. *THBL*, 5.5.2000
7. Statistics from a speech by Fidel Castro at the G-77 Summit, Havana, Apr 2000, op. cit., p. 30
8. Editorial, *The Hindu*, 15.9.2000
9. Michel Chossudovsky, *FL*, Oct 31, 1997, p. 67
10. *TWR*, No. 98, Oct 1998, p. 20
11. *TOI*, 29.7.1997
12. Editorial, *MR*, Sept 1997
13. Robert Weil, *MR*, Jan 1995, p. 14
14. C. T. Kurien, *FL*, Sept 25, 1998, p. 107
15. Robert Weil, op. cit., p. 15
16. C. T. Kurien, op. cit., p. 106
17. C. P. Chandrasekhar, *FL*, Dec 10, 1999, p. 100
18. Vijay Prashad, *FL*, Nov 19, 1999, p. 66
19. Alex Callinicos, *EPW*, No.4, Jan 27, 1996, p. PE-14
20. Praful Bidwai, *FL*, Nov 6, 1998, p. 50
21. Vijay Prashad, *FL*, Nov 19, 1999, p. 66
22. For a more detailed elaboration of Buddha's theory of 'Pratitya-Samutpada', see Debiprasad Chattopadhyaya, *What is Living and What is Dead in Indian Philosophy*, PPH, New Delhi, pp. 503-532
23. Noam Chomsky, *Profit Over People*, op. cit., p. 53
24. Ibid.
25. James Petras & Henry Veltmeyer, *MR*, July-Aug 1999, p. 54
26. Vijay Prashad, *FL*, Sept 24, 1999, p. 60
27. James Petras & Henry Veltmeyer, op. cit.; and Vijay Prashad, *FL*, Mar 12, 1999, pp. 58-59
28. Vijay Prashad, *FL*, Apr 23, 1999, pp. 60-62
29. Gerard Coffey, *TWR*, No. 114/115, Feb/Mar 2000, pp. 57-59
30. Based on: John S. Saul & Colin Leys, *MR*, July-Aug 1999, p. 30; and Patrick Bond, *MR*, Apr 1999, pp. 1-17
31. Based on: Katy Salmon, *TWR*, No. 118/119, June/July 2000, pp.54-55; and Jeremy Seabrook, *TWR*, No. 117, May 2000, pp. 34-35

32. Based on: M. S. Prabhakara, *FL*, Jun 9, 2000, pp. 60-62; M. S. Prabhakara, *FL*, Nov 5, 1999, p. 62; and Franco Barchiesi, *MR*, Oct 1999, pp. 16-21
33. David McNally, *MR*, Sept 1998, pp. 11-12; and Hochul Sonn, *MR*, July-Aug 1997, p. 125
34. Koo Hee-Jin, *ET*, 22.4.1999
35. David McNally, *MR*, Sept 1998, pp. 9-10
36. David McNally, *MR*, July-Aug 1999, pp. 159-60
37. Noam Chomsky, *Profit Over People*, op. cit., p. 122
38. Information for this write-up on Mexico is taken from: Richard Roman & Edur Velasco Arregui, *MR*, July-Aug 1997, pp. 98-115
39. Vijay Prashad, *FL*, July 30, 1999, p. 60; and Vijay Prashad, *FL*, Mar 3, 2000, pp. 50-52
40. Noam Chomsky, *Profit Over People*, op. cit., p. 122
41. James Petras, *MR*, Oct 1997, p. 20
42. Hochul Sonn, *MR*, July-Aug 1997, p. 125

If Winter comes,
can Spring be far behind ?

- Shelley,
Ode to the West Wind"

Most Dangerous

Being robbed of one's labour
is not the most dangerous thing,
Being thrashed by the police
is not the most dangerous thing,
Treason, the fist of greed,
are not the most dangerous things.
To be arrested for doing nothing, is of course bad,
To become scared into speechlessness, is of course bad,
But is not the most dangerous.

Most dangerous of all
is to become passive like a corpse,
Have no yearning, bear everything,
Leave home for work, and return home from work,
Most dangerous of all is,
The Death of our Dreams.

- Avtar Singh Sandhu 'Pash'

IN LIEU OF AN UPDATE

I. INDIA SUPER POWER?

It's been five years since we wrote the above chapters.

Obviously much has happened during these years. From a daily reading of the newspapers, it would appear that the conclusions drawn above are being proved wrong. Hardly a day goes by without the newspapers carrying reports about India becoming a 'global superpower'.

In fact, the previous BJP-led coalition government fought the 2004 general elections on the slogan that it was making India a 'great power', even a 'superpower'. Its 'vision document' declared: "We have set the stage to reclaim our rightful inheritance as a Great Power." It lost the elections. But the new UPA coalition government has continued the propaganda. The Prime Minister Dr. Manmohan Singh, in an article in the Global Agenda magazine some time ago, on the eve of the World Economic Forum meet at Davos, said: "The reforms implemented over the past 15 years have laid the foundation for rapid growth." The deputy chairman of the Planning Commission, Montek Singh Ahluwalia, went one step ahead. Delivering the Jawaharlal Nehru Memorial Lecture in London, he claimed that by 2040 India would become the world's third largest economy, after the US and China. He cited as his authority an American financial firm, Goldman Sachs[1]. And just a week ago (on Sept 29, 2006), the newspapers reported the US ambassador to India, David Mulford, as saying that the economic reforms were going to transform India into a superpower. As proof, the papers added, he is an economist.

India is indeed shining, for the rich. The collective net worth of 311 Indian billionaires went up to Rs. 3.64 trillion in 2005. This was up 71 per cent from the previous year, when it was a paltry Rs. 2.13 trillion. The membership of the club also grew, 133 new people joined the club, who just months ago were merely millionaires. The daily newspaper that keeps track of these worthies (*Business Standard*, Nov 9, 2005), put it simply: "India's billionaires have never had it so good."

And then some months ago, all the newspapers flashed the news that 10 new Indian billionaires (excluding non-residents) had been added to the latest Forbes list of billionaires this year, more than any other country except the US[2]. The power of media propaganda is so much that most ordinary people, even college students pursuing a B.A. / B.Com. degree for whom the only jobs available today are marketing jobs with a payscale of between Rs. 1500-3000 pm, have come to believe that India is becoming an economic superpower.

So at the outset, before we begin our review of the developments of the past five years, we reiterate: the economic reforms, globalization, are not going to make India a superpower, either now or in the future. It should actually be obvious to any serious observer. To give one well-known fact: there is a yawning gap between India and the developed world. According to the World Bank, India's Gross National Product (GNP) in 2003 was $568 billion, compared to the US's $10.95 trillion. India, with 17 per cent of the world's population, accounts for less than 1.7 per cent of the world's income. Thus India's per capita GNP was $530, compared to the US's nearly $38,000. Even South Korea's per capita GNP was over $12,000. Furthermore, this low figure of per capita income, since it averages out incomes, actually hides the horrendous reality in which the majority of India lives. For instance, the average monthly per capita expenditure (MPCE) of farm households across India was Rs. 503 in 2003. Since this is also an average across regions and classes and income groups, so this dismal figure too hides huge inequities. Millions of farmers in the states of Orissa, Jharkhand, Bihar, Chattisgarh and Madhya Pradesh had an MPCE equal or less than Rs. 225.[3] For those with the money to buy this book, even though we have tried to keep the price low, it would be difficult to imagine how these millions live.

The sad truth is, each and every development in the Indian economy of the last five years fully bears out the grim prognosis made by us five years ago. But first let us take a look at the present growth.

THE PRESENT BOOM

Let us first take a look at the nature of the present boom. It is true that the country has seen a high GDP growth rate of around 7-8% during the last three years, from 2003-4. The government has claimed that this indicates that this is now going to be a permanent feature of the economy.

Firstly, it is hasty to discern a trend on the basis of two or three years' data. The late 1980s and the mid-1990s saw similar patches of relatively high GDP growth, which gave way to low growth thereafter.

Secondly, the present boom is not an indication of overall growth of the Indian economy, nor is it resulting in the growth of material well-being of the majority of the people. A closer look reveals that what is taking place is distorted growth, at enormous costs to the ordinary people. We discuss two examples of this below.

Some days ago, *The Times of India* (October 4, 2006) carried the following newsreport:

"Investments in the (retail) sector are slated to go up nearly 10 times to $25 billion over the next five years. Some of the big players such as Reliance and Bharti Enterprises have already announced plans to make a foray… The Tata group on Tuesday announced a technical alliance with Australian retail major Woolworths… while the Dubai-based Landmark group which runs 'Lifestyle' stores in India, is in talks with Europe's biggest retailer Carrefour for buying its franchise."

While the opening of such malls is being celebrated by the rich as evidence of India's development, and will of course add to the country's GDP growth figures, how does this development help the millions who are malnourished – starving – unemployed? Furthermore, the opening of such giant retail chains are going to force millions of small retailers to close shop, driving them into the ranks of India's poor.

A second example, which even more truly reflects the kind of development being pursued in India under globalization, is the setting up of hundreds of Special Economic Zones (SEZs). While the elites are euphoric, it's actually a scam of mind-boggling proportions. But then that's what globalization is all about.

Special Economic Zones[4]

It was in February 2006, that is, just a few months ago, that the government notified the Rules under the Special Economic Zones (SEZs) Act, 2005, for setting up these privileged enclaves, and already the drive for setting them up has gathered an unbelievable speed. The government has been granting approvals for setting up these SEZs at the rate of practically one a day. By early October 2006, 181 SEZs had already been formally approved, and another 128 had been given "in principle" approval. Many of these are multi-product SEZs, each of which will colonise 10,000 to 35,000 acres of land. All these applications approved are both from overseas companies as well as Indian corporates. Here is a list of tax concesssions being offered to industrialists:

- Duty free enclave, treated as a foreign territory for trade and tariffs.
- Licence-free imports.
- Customs duty exemption on imports.
- No excise on capital goods, raw materials procured in domestic market.
- Supplies to SEZ units from domestic trariff area deemed exports.
- 100% income tax exemption for a block of five years, 50% for two years and up to 50% of the profits ploughed back for the next three years.
- For offshore banking units, 100% income tax exemption for three years and 50% for two years.
- Freedom to subcontract even abroad.
- In manufacturing, barring a few sectors, 100% FDI through the automatic route.
- No cap on foreign investment for items reserved for small-scale industries.
- No industrial licensing for SSI items.

The tax concessions given are simply mind-boggling! According to Finance Ministry estimates, these will inflict a loss of revenue of Rs.160,000 crores by 2010. No wonder there is a mad rush among the corporate houses to set up these tax-free zones. For the present, the Commerce Ministry has set a target of permitting 300 SEZs to come up, but considering the rush and the attitude of the government, very soon this restriction should be lifted.

The Commerce Ministry is hell-bent on pushing through these sweetheart deals with industrial magnates and real estate developers. It claims that the Finance Ministry's projections of loss are based on mere "paper calculations", and that the SEZs would bring in total investment of roughly Rs.100,000 crores by end 2007; it also adds on the basis of rosy, unconvincing assumptions, that there would be a net revenue gain of Rs.44,000 crores and job creation of five lakh additional jobs.

The tax losses are so huge that even the Reserve Bank of India has expressed reservations. It says that large tax incentives can be justified only if SEZ units establish strong “backward and forward linkages with the domestic economy” – a doubtful proposition. Even the International Monetary Fund’s (IMF) Chief Economist Raghuram Rajan has warned: “Not only will [the SEZs] ... make the government forgo revenue it can ill afford to lose, they also offer firms an incentive to shift existing production to the new zones at substantial cost to society.” This is certainly going to happen. The SEZs are definitely going to be used as tax havens, especially by industries such as Business Process Outsourcing (BPO), whose existing tax holidays are running out.

But that’s just one aspect of this gigantic scam. Under the Rules governing the SEZs, as much as 75 per cent of the SEZ area can be used for non-core activities, including development of residential or commercial properties, shopping malls, golf courses and hospitals. Developers will surely use this to make money via the real estate route rather than through export promotion. It is going to be an urban property racket of incalculable dimensions.

And for such development, the government is granting tax concessions running into tens of thousands of crores of rupees!

Even earlier, the government had attempted to set up such zones – the Export Processing Zones – but they did not yield much benefits to the economy, while the working people paid a heavy price. A 1998 report by the Comptroller and Auditor General (CAG) on export processing zones (EPZs) says: “Customs duty amounting to Rs. 7,500 crores was foregone for achieving net foreign exchange earning of Rs.4,700 crores...” Studies on the Santa Cruz Electronics EPZ show extremely high rates of labour exploitation and job insecurity, especially of female workers, poor technology absorption, and dubious long-term benefits.

The propaganda machinery is of course not interested in learning from the past. It is claiming that these zones would generate a million new jobs. But going by past experience, this promise means very little. All of India’s 28 SEZs set up so far have together produced only 100,650 jobs. And if one subtracts from this the job losses caused because of industries shifting to these zones to take advantage of the tax concessions and lax laws, it may turn out that the net employment generation is negative!

The list of concessions is not over. Each concession is worse than the previous one.

The SEZs will be like foreign territories. No labour laws will apply to them. Workers will enjoy no freedoms and no rights, including the fundamental right of association and peaceful protest. All the powers of the Labour Commissioner shall be delegated to the Development Commissioner of the particular SEZ; nobody will be allowed to conduct inspections without his prior permission; and a single point mechanism in SEZs will be provided to give all clearances and permissions pertaining to industrial safety and other regulations. SEZs will be exempt from environmental impact assessment. They will be under no obligation to employ local people or share profits with them.

Just the contrary, the SEZs will have a largely predatory relationship with their environment and its people. They will deplete groundwater and other resources. They will be islands of prosperity in a sea of deprivation and agrarian distress.

To top it all, the SEZs are being established through land acquisition under special Acts passed by the States. Unlike earlier land acquisition laws, which require that there be a public purpose behind government takeover of land, these laws mandate acquisition for private profit and without land-for-land compensation or serious rehabilitation.

It is estimated that all the SEZs, that is, those approved so far as well as those "under consideration", would consume a total of 1,25,000 hectares, almost equal to the size of Delhi! Lakhs of farmers are going to be forcibly driven out of their lands they have tilled for ages, and these lands are going to be handed over to foreign and Indian business houses for their profiteering. The money being paid to the farmers for acquiring their lands is a fraction of the market price. For instance, there was at least a 10:1 disproportion between market rates and compensation paid at Kalinganagar (Orissa). There is a three-fold difference in Dadri (UP) and an even higher disproportion in Gurgaon. But even if the market price had been paid to the farmers, the question is: how can you drive out people from their homes and fields, forcibly, without their consent, and that too not for public good but for private profiteering? And furthermore, without giving them any alternate source of livelihood; the farmers will not be given jobs in the SEZs. What will the people do once the money is gone?

It's simply horrendous. People are being treated as aliens in their own

country. It's as if the colonialists have come to rule over us once again. Is it any wonder that Prime Minister Manmohan Singh, spoke thus at Oxford last year, "British empire was a product of adventure, enterprise and creativity."[5]

India's rulers are using the very same 'creative' means to power the growth of the Indian economy.

We now take a look at what's happening to the ordinary people.

II. INDIA: REALITY

AGRICULTURE

First, let's take a look at what's been happening in the sector on which 57% of the Indian people depend upon for their livelihoods – agriculture. Each and every prediction made by us in the previous chapters is coming true.

The Indian government has continued to slash its investment in agriculture. The World Bank propaganda is that as the state withdraws from investing, the private sector would step in and the free market would in fact give a boost to overall investment in agriculture.

This is actually rubbish. About 90% of government investment is in medium and large irrigation projects. Expecting small and medium farmers – who comprise the bulk of India's farmers – to invest in irrigation is simply absurd. In fact, it's when government invests in improving 'agricultural infrastructure', such as irrigation, improvement of soil fertility, etc., that farmers find it attractive enough to increase their investments in agriculture. And so both public and private investment in agriculture have fallen. Agricultural investment has fallen from an already very low 1.9 per cent of the GDP in 1990-91 to 1.3 per cent in 2003-04.[6] And hence the share of agriculture in the total Gross Capital Formation (that is, total investment) has declined sharply, from 17.7% in 1980-81 to 5.7% in 2003-04: this for a sector which still accounts for nearly a quarter of the GDP, and on which 57% of the population depends for its livelihood.[7]

The media has made much about the increase in spending for agriculture by almost 30% in the 2005-06 Union Budget. However, this increase is deceptive: the Centre's spending on agriculture and irrigation has fallen so steeply during the liberalisation era that even after the increase in the 2005-06 Budget, the figure is just about the same as the allocation of

1990-91 in real terms. And as a percentage of GDP, this increase is simply too inadequate to reverse the steep decline: the Centre's spending on agriculture fell from 0.49 per cent in 1990-91 to 0.21 per cent in 2005-06 (Budget Estimate). In the case of irrigation, it fell from 0.06 per cent of GDP to 0.02 per cent of GDP (Budget Estimate).[8]

The above policy promoted by the World Bank, of pushing for a sharp cutback in public sector investment in agriculture, thereby strangulating it, has not come out of ignorance or stupidity, it is a deliberate policy aimed at ruining small and medium Indian farmers. This is obvious from the condition imposed by the World Bank on the state of Maharashtra as the price for a loan of $17 billion. At the World Bank's dictates, the state government rushed the Water Resources Regulatory Authority Bill through the state assembly without reading (let alone debate) by voice vote on the last day of the session! The bill mandates high water charges for farmers that could run into several thousand rupees an acre. It orders that "water charges shall reflect the full recovery of the cost of the irrigation management, administration, operation and maintenance of water resource project." Few farmers will be able to afford the new charges in the offing. And for farmers who have more than two children, they must pay "one and a half times of the normal rates of water charges..." What happens to those who cannot pay? They could go to prison for up to six months. And face fines "ten times the annual water charges…".[9] Yet another reminder of the days of the Raj. But then, this is the real meaning of globalisation: economic recolonisation.

The multi-pronged assault on the Indian farmer launched by the Indian ruling classes at the behest of their imperialist overlords (discussed on pp. 112-3 and 137-40 above) has continued. Not only is government expenditure being scaled down, all support in the form of subsidies is being eliminated, while input costs are rising across the board. With government giving the green signal to banks that they can ignore the priority sector lending targets, direct bank lending to agriculture as a percentage of bank credit has fallen by nearly half, from 13.8 per cent of net bank credit in June 1990 to 7.2 per cent in March 2003.[10]

And so, the stagnation gripping agriculture, discussed in Chapter 4, pp. 107-9 above, has continued. The growth rate of agricultural production has fallen further; during the past decade of 'reforms' (1995-96 to 2004-05) it has plummeted to 0.6 per cent, which means production has fallen sharply in per capita terms.

If agricultural output had continued to grow during this past decade at the rate at which it grew during the 1980s, output now would have been one-third higher than actually achieved![11]

The *10th Plan (2002-07) Mid-term Appraisal* of the Planning Commission accepts that "GDP growth in agriculture and allied sectors during the first three years of the Tenth Plan averages only 1 per cent per annum. The Tenth Plan target of 4 per cent growth is, therefore, far from being realised. In fact, per capita agricultural GDP shows no significant upward trend after 1996-97, only fluctuations." It also accurately identifies the reason for this fall in output, "The deceleration in the growth of agriculture in the 1990s is generally attributed to inadequate investment." It confesses: "Although the Tenth Plan had aimed to reverse deceleration in agricultural growth, its allocation for agriculture and allied sectors was relatively modest. The share of agriculture and allied sectors was only 3.9 per cent of the total Tenth Plan outlay as against 4.9 per cent in the Ninth."[12] Despite this analysis by the Planning Commission, no corrective measures have been taken by the government. But this is not surprising. Actually, the government might as well wind up the Planning Commission, because planning is now done as per World Bank dictates.

We have discussed in the previous chapters that imperialists have arm-twisted the Indian government to open up the Indian market to agricultural imports from the West. Indian farmers are now having to not only contend with falling yields and soaring input costs, they are also being forced to compete with heavily subsidized imports from the developed countries. During the past decade, imports of a number of agricultural products have increased dramatically, albeit on a low base. Between the triennium ending 1993-94 and the triennium ending 2003-04, the volume of imports of crude rubber grew by 126 per cent; of raw cotton by 536 per cent; and of edible oils by 2,379 per cent. Imported edible oils constituted a few percentage points of domestic consumption in the mid-1990s; they now make up nearly half.[13]

As the agrarian crisis deepens, farmers are sinking deeper and deeper into debt. According to the National Sample Survey Organisation, Uttar Pradesh has the highest number of indebted farmers. An estimated 6.9 million households in the state, out of the total 17.6 million – an estimated 40.3% of the rural population – are in debt. Andhra comes second, the number of farmers caught in the debt trap here are 4.9 million, followed by Maharashtra with 3.6 million.[14]

And so it should come as no surprise that an increasing number of farmers are being forced to sell off their lands. The proportion of landless households among the rural population has risen from 35 per cent in 1987-88 to 41 per cent in 1999-2000; the proportion of landless farmers and farmers with marginal holdings combined has risen from 55 per cent to 63 per cent in this period.[15]

But that's not been the only impact of the agrarian crisis. As farmers are increasingly losing hope of being able to pay off their debts, more and more farmers are committing suicides. In just the Vidarbha region of Maharashtra in August this year (2006), 111 farmers killed themselves. That brings the total number since June last year to 828.[16]

During the past decade, farmer suicides have been reported from Punjab, Haryana, Rajasthan, Karnataka, Kerala, Madhya Pradesh, and elsewhere. According to Dr. Vandana Shiva, more than 25,000 farmers have committed suicide during the past decade![17] It's a shocking number, it should have made headlines in any humane society. Instead, the Union Agricultural Minister, speaking in the Parliament on May 19, 2006, stated that the number of farmers' suicides was only a small fraction of the total number of suicides in the country. He further asserted that there had been nothing like a spate of suicides over the last two-three years.[18] One wonders how many more suicides farmers should commit for the Agricultural Ministry to take notice!

With suicide rates shooting up to 2 a day in Vidarbha, finally, the Prime Minister visited the region on June 30 – July 1 this year. But the relief package of Rs. 3750 crores announced by him will have no impact on the crisis there. Neither in the short run, nor in the long term. Because his relief package did not even touch the two main reasons for the agrarian crisis in this cotton-growing region. One: he did not increase the purchase price for cotton by even a rupee. The Maharashtra government had reduced it by Rs. 500, to Rs. 1700 a quintal, in May 2005. If farmers were committing suicides when the price of cotton was Rs.2250, obviously these were going to shoot up when it was reduced to Rs. 1700. Two: he did not announce any debt waiver. Had there been a waiver of debt of up to just Rs.25,000, more than 80 per cent of Vidarbha's farmers would no longer have owed the banks money.[19] If the government can waive off Rs. 45,000 crores of loans owed by the big industrialists to the banks during the past five years,[20] who were not going to commit suicide even if their debt had not been waived, surely it could have waived off a few hundred

crores of rupees of loans owed by lakhs of farmers. But now, in globalizing India, the farmers, workers, the ordinary people, have all become non-citizens.

And so after the Prime Minister's visit to Vidarbha, the rate at which the suicides are occurring has risen. From two a day in the pre-visit period to roughly one every eight hours now.[21]

The agrarian crisis is set to deepen in the coming years. As mentioned above, even though the *10th Plan Mid-term Appraisal* of the Planning Commission correctly identified the reasons for the agrarian crisis, in the *Approach to the Eleventh Five-Year Plan* the Planning Commission totally ignores the conclusions arrived at in the mid-term appraisal! The *Approach Paper* does not address any of the basic problems facing most farmers in the country; on the contrary, it unabashedly toes the World Bank line that the problems of Indian agriculture can be solved and agriculture made viable and buoyant again by encouraging corporate farming and diversification into horticulture.[22]

This same approach can be seen in the 2005-06 Budget. Of the paltry increase in the budget allocations for agriculture, the largest hike was in a new National Horticultural Mission, with an allocation of Rs. 630 crores. Another Rs. 400 crores was allocated for a new scheme to promote micro-irrigation (drips and sprinklers), targeted at the same sections engaged in "diversified", commercial crops. Thus some 62 per cent of the increase in the allocation to agriculture was on these two counts alone, benefiting big farmers and agribusiness corporations engaged in producing fruits, vegetables, and flowers for the export market and the urban well-to-do.

In contrast, allocations for foodgrains, oilseeds, cotton, animal husbandry, dairy development, and fisheries, that is, the activities that engage the overwhelming majority in agriculture, were stagnant or reduced. The allocation for soil and water conservation was also virtually frozen.[23]

The Indian ruling classes are ruthlessly pushing ahead with implementing their policy of slowly garroting the 60 crore people living in India's villages and handing over Indian agriculture to multinational agribusiness corporations and their Indian cohorts. Just as we finished writing these lines came the news that the number of farmer suicides in Vidarbha had gone up to 125 in September 2006, or more than four a day.[24]

UNEMPLOYMENT[25]

Let us now take a look at the so-called trickle-down effects of the growth of the Indian economy on the people. Obviously, for the vast majority of the people, what matters is whether they are able to find employment.

We have discussed in Chapter Six that globalization has led to a massive destruction of jobs and that there has been a marked deceleration in the annual growth of organized sector employment. The latest official statistics on employment generation in the economy indicate that the situation has become far worse.

Table 9.1: Annual Addition to Organised Sector Employment (lakh jobs)

1990-91	3.9
1991-92	3.2
1992-93	1.2
1993-94	2.0
1994-95	1.5
1995-96	4.1
1996-97	3.1
1997-98	-0.8
1998-99	-0.6
1999-00	-1.5
2000-01	-1.7

Employment growth in the organized sector, which was crawling along during the early 1990s, turned negative since the late 1990s! Employment fell every year during 1997-2001. The slide continues precipitously: according to a member of the Planning Commission, the corporate sector has shed one million jobs in 2003 alone.[26]

But that's not all. The last two National Sample Surveys (NSS) of 1993-94 and 1999-2000 show that total employment growth in the economy has also plummeted.

Table 9.2: Employment and Unemployment

	Million person years			Growth per annum (%)	
	1983	1993-94	1999-00	1983 to 1993-94	1993-94 to 1999-00
Population	718.2	894.0	1004.0	2.00	1.95
Labour force	261.3	336.0	363.3	2.43	1.31
Workforce	239.6	315.8	336.8	2.70	1.07
Unemployment rate (%)	(8.30)	(5.99)	(7.32)		
No. of unemployed	21.8	20.1	26.6		

Source: Planning Commission; Economic Survey 2002-03. Calculated from National Sample Survey, Current Daily Status basis.

According to official data on employment (based on NSS) given in Table 9.2, the rate of unemployment was 8.3 per cent in 1983; it fell to six per cent in 1993-94; and then rose again to 7.3 per cent in 1999-2000. These data clearly show that there was a sharp slowdown in the rate of growth of employment— from 2.7 % per year during 1983 to 1993-94 to 1.1 % per year during 1993-94 to 1999-2000. **The number of new jobs fell from 7.6 million a year in the earlier period to 3.5 million a year in the later period.**

A closer examination of the NSS data reveals that the real situation of unemployment is far worse than that indicated by the above official estimates. The "labour force" is the number of persons employed or actively looking for work. The second column in Table 9.2 gives the increase in the labour force in the 1980s and 1990s. During the period 1983 to 1993-94, the labour force grew at 2.43 % a year, but during 1993-94 to 1999-2000, this annual growth in the labour force fell to nearly half, to just 1.31%.

What could account for this sudden drop in the growth rate of those looking for work, even as the working age population continued to grow rapidly? Higher enrolment of children in school would no doubt reduce the size of the labour force, but it would account for only a small fraction of the missing workers. *The main reason for the drop is that many workers gave up looking for work, because no jobs were available for a long time.* They joined the pool of what are called "discouraged workers".

Let us calculate what the rate of unemployment would have been with the labour force continuing to grow during the second period at the same rate as during the first. In that case, instead of reaching 363 million by 1999-2000, the labour force would have grown to 388 million. The number of unemployed would then be not 26.6 million, as stated by the Planning Commission, but 51 million; and the rate of unemployment would be not 7.3 per cent, but 13.2 per cent. That is, almost double.

The rate of unemployment has further worsened in the subsequent years. That is because according to the Planning Commission, employment elasticity has sharply fallen. "Employment elasticity" refers to the percentage growth in employment for each percentage point growth in GDP. (That is: Employment elasticity in per cent = percentage growth in employment / annual growth of GDP). This statistic thus tells us about how many jobs GDP growth is creating .

The GDP grew at 5.2 % per annum during the period 1983 to 1993-94; this growth rate accelerated to 6.7 % per year during the second period, 1993-94 to 1999-2000. However, employment elasticity fell sharply from 0.52 during the first period to 0.16 during the second period.

If we make the reasonable assumption that the labour force grew at 2.43 % per annum during the period 2000-04, and further assume that employment elasticity remained constant at 0.16 during this period, a simple mathematical calculation reveals (given the GDP growth rates in 2000-01, 2001-02, 2002-03 and 2003-04 as 4.4, 5.6, 4.3 and 8.0 per cent respectively) : by the end of 2003-04 the labour force would have grown to 427 million, total employment would have crawled up to 349 million, and the figure of unemployed would have reached 78 million. *The unemployment rate would be seen to have risen from 13.2 per cent to 18.3 per cent in the space of just four years.*

But even these appalling figures understate the real extent of the problem of unemployment in India. Because, official data on employment in India considers any person involved in any kind of 'gainful activity' as employed, even if he is selling peanuts and does not earn enough to eat two full meals a day. This leads to strange results. Even though 26 per cent of the population were poor in 1999-2000 (taking the ridiculously low estimate of poverty provided by the Planning Commission), one would expect a similar percentage of the labour force to be unemployed. However, the Planning Commission considers only 7.3 per cent of the labour force in that year to have been unemployed! Thus, according to Indian government's criteria, one may be earning so little that he is considered below the official poverty line (which itself is shamefully low), and yet he is considered employed in official statistics.

The harsh truth is that in India, people take whatever work they can get, regardless of how low the wages are, for there is no alternative: there is no unemployment allowance for those who cannot get jobs. Actually, these people should be considered underemployed.

What is the extent of underemployment in India?

It's difficult to guess. But it's huge. One significant fact can give an idea of its extent. Only around 8 % of the employed are in the organized sector. The rest are in the unorganized sector, where the minimum wage generally does not operate. And as mentioned above, organized sector employment is actually falling, as companies are replacing permanent workers with contract workers, at a fraction of the wage. This is reflected,

for example, in the decreasing share of wages in costs of production, and the increasing share of jobs contracted out in total costs. A December 2003 study by the Centre for Monitoring Indian Economy (CMIE) points out that, while the **share of wages in the total costs of Indian companies fell from 6.1 per cent in 1991-92 to 4.4 per cent in 2002-03**, the share of purchase of finished goods (because of jobs contracted out to other units, in many cases) rose from 13 per cent to 20 per cent during the same period.

Type of jobs created in the Indian economy since globalisation

To understand the reasons for the collapse of employment generation ever since the reforms began, let us take a quick look at the type of jobs created in the Indian economy since 1991. Data for this is provided by the NSS surveys of 1993-94 and 1999-2000. As Table 9.2 shows, total jobs created in the economy during this period were a mere 26.6 million.

Agriculture

This sector saw **zero growth** (actually 0.02 per cent per year, during 1993-94 to 1999-2000)! This, for a sector which is still the country's largest employer: agriculture accounted for 60.4 per cent of employment in 1993-94, and 56.7 per cent in 1999-2000. Had agricultural employment carried on growing as in the preceding period, *it would have created 27 million jobs* during this period. This is the principal reason for the collapse of employment since the reforms.

From the picture of stagnation of agriculture painted earlier, this was bound to happen. And considering the future orientation of the agriculture sector as laid out in the *Approach to the Eleventh Five-Year Plan*, employment growth might actually turn negative in the coming years.

Industrial employment

While there has been some growth in industrial employment during this period, it has been too inadequate to compensate for the drastic fall in employment generation in agriculture. Total jobs in industry grew by 9.2 million during this period. And an overwhelming proportion of these jobs were in the low-paid unorganized sector.

NSS data tell us that 5.8 million jobs were created in the manufacturing sector between 1993-94 and 1999-2000. Of these, the organised manufacturing sector created just two lakh (200,000) jobs. Worse, the remaining “industrial” jobs were not even factory jobs! Data provided by the *Annual Survey of Industries* (which covers all factory units employing 10 or more workers using power and 20 or more workers not using power) shows an actual fall in factory employment from 8.7 million jobs to 8 million jobs during the same period. So it would seem that the additional jobs in “manufacturing” were created outside the factory sector, in very tiny units and home-based manufacturing. Calling this industrial employment growth is ridiculous. Growth of such jobs is not a sign of a booming industrial economy, but of households struggling to make ends meet somehow or the other.

The other source of fresh “industrial employment” was construction, where 4 million jobs were created during these years covered by the survey. But here too, the entire job creation was in the unorganized sector; organised sector employment in construction actually fell from 1.2 million to 1.1 million. Unorganised sector construction labourers work in terrible conditions, devoid of medical facilities, disability compensation, education for children, and decent housing: and one in seven jobs created in India’s ‘booming’ economy is in this sector!

From the discussion above, another important conclusion follows: *foreign investment in India is not creating industrial jobs*. On the contrary it has led to massive job destruction. Millions have been pushed below the poverty line, who now try to survive by struggling to find employment in the dreadful low-paid jobs being created under globalization.

Service sector

The main source of fresh employment was the service sector, accounting for an additional 11.5 million jobs.

Within the service sector, the biggest share was that of “trade, hotels and restaurants”, which yielded an additional 10.7 million jobs between 1993-94 and 1999-2000. “Trade” includes all sorts of petty vendors; "hotels" includes horribly low-paid jobs in tiny tea shops and eateries. Under globalization, this sector looks set to become a larger employer than manufacturing. For all these millions, the discourse about India becoming an economic super-power has little meaning.

But what about the Information Technology (IT) sector?

By now most readers must be asking this question, that there must be something seriously wrong with the above description about the

employment scenario in India, because there is not a whiff of mention about the IT sector, which is supposed to be generating millions of jobs.

Well, actually we have not left out this sector. This sector comes under ‘services’. And the reason it found no mention when we were discussing employment generation in the services sector is because the total employment provided by the IT sector is trivial – in 2004, the total employment provided by this sector was just 0.2% of the total employment that year. The Information Technology or IT sector is composed of two parts: the software sector, and the IT-enabled sector (ITES). By 2003, they accounted for 490,000 and 160,000 jobs, respectively. That’s all.

Further, despite all the media hype about the enormous number of jobs this sector is going to provide in the future, the reality is quite different. According to estimates made by an official task force on human resource development in the IT industry, this sector is expected to generate an additional 1.5 million jobs over the five year period 2004-09. This is just around three per cent of the total number of new people who will be entering the job market during these five years.

'KNOWLEDGE ECONOMY'?

Even if leave aside the employment generation potential of the IT sector, nevertheless, the boom in this sector is touted as proof that India is fast becoming a ‘Knowledge Economy’, an Information Technology superpower, and the like.

Let us first examine this assertion from the angle as to whether the kind of growth taking place in this sector is really a symbol of development.

To repeat, India’s much-vaunted IT sector is composed of two parts: the software sector, and the IT-enabled sector (ITES).

In the ITES sector, work that was earlier done in the developed world, particularly the US, has been ‘outsourced’, or contracted out, to locations in India. The activities outsourced include call centres, medical transcription, data entry, claims processing, credit card administration, and such other routine office work as can be performed at remote locations. For much of this work, all that is required is knowledge of English; it does not require superior education or skills, it is clearly not high-technology or knowledge-based work; new information-and-communications technology has merely made it possible to carry out such work at remote locations. The only reason why this work has been outsourced to India is because wages here are low, and a fraction of the wages in the developed countries. But from this also flows the uncertainty that will always loom over this industry: as other poor countries, particularly those which were once colonized by an English-speaking country, like Philippines, join the race to attract such outsourcing jobs, either the wages here will have to further fall for these jobs to stay in India, or these jobs will vanish.

How can the creation of such jobs, which are essentially transforming Indians into cyber-coolies, be considered development? This is actually commonsense, but just to buttress our argument, here is more proof: a recent study by the V.V. Giri National Labour Institute has pointed out that the call centre industry "leads to a wastage of human resources and de-skilling of workers", which will have a high impact on Indian industry in the long-term.[27]

Though this may seem surprising, but the situation is much the same with India's software industry. India's booming software exports do not indicate that India is anywhere near becoming a world leader in this field. Firstly, the figures put out by the RBI about India's software exports actually include both software exports and export earnings of the ITES sector. Thus, Indian "software" exports worth $12.2 billion in 2003-04 include IT-enabled services amounting to $3.6 billion. Secondly, of the actual export earnings of the software industry, a large proportion is accounted for by 'body-shopping', whereby Indian firms supply software workers to US firms to do their work onsite in the US itself, at a much lower cost than if US citizens were hired. For example, in 2003, of India's total software exports to the US of $5.75 billion, roughly $4.8 billion was "salaries" paid to Indian IT-workers on short term H-1B visas to the US. This is not an indication of a knowledge economy, but a low-wage economy. The noted economists C. P. Chandrashekhar and Jayati Ghosh write about these exports, "(B)ody-shopping of this kind is representative of activities that are at the lower end of the software services spectrum."[28]

Apart from such work, most of the remaining work done by India's software industry also does not cater to the domestic industry, but is work outsourced by corporations from the developed countries. And even though these jobs involve higher value work and greater skills and education as compared to the ITES sector, they are the less creative jobs within the software industry in the West. Even the *Business Week* (March 1, 2004) admits: "So far, the less-creative software jobs are the ones being moved offshore: bug-fixing, updating antiquated code, and

routine programming tasks that require many hands."

Even if we leave apart all the above arguments, the question is: how can India be called a 'knowledge superpower' on the basis of a sector which provides employment to less that one quarter of one per cent of the population, when the actual reality of the country is that an overwhelming percentage of its population is either illiterate or can barely read and write? It's actually obscene, shows the extent to which India's elites have divorced from the conditions of the ordinary people.

Yes, Indian continues to have one of the highest rates of illiteracy in the world. Adult literacy in India is just 61 per cent; on this score, it ranks 146th out of 177 countries in UN's Human Development Index (that is, many countries with much lower per capita income had much higher literacy levels than India – for example, much of desperately poor sub-Saharan Africa).[29] The state of education continues to be as bad as described by us in Chapter Four (pp. 113-14); in fact it is heading towards becoming worse. In recent years, on the recommendation of the World Bank, the Indian government has increasingly focused its meagre education expenditures on primary education, largely abandoning secondary and higher education (as if they were a luxury). And so higher education has gone out of the reach of all but a small section of the population.

But even as regards primary education, the situation is grim. According to Census data, 44% of the children between the age of five and nine are not in school. More tellingly, dropout rates are very high; less than half of the children who join Class I actually complete Class VIII, and much less than 10% pass the higher secondary examination. The situation is even worse for the socially deprived sections. For example, more than 80% of Scheduled Caste girls and 90% of Scheduled Tribe girls who join Class I do not complete Class X.[30]

In this background, some hope was raised in 2002 when the government made free and compulsory education a fundamental right by incorporating Article 21 A into the Constitution through the 86th Constitutional Amendment. However, ever since then, the government has dragged its feet relentlessly in preparing and passing Central legislation that would guarantee this right. Finally, in 2006, the Centre decided to renege on the commitment made in the Constitutional Amendment, and dropped the idea of passing any such law. Instead, it decided to pass on the buck to the State governments. It has formulated a model Bill which has been circulated to all the State governments for them to enact. And where will the huge resources required for meeting this very important obligation come from? The Centre expects the cash-strapped State governments to raise them[31], as it has gone bankrupt giving subsidies to the foreign and Indian corporate houses. In all probability, very soon the State governments will pass on the onus to the districts, who would pass it to the zilla parishads, then to the panchayats and finally to the parents themselves.

Speaking at a national seminar on child labour and the right to education, former University Grants Commission chairperson Professor Yash Pal said that no country in the world treated its children so badly as India.[32]

Unfazed, the propaganda machinery continues its chatter: India is becoming a knowledge superpower.

HUMAN DEVELOPMENT

Under the sweet-sounding name of globalization, the Indian ruling classes have launched a ferocious assault on the livelihoods of the working people; all the gains made by them since independence are being rolled back. We have described in Chapters 4 and 6 the tragedy of poverty, disease and destitution being wrought upon the ordinary people as a result of these policies.

All recent official data indicate that due to cutbacks in government spending, the plight of the common people has continued to worsen. The United Nation's Human Development Index (HDI) is a composite of three different indices for life expectancy, education and per capita GDP. In this Index, India's rank in 2003 was at 127 out of 177 countries. India's HDI value is well below the average HDI value for developing countries.[33]

Worsening Health Status

Even in the mid-1980s, the health expenditure of Central and State governments taken together was pitifully small at just above 1 per cent of the gross domestic product (GDP), but further cuts in public health spending has now brought it down to just around 0.9 per cent.[34] As a percentage of GDP, India's public health expenditure is the fifth lowest in the world. The National Health Policy admits that at 0.9%, this is lower than the average even in sub-Saharan Africa!

Due to cutbacks in government spending, even the public hospitals have started charging all kinds of user fees from poor patients.

Simultaneously, the government has actively promoted the growth of the private sector in healthcare. India has the largest and least regulated private healthcare sector in the world, according to Prof. Mohan Rao, Professor, Centre for Community Health and Social Medicine, JNU, Delhi.[35]

This completely inadequate government expenditure has forced citizens to bear the brunt of health spending. According to the Report of the National Commission on Macroeconomics and Health, 2005, households undertook nearly three-fourths of all the health spending in the country. This means that India has the lowest ratio of public to private health expenditure among almost all countries in the world, both developed and developing. Compared with India's public-private health spending ratio of 1:4, the ratio in China is around 2:3, while even Pakistan has a ratio of 1:3.[36]

These are overall figures. With healthcare becoming increasingly costly, the percentage of Indians not availing of any kind of medical care because they are no longer able to afford the costs is now a shocking 21%, up from 11% a decade ago.[37]

The result is: India is the world leader in neonatal, infant and maternity deaths. According to a joint study by the World Health Organisation (WHO) and United Nations Children's Fund (UNICEF)[38]:

- 30% of the global neonatal deaths occur in India; every year in India, 1.2 million newborns die within the first four weeks!
- India accounts for 67 per cent of the infant deaths in the world!!
- India has the highest rate of maternal mortality in the world; of the 5.36 lakh maternal deaths each year in the world, 1.4 lakh deaths or nearly 25% of the total occur in India!!!

Despite these alarming figures, the government is not concerned. It is busy further relaxing laws and removing controls on profiteering so that the private sector can mint more money. In 2002, the government further reduced the number of drugs under price control from 74 to just 38; in one sweep, the volume of pharmaceuticals under price control was reduced from an estimated 40% to below 25% of the total drug market. It may be recalled that in 1995 the number of drugs under price control had been slashed from 166 to 74.[39]

In March 2005, the Indian Parliament passed a bill modifying the Indian Patent Act of 1970 making it illegal to copy patented drugs. It was because of India's Patent Act of 1970 that the price of medicines for the treatment of AIDS has become affordable for the ordinary people in the third world. Till some years ago, western drug multinationals had kept the price of the three antiretroviral (ARV) drugs used for the treatment of AIDS so high that the annual cost of AIDS treatment was an astronomical $15,000 (approx. Rs. 6 lakhs) a patient. The Indian drug industry forced this down to a little more than $200 (Rs. 10,000) in less than 10 years; the country's "generics" pharmaceutical industry now provides treatment to half the 700,000 HIV-infected people in developing countries. Such a miraculous reduction will now no longer be possible in the future. According to Ellen't Hoen, a director of the world renowned medical relief agency Médecins sans Frontières: "Under the new legislation we will see new medicines only available for the rich, while old treatments will be for the poor."[40]

The blood sucking elites see in India's poverty an opportunity to make huge money. In January 2005, the government enacted an amendment to the Drugs and Cosmetics Rules, making possible clinical trials on patients in India. Unscrupulous MNC drug companies will now find it easy to conduct drug trials on poor and ignorant patients in India. It is well known that even before this amendment, drug companies had been conducting such trials illegally. For instance, in 2004, Shantha Biotech tested a drug meant to treat heart attacks, while Biocon tested a genetically modified form of insulin, without the necessary clearances; they got caught because eight patients died. God alone knows how many other poor Indians have been made guinea pigs by such scoundrel companies.

The new amendment would create havoc, as India has no regulatory apparatus to cope with legal and ethical violations. "The days of the Raj are long gone," writes Scott Carney in *Wired News*, but multinational drug corporations have already started rushing into India, "...taking advantage of India's educated work force and deep poverty, to turn South Asia into the world's largest clinical-testing petri dish." It is expected that by 2010, total spending on outsourcing clinical trials to India could top $2 billion![41] The Indian rich are of course delighted, it will mean more growth.

Rising Poverty

The agrarian crisis, falling real wages as permanent workers are replaced by low-paid casual workers, the huge rise in unemployment and underemployment, all these have led to a massive increase in poverty.

Many intellectuals have been churning out academic treatises to show

how fast poverty is declining. These gladiators of imperialist globalization have succeeded in reducing poverty in India by lowering the poverty line to such an abysmally low level that it no longer relates to whether or not people get their minimum requirement of calories! The true extent of poverty in the country is revealed indirectly by the official National Sample Surveys, which reveal that the average calorie consumption in India, which was already low at 2200 kcal per day in 1987-88 (against a norm of 2400 kcal), had fallen to around 2150 kcal per day in 1999-2000! [42] By 2000, three-fourths of the rural population, and half the urban population, did not get the minimum recommended calories.[43]

The above figures are also confirmed by other nutritional and health surveys. According to the National Family Health Survey, 1998-99, half of India's women are anemic.[44] According to the UNICEF, 47% of India's children, numbering 57 million, are underweight. Even sub-Saharan Africa is better off, where 33% of the children are malnourished. Speaking to the *Times of India*, UNICEF India's chief of child development, Werner Schultink, said no other country was worse off than India in the case of malnourished children.[45]

Undernutrition leads to high morbidity and mortality levels. Nearly 50 per cent of all childhood deaths in India are due to malnutrition.[46] In the last three years, over 24,000 children have died of malnutrition.[47]

A recent report from the Centre for Environment and Food Security on the political economy of hunger in Adivasi areas provides even more frightening information. This report was based on a survey of 1,000 households in 40 sample villages in mainly tribal areas of Rajasthan and Jharkhand. It revealed that 99 per cent of the households were facing chronic and endemic hunger, 25 per cent had faced semi-starvation during the previous week and another 24 per cent in the previous month. Out of the 500 Adivasi households surveyed in Rajasthan, not a single one had secured two square meals for the whole of the previous year.[48]

Its actually a national crisis, a national emergency. But instead of alarm bells ringing in government corridors, the United Progressive Alliance government early this year decided to reduce the quantity of wheat and rice issued through the public distribution system (PDS) and Antyodaya Anna Yojana (another scheme announced some years ago to provide foodgrains to 5 million poorest families at prices lower than BPL prices); the most vulnerable households in the country will now receive 5 kg less of foodgrains a month. It's to reduce the burgeoning food subsidy bill; this snatching of food from the mouths of millions of infants and destitute people is expected to yield “saved resources” to the tune of Rs.4,524 crores[49] – less than 5% of the amount given up by the same government last year when it chose to do away completely with the capital gains tax (discussed later).

Dismantling the Public Distribution System

The ‘terrorists’ who rule the country are also busy winding up the Food Corporation of India (FCI) and the public distribution system (PDS), the only means available to the government by which food can be provided to the country’s starving millions at subsidized rates! This is the wish of their masters sitting in Washington, the world’s biggest terrorists. In its key in its key 1991 document *India: Country Economic Memorandum, vol. II — Agriculture: Challenges and Opportunities* the World Bank had recommended: “Food Corporation of India should reduce its large direct role in purchasing, transport, and storing grain, through subcontracting to licensed agents, wholesalers and stockists, and providing price incentives for farmer storage of grains.” Instead of maintaining buffer stocks, India should turn to the world market in times of crisis: “High levels of buffer and working stocks for wheat and rice (currently 19 million tons) are both expensive and unnecessary, especially in the light of changing objectives for market interventions and a new role for FCI. India could be adequately protected with a smaller buffer stock, entering the world market to obtain supplementary supplies in prior production years and keeping foreign exchange to handle purchase in deficit years.” [50]

The government has resorted to all kinds of tricks and manipulations to carry out these orders. We have described in Chapter 4 (pp. 117-120) how the government artificially created a surplus of foodgrains by hiking PDS prices. And so, foodgrain stocks soared from 18.7 million tons in December 1997 to 58 million tons.

The government now went into an overdrive to unload these huge stocks. Declaring that these stocks were because growth of foodgrain production exceeded population growth rate, it launched a massive export push. Between April 2000 and November 2003, a total of 24.8 million tons of PDS wheat and rice were exported, at subsidized rates! It’s estimated that the total subsidy paid to 'poor' exporters would be of the order of Rs. 12,500 to Rs. 15,000 crores. It also offloaded huge quantities – 13.7 million tons over these same four years - to 'starving' domestic grain

traders, at similarly subsidised prices. Finally, it allowed 'malnourished' officials to brazenly pilfer a massive 14.7 million tons of foodgrain from FCI’s godowns! There is absolutely exaggeration in this; it’s mentioned in RBI’s *Currency and Finance Report 2002-03* (p.12). (To silence the critics, the government finally also cut both APL and BPL prices. As a result, offtake from PDS rose from 11.1 million tons in 2001-2 to 20.1 million tons in 2002-3.)

Through such dubious means, the government succeeded in drawing down the grain mountain at record speed. Between April 2002 and November 2003, total offtake soared to an unprecedented 77.9 million tons as a result of all the methods mentioned above, and PDS stocks fell to just 22.1 million tons in November 2003. Rice stocks had actually come down to below the minimum buffer stock norms![51] In a country where millions are starving, this monstrous scandal should have made headlines. But there was not a whimper in the media.

The government has now taken the next step towards carrying out World Bank orders to finally close down the FCI. It has now resorted to deliberately cutting down on procurement, while encouraging private trade. This year, it deliberately allowed giant companies like Cargill, Reliance, ITC and even the Australian Wheat Board to go to the villages and procure wheat from farmers by giving them price slightly higher than the government procurement price of Rs. 650. Consequently, the FCI procured only 9.2 million tons of wheat this year, of the total estimated wheat production of 71.5 mt. (In 2001-02, with wheat production at 69.8 mt, procurement by state agencies was 20.6 mt.) As a result, wheat stocks with the government stood at 9.3 million tons on June 1, having declined continuously for the last four years; wheat stocks on June 1, 2002 were 41.3 mt. Having cornered a substantial part of the wheat stock, the traders now resorted to hoarding to push up prices by Rs. 5-6 a kg, or two-thirds more than what they spent on buying the grain from farmers.

The sharp decline in wheat stocks and the rise in market prices has now forced the government to import wheat for the first time in decades; it has imported 39 lakh tons of wheat at a price of Rs.789.20 a quintal – Rs. 100 more than what it offered the Indian farmer! And many of the foreign traders who supplied the imported wheat were the same ones who had been allowed by the government to purchase wheat from the Indian farmers![52]

The giant MNC agribusiness corporations are rubbing their hands in glee. Even though they made huge profits this year, it's just the beginning.

HEADING INTO THE FINANCIAL WHIRLPOOL

Some time ago, intoxicated by the high GDP growth figures for the past three years, combined with the rapid climb of the Bombay Stock Exchange's sensitive index (Sensex) to a record-breaking 10,000-plus level, Finance Minister Chidambaram commented that it was a "heady mix." One of the conclusions he drew from these figures was: "The Sensex reflects business confidence and the strong fundamentals of the economy."[53]

The Finance Minister is behaving like Nero. For, all indications are that the Indian economy is heading into a financial crisis similar to that which engulfed Mexico and South East Asia some years ago.

A single fact which came in the papers in April 2006 reveals the true state of the Indian economy. India's trade deficit had widened to $39.6 billion in 2005-06.[54] An editorial in the *Times of India* warned: "India's trade deficit is no longer in the comfort zone… the Economic Advisory Council of the government pegs the current account deficit, or the sum of trade deficit and remittance flows, at… about $18 billion. India depends primarily on its $10 billion net foreign institutional investment to plug the gap. While FII inflows are likely to increase over the years owing to rising confidence in the Indian economy, they should not be relied upon to plug the current account deficit. FIIs can pull out large sums of money just as easily as they invest."[55]

The editorial goes on to say that the country needs to increase its exports and ramp up FDI. However, we have explained in the previous chapters that given the present structure of the world economy: FIRSTLY, it is not possible for India to achieve a miraculous growth in its exports, and hence the trade deficit will continue to widen; and SECONDLY, there cannot be a sharp increase in the volume of FDI flows into India, and even if they increase, the country's financial crisis only worsens because it only leads to rise in profit outflows.

And hence, the Indian economy is becoming more and more dependent on speculative capital inflows, to keep the economy afloat. Fifteen years of globalization have in no way helped India come out of the financial crisis of 1991, which is what India's rulers claim is one of the objectives of the economic reforms. On the contrary, the economy is now in a deeper crisis, as it is now hostage to foreign speculators.

We have shown in Chapter 7, pp. 202-205, the power these speculators have come to wield over the Indian economy. In 2004, when the present Congress government came to power with the support of the Left parties, the speculators decided to deliver a mild warning to the new government just in case the Left decided to actually get some of its rhetoric implemented. On May 17, on the eve of the formation of the government, the Bombay Stock Exchange plummeted 564 points, its sharpest loss ever. Trading had to be stopped twice during the day, so steep were the falls. The market manipulators were flexing their muscles.

The Indian economy has become so dependent upon speculators that, in his very first statement upon being invited by the President to form a government, Manmohan Singh rushed to soothe the share market. His government, he assured speculators, "recognised the importance of a healthy capital market and there was no reason for anyone to panic."[56] Hardly had the new government been formed than the finance minister flew down to Mumbai to meet speculators. He promised them that many initiatives would be taken in the Budget to boost the share market. "He said we should expect a few 'sexy' things in the Budget", according to one broker quoted in the *Business Standard*.[57]

Indeed, the 2004 budget fulfilled the Finance Minister's promise. Banks were allowed greater scope to fund trading in share markets. FIIs were earlier not allowed to invest more than $1 billion in debt funds; that ceiling was raised to $1.75 billion. Most importantly, the tax on long-term capital gains in share trading was scrapped altogether, and that on short-term capital gains was reduced to 10 per cent.[58]

This was a stunning giveaway. The noted economist C. P. Chandrasekhar, Professor of Economics at the Centre for Economic Studies and Planning, Jawaharlal Nehru University, Delhi, has made a rough calculation of the extent of revenue loss to the government: "The implications of this extravagance can be assessed with a back-of-the-envelope calculation, which, even while unsatisfactory, is illustrative. Market capitalisation in the Bombay Stock Exchange stood at Rs.16,85,989 crores at the end of 2004. This rose by more than Rs.803,000 crores to Rs.24,89,386 crores at the end of 2005. If we assume for purposes of our illustration that this is indicative of the gains registered by everyone who traded shares after holding them for a year, the capital gains tax they would have had to pay would have amounted to Rs.80,000 crores. This is equivalent to the total receipts from corporation tax in financial year 2004-

05 and a quarter of the gross tax revenue of the Centre in that year. While the actual transactions in the market would not have yielded capital gains of this magnitude … these numbers point to the kind of losses we are possibly talking about."[59]

It is these outrageous concessions given to the FIIs which are the real reason for the recent boom in the FII inflows into India. While cumulative net FII flows into India since the early 1990s until end-March 2003 amounted to $15.8 billion, the increment in cumulative value between that date and the middle of February 2005 was $26.9 billion. It is these inflows which are primarily responsible for driving the markets to their unprecedented highs: the Bombay Sensex was at 3,727 on March 3, 2003; over the next 52 months, it rose to 10,113 on February 15, 2006.[60]

Thus the claim that the surge reflects strong economic fundamentals is nonsense. Rather, it is fiscal extravagance in the form of a huge tax concession to the domestic and foreign super-rich that has led to the buoyancy in the stock market.

As discussed above, it is these portfolio capital flows that are being used to finance the current account deficit. While these inflows imply foreign capital outflows in the future, they create no productive capacities which would help us increase our exports in the future. Sooner or later, the stock market boom they have generated is going to peak, and then collapse; the artificial boom cannot continue indefinitely. When that happens, not only will fresh FII inflows dry up, the past inflows will also seek to rush out of the country. This is precisely what led to the collapse of the "booming economies" like Mexico, South Korea, Thailand, Indonesia, Malaysia, Brazil, Turkey and Argentina. We have described this in Chapter 7. The likelihood that India is also going down the same path is continuously increasing, which will further increase the grip of the imperialists over the country, whose ruling classes are ironically posing as a future super power.

III. ANOTHER WORLD IS POSSIBLE…

In the previous chapters, we have discussed the calamitous consequences of globalization on the entire third world. Though in this update we have restricted ourselves to India only, in the rest of the third world too the ruling classes have relentlessly continued their offensive, and a tragedy similar to what we have described in this update is unfolding throughout the third world.

The people have not taken this assault on their livelihoods lying down. In Chapter 8, we have briefly described how in response to capitalist-imperialist globalization, a global people's resistance movement is building up. Over the last five years, this movement has made tremendous strides.[61] The most exhilarating developments have taken place in Latin America. Uprisings have taken place in numerous countries throughout the continent, the most recent being the fantastic demonstrations taking place in Mexico. In Brazil, Chile, Ecuador and Uruguay, governments have been elected on anti-globalisation platforms in the last seven years. In Colombia, the US-backed government has been unable to destroy a left-wing insurgency, despite staggering amounts of military aid from Washington. However, the most significant breakthrough has taken place in Venezuela. Since 1998, when the Bolivarian movement led by Hugo Chavez won the elections, the government has challenged US imperialism and its local allies. Domestically, Venezuela's extensive oil wealth is being used to fund ambitious social programs to improve the lives of the majority who live in poverty.

The US has made numerous attempts to overthrow or assassinate Chavez. It nearly succeeded in 2002, but the military coup, backed by the US, was defeated by a massive mobilization of the people.

Despite being the fifth largest supplier of oil in the world, when Chavez was elected around 80% of Venezuelans lived in poverty. We give a brief summary of the gains made by the ordinary people since the Bolivarian revolution:

- Plans to privatise key Venezuelan state-run industries, such as the state-owned oil company (which accounts for around 50% of government revenue) and the electricity company, have been stopped.
- 41% of the 2006 budget is dedicated to social programs. By next year social spending will have more than tripled that of 1998, when Chavez was elected.
- By 2004, the living standards of the poorest 84% of Venezuelans had increased by one third, due to government social programs and increases in the minimum wage.
- Venezuela's tax agency Seniat has launched a crackdown on corporate tax evasion that has involved the fining and temporary closing down of many corporations, both local and foreign, including MNCs like McDonald's, Coca-Cola, Shell, Microsoft and IBM. Within a year

of implementing this "zero tolerance" approach, tax revenue had increased by 50% and the government announced on May Day this year that the increased revenue would fund a 23% increase in the minimum wage. Also, for the first time in almost a century, the majority of government revenue in 2006 is set to come from tax, rather than oil.

- The government has used oil wealth to fund a dramatic expansion of the education system. The percentage of GDP spent on education has more than doubled. Known as "missions", these programs have included a mass literacy and primary school completion campaign known as Mission Robinson, a drive to expand high school graduation known as Mission Ribas, and the expansion of access to higher education through Mission Sucre. As a result of these programs, known, school enrolments have increased by more than a million. A new university has been established to especially provide university education for the previously excluded poor majority. Not only is education free, but accommodation, transport and two meals a day are also provided.
- Mission Robinson mobilised 150,000 volunteers over two years to teach more than 1.3 million people to read and write. On Oct 28, 2005, Venezuela was officially declared a "Territory Free of Illiteracy."
- The government has provided free health care to the poor neighbourhoods for the first time, via the establishment of popular clinics as part of Mission Barrio Adentro. The mission has provided more than 185 million consultations and is estimated to have saved more than 25,000 lives.
- Under Mission Mercal , a state-run supermarket chain has been created that sells high-quality food staples priced at 25-50% cheaper than the private supermarket chains. Most poor families and even 28% of higher-income families now use Mercal.
- The new constitution, approved in December 1999, is the only constitution in Latin America that states housework is an economically productive activity, entitling housewives to social security benefits (Article 88). A Women's Development Bank has been set up, which gives groups of women (not individuals) low-interest loans to help them start their own small, community businesses. So far, the bank has assisted some 43,000 poor women without collateral. The bank not only gives loans, it provides active social support; bank staff visit the

most impoverished and densely populated communities on a weekly basis, where they offer services of the bank to underprivileged women.

- Indigenous rights are defended in the new constitution, and the Chavez government has been handing back land titles to indigenous communities.
- Under new land reform laws, almost 3 million hectares of land so far have been given to 70,000 poor families. The government is also providing very low-interest loans to small farmers, and encouraging the development of cooperatives through subsidies. The government also provides technical assistance, special credits, warehouses for sale of produce, as well as health and education centres.
- There is a right to housing in the 1999 constitution, and government has launched housing construction programs to resolve the gap between promise and reality. Encouraged by the revolution, the poor have also been occupying unused buildings! On Mar 26, 2006, Chavez announced a major housing program, pledging the construction of 150,000 new homes by the end of the year and the possible expropriation of houses being sold at exorbitant prices.

REVOLUTIONARY FOREIGN POLICY

In foreign policy, Venezuela along with Cuba has promoted a model of Latin American economic integration that it refers to as the Bolivarian Alternative for the Americas (ALBA), which is directly counterposed to the US-pushed globalization model. ALBA seeks to integrate the economies of Latin America in order to provide a challenge to US economic and political hegemony over the continent.

The agreements between Cuba and Venezuela, formalised in late 2004, give the best view of what this alternative could mean. The agreements comprise elements of barter exchange and economic integration with a socialist spirit. The exchanges reflect Cuba's strength in human resources and Venezuela's oil and oil refinery capacity. Cuba gives Venezuela a minimum of 15,000 health professionals, 2000 general tertiary scholarships and additional uncapped medical scholarships over ten years. In return, Venezuela gives Cuba oil at a preferential price (a minimum of $27 a barrel plus agreed market premiums), transfer of energy sector technology and finance for infrastructure and energy projects. Both countries agree to treat each other's publicly-owned planes and ships as if they were their own, in terms of servicing and maintenance. They agree to drop all bilateral tariffs and trade barriers, give preference to public sector investments in the other country, and share sports facilities.

Venezuela and Cuba have agreed to jointly run an aid project for the people of Latin America, wherein eye patients are provided free eye care in Cuba. The Venezuelan government transports free the patient, along with one companion, to Cuba for the operation. In 2005, this project provided more than 200,000 free eye operations to those with curable blindness in Latin America and the Caribbean.

Venezuela has formed an energy alliance known as Petrocaribe with 13 Caribbean countries. Venezuela will provide guaranteed supplies of oil to Caribbean countries at discounted prices, paid for with cash, goods or services, with a considerable percentage of the long-term financing paid by the Bolivarian Republic. In return, this trade will help Venezuela create 100,000 jobs and buy, at preferential prices, agricultural products like sugar, banana, corn and avocados. The agreement also envisages mutual help in the building of infrastructures, including refineries, as well as exchange of technology and training. It will touch each and every sector that falls within the energy industry. Alternative energy and conservation projects will be encouraged. Venezuela has signed similar energy agreements with other Latin American countries too.

Integration and cooperation agreements signed between Venezuela and Argentina commit the two countries to technical cooperation over oil, health, hospitals, health sciences and social sciences, and to exchanging ship-building facilities for oil preferences. Likewise, Cuba and Venezuela have signed agreements with Bolivia to help the latter with health and education, along with supplies of fuel (200,000 barrels per month) and technical assistance to develop its own oil and gas reserves. At a later stage, Chavez says, Bolivia can provide in exchange its soy products and meat.

The Venezuelan government-owned US-based petrol distribution company Citgo (with eight refineries and 14,000 petrol stations across the US) in the winter of 2005 launched a program to provide poor families in cold-weather US states with subsidized oil so that they could have access to heating oil during the northern winter. Citgo sold over 40 million gallons of oil to 150,000 poor US households at a 40% discount.

Complaints about “economic injustice” now form part of the neoliberal attack on ALBA. While US oil companies complain of the “unfairness” of subsidised/lower-profit Citgo oil, private supermarkets in Venezuela

complain of the unfairness of subsidised/lower-profit sales of basic goods by the state-owned Mercal chain. This is the root of US attempts to destabilise Venezuela. Venezuela is demonstrating that an alternate to imperialist globalization is possible.

Due to all these measures, Chavez has become a thorn in US plans to dominate the world. In the face of increasingly stronger verbal threats from the USA government, Chavez has during 2005 introduced a new military strategy to defend the country from a possible military attack. Next to the traditional military apparatus a popular home defence unit is being organised. The explicit goal for the ‘popular defence units’ is that they will encompass a total of 100 - 150 000 armed and militarily trained men and women. Their base will be the workplace or their community and every unit shall encompass between 50 and 500 people. In the case of invasion they will, independently of the regular army, be able to wage a long guerrilla war against the occupiers.

The developing Venezuelan revolution is now spreading. In yet another inspiring development, in Bolivia too a radical government led by Evo Morales won the elections in May this year despite the best efforts of the US, and is openly taking the same road as Venezuela. As soon as Morales assumed the Presidency, he announced that his government was taking control of the country’s oil and natural gas. And now Mexico is in revolt, like it has never been since the revolutionary peasant’s war of Pancho Villa and Emiliano Zapata almost 100 years ago. For the last two months, the people have come out on the streets in millions to protest against electoral fraud. Elections were held in Mexico in July 2; the entire establishment with the active backing of the US conspired to rig the elections to defeat the left-wing candidate Andres Manuel Lopez Obrador, who it was feared would take Mexico down the Venezuelan road. At the first mass meeting to protest the fraud, 700,000 people gathered in the capital. Two million protesters filled the centre of Mexico City 14 days later. This record was broken on July 30 with a turnout of three million demonstrators. Across the country a total of seven million people demonstrated.

Throughout August, tens of thousands of Obrador supporters organised a tent city in the centre of Mexico City, paralysing its main thoroughfares. But the ruling classes have adamantly refused to retreat so far. The latest news we have from Mexico from the internet (no newspaper is willing to give even a small column to this massive mobilization) is that on

September 16, a massive National Democratic Convention (CND) met in the centre of Mexico City and decided to elect “a legitimate government” with Andres Manuel Lopez Obrador as its President.

It’s true that the anti-globalisation movement still has a long way to go, but the long night seems to be coming to an end…

■■■

References

1 *AIE*, No. 39-40, p. 4-5.
2 *The Hindu*, Mar 11, 2006.
3 P. Sainath, 'Falling farm incomes, growing inequities', *The Hindu*, Nov 18, 2005.
4 All statistics in this section have been taken from Praful Bidwai, 'The great land grab', *FL*, Sept 9-22, 2006; Venkitesh Ramakrishnan and Dionne Bunsha, *FL*, Oct 20, 2006, pp. 4-11; and Sanjay Sangvai, 'Land-Grab by Rich: 'The Politics of SEZs in India', July 5, 2006, *http://www.thesouthasian.org*
5 Akshaya Mukul, *TOI*, July 16, 2005.
6 Govt. of India, *Economic Survey 2004-05*, p. 184.
7 *AIE*, No. 36-37, pp. 75-76, and *AIE*, No. 39-40, p.36.
8 *AIE*, No. 39-40, pp. 40-41.
9 P. Sainath, *The Hindu*, April 21, 2005; P. Sainath, 'Withering lives', *FL*, Aug 26-Sept 08, 2006; and *AIE*, No. 39-40, pp. 58-59.
10 RBI, *Basic Statistical Returns*, taken from *AIE*, No. 36-37, p. 36.
11 *AIE*, No. 36-37, pp. 79-83, and *AIE*, No. 41, p. 10.
12 Ajay Dandekar, 'Flawed Planning', *FL*, Aug 26-Sept 08, 2006.
13 Govt. of India, *Economic Survey, 1997-98* and *2004-05*, quoted in *AIE*, No. 39-40, p. 38.
14 *TOI*, Oct 4, 2005.
15 'Why is agricultural employment generation falling?', April 22, 2003, *www.macroscan.org.*
16 P. Sainath, *The Hindu*, Sept 08, 2006.
17 Dr. Vandana Shiva, 'The Suicide Economy of Corporate Globalisation', *http://www.navdanya.org*
18 Sharad Joshi, *THBL*, May 31, 2006.
19 P. Sainath, *The Hindu*, July 14, 2006.
20 P. Sainath, *The Hindu*, June 18, 2005.
21 P. Sainath, 'Withering lives', *FL*, Aug 26-Sept 08, 2006.
22 C.P. Chandrasekhar and Jayati Ghosh,' Fallacies and Silences in the Approach to the Eleventh Plan', *Macroscan*, July 26, 2006.
23 *AIE*, No. 39-40, p.42.
24 Avijit Ghosh, *TOI*, Oct 8, 2006.
25 Unless otherwise stated, all statistics given in this section are taken from *AIE*, No. 36-37, pp. 87-116.
26 S.P. Gupta quoted in *Business Standard*, Jan 20, 2004.
27 *AIE*, No. 41, p. 18.
28 C. P. Chandrashekhar and Jayati Ghosh, 'Unravelling the outsourcing puzzle', *THBL*, July 19, 2005.
29 *AIE*, No. 41, p. 18.
30 Jayati Ghosh, 'Education for few', *FL*, July 29 - Aug 11, 2006.
31 T.K. Rajalakshmi, 'Passing the buck', *FL*, Sep 23 - Oct 06, 2006; and Jayati Ghosh, 'Education for few', op.cit.
32 T.K. Rajalakshmi, 'Passing the buck', ibid.
33 *Times of India*, Sept 8, 2005.
34 Jayati Ghosh, 'Unhealthy burden', *FL*, Sept 23 - Oct 06, 2006.
35 Mohan Rao, *TOI*, Mar 27, 2006.
36 Jayati Ghosh, 'Unhealthy burden', op.cit.
37 P. Sainath, 'Health as Someone Else’s Wealth', *The Hindu*, July 5, 2005.
38 T.V.Sivanandan,*The Hindu*, Jan 9, 2005.
39 Amit Sen Gupta, 'New Pharmaceutical Policy: A savage attack on healthcare', Feb 15, 2002, *http://www.pharmabiz.com.*
40 Randeep Ramesh, *The Guardian*, Mar 23, 2005, *http://www.guardian.co.uk.*
41 A. Srinivas, *TOI*, Nov 28, 2005, and Scott Carney, 'Testing Drugs on India’s Poor', *Wired News*, Dec 19, 2005, *http://wired.com/news/medtech.*
42 Jayati Ghosh, 'Stealing food from poor' , *FL*, Jan 14 - 27, 2006.
43 *AIE*, No. 41, p. 9.
44 *AIE*, No. 36-37, p. 137.
45 Kounteya Sinha, *TOI*, May 4, 2006.
46 T.K. Rajalakshmi, 'Tragic picture', *FL*, May 20 - June 2, 2006.
47 Kalpana Sharma, *The Hindu*, Oct 1, 2006.
48 Jayati Ghosh, 'Stealing food from poor' , *FL*, Jan 14 - 27, 2006.
49 Jayati Ghosh, ibid.
50 *AIE*, No. 36-37, p. 123.
51 *AIE*, No. 36-37, pp. 133-135 and 150-151.
52 Brinda Karat, 'Food at stake', *FL*, June 17-30, 2006, and C. P. Chandrasekhar, 'Speculation moves forward', *FL*, Aug 12-25, 2006.
53 C. P. Chandrasekhar, 'A heady mix for whom?', *FL*, Feb 25 - Mar 10, 2006.
54 *The Hindu*, April 11, 2006.
55 *TOI*, Mar 17, 2006.
56 *AIE*, No. 38, p. 34.
57 *Business Standard*, June 4, 2004.
58 *AIE*, No. 38, p. 34.
59 C. P. Chandrasekhar, 'A heady mix for whom?', op.cit.
60 Ibid.
61 Information for this section has been taken from articles in Australia’s radical newspaper, *Green Left Weekly*, *http://www.greenleft.org.au* and the New York based newspaper *Workers World, http://www.workers.org*.

INDEX

About us

Who has become free?
From whose forehead has
slavery's stain been removed?
My heart still pains of oppression
Mother India's face is still sad...
Who has become free?

Ali Sardar Jafri wrote this poem a few years after independence. But these lines accurately describe the current situation in our country today...

In the name of *Globalisation*, giant Multinational Corporations (MNCs) are being invited into the country – **the country is now being run solely for the profit maximisation of big foreign and Indian corporations**. In connivance with the politicians-bureaucracy-police-courts, they have launched a ferocious assault to dispossess the poor of their lands, forests, water and resources – in order to set up SEZs, huge infrastructural projects, golf courses, residential complexes for the rich, etc. Indian agriculture is being deliberately destroyed – so that it can be taken over by giant agribusiness corporations. The consequence: nearly 2 lakh farmers have committed suicides in the past ten years. Tens of thousands of small businesses have downed their shutters. In the name of *Privatisation*, public sector corporations, built out of the savings and by the sweat and toil of the common people, are being handed over at throwaway prices to these scoundrels. Even welfare services, from education to health to the public distribution system and now even drinking water supplies are being privatised, to be taken over by these corporations and transformed into instruments of naked profiteering. There are simply no decent jobs for the youth; probably nearly half the population is unemployed or underemployed. The imperialists want to control what we eat, drink, see, think, read. And so along with MNC capital, imperialist culture is also flowing in.

As the economic system becomes more and more sick, the social and political system is also becoming more and more degenerate. All-pervasive corruption, continuation of the age-old caste-based social

system because of which atrocities on the dalits take place almost daily, a communal political system that divides people in the name of religion and fills them with hatred against each other, a value system that promotes crass selfishness and unconcern and apathy for others - this is the reality of today. In the name of fighting terrorism, the criminals and murderers who dominate the Indian Parliament are passing draconian laws giving the police powers to arrest ordinary people and put them behind bars for years without trial!

The common people have not been silent spectators to this sordid drama being enacted by the MNCs and their Indian collaborators. Like flowers springing up in every nook and corner with the onset of spring, all over the country, people are coming together, forming groups, and raising their voices in protest. Though these struggles are presently small, scattered, without resources, the future lies in these magnificent struggles. As more and more people join them, they will strengthen, join hands, and become a powerful force which will transform society.

We must stop being skeptics, dream of a better future, believe that it is possible to change the world. Yes, Another World is Possible! But to make it a reality, we must start our own small struggles. And so, we have started this forum, '**Lokayat**', the purpose being to reach out to ordinary people who wish to do their bit for transforming society for the better, and take up various activities with their co-operation.

Dear friends, this is a small attempt to reach you. Many of you do not know us. Nevertheless, we believe that you will agree with the thoughts expressed above. But your agreement is not enough, your active participation is of the utmost importance. You may contact us at the address mentioned below.

Contact phones:
Neeraj Jain 94222 20311
Alka Joshi 94223 19129

Website & E-mail:
www.lokayat.org.in
neerajj61@gmail.com

Contact Address: Lokayat, 129B/2, Opp. Syndicate Bank, Law College Road, Near Nal Stop, Pune - 4
We meet every Sunday from 5 to 7 pm at the address given above.

Abbreviations used in References:

MR : **Monthly Review** – *monthly magazine published by Monthly Review Foundation, New York; editors: Paul M.Sweezy & Harry Magdoff.*

EPW : **Economic & Political Weekly** – *a weekly published from Mumbai; editor: Krishna Raj*

TWR : **Third World Resurgence** – *monthly magazine of the Third World Network, Penang, Malaysia; chief editor: S.M.Mohamed Idris.*

AIE : **Aspects of Indian Economy** – *a bulletin of the Research Unit for Political Economy, Prabhadevi, Mumbai-25; editor: Rajani X.Desai*

TOI : **Times of India**

THBL : **The Hindu Business Line**

ET : **Economic Times**

HT : **Hindustan Times, Delhi**

FL : **Frontline** – *fortnightly magazine published from Chennai; editor: N.Ram*

Some Abbreviations used in Text:

FDI : **Foreign Direct Investment**

IFI : **International Financial Institution** (p.19)

GOI : **Government of India**

SAP : **Structural Adjustment Programme** (p.19)

NRI : **Non-resident Indian**

BoP : **Balance of Payments** (p.28)

Forex : **Foreign Exchange**

SAL : **Structural Adjustment Loan** (p.19)

WIR : **World Investment Report** (p.30)

TDR : **Trade and Development Report** (p.31)

VER : **Voluntary Export Restraint** (p.36)

QR : **Quantitative Restriction** (p.45)

AOA : **GATT Agreement on Agriculture** (p.44)

OECD : **Organisation for Economic Cooperation & Development** (p.17)

Details of photographs of anti-globalisation protests

1. Protestors attempt to disrupt Asian Development Bank meeting in Chiang Mai, Thailand : May 2000
2. Brutal police track down on protestors demonstrating against steep power tariff hike in Hyderabad : Aug 28, 2000
3. Farmers staging a rally at the Red Fort in New Delhi : Dec 2000
4. Coalminers clash with police in a protest over salaries in Metz, France : Dec 1999
5. Teachers demonstrate near the Orissa Assembly against sharp cuts in State expenditure on education : Dec 2000
6. Anti-globalisation demonstrations in Davos, Switzerland, during World Economic Forum meet : Jan 2000
7. At an anti-IMF protest march in Brasilia (capital of Brazil) : Aug 26, 1999
8. At a protest demonstration before WB and IMF offices in Washington : Apr 2000
9. Workers opposing layoffs fight with police in Seoul, South Korea: Nov 2000
10. Workers at a rally organised by COSATU to protest against job losses, in Johannesburg, South Africa : May 10, 2000

Man's dearest possession is life. It is given to him but once, and he must live it so as to feel no torturing regrets for wasted years, never know the burning shame of a mean and petty past; so live that dying, he might say: all my life, all my strength were given to the finest cause in all the world – the fight for the liberation of Mankind.

Nikolai Ostrovosky
1904-36