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A Review of Rash Globalisation

Old advice — 'Keep friendship with those who are your status'.

Globalisation is no different. It calls for level playing field.

To participate in Olympics one should be able to run marathon not county races.

21.1 Globalisation

(I) WORLD TRADE ORGANISATION (WTO)

- It is indeed for a noble cause to bring the member nations together and foster in them healthy relationship through trade and services. It also provides them a much wider global market for their products and services. It therefore aims at prosperity of nations through extended markets, exchange of information, technology, goods and mutual understanding. The emphasis is on trade and exchange of expertise. But it can be workable only when it is two sided. Some goods we supply and some they, to maintain a near trade balance (BoP). A high trade imbalance (deficit) may lead to serious payment problems, heavy indebtedness and harm the home industries, business and trade.
- Globalisation was conceived under the name of GATT by a few nations (23 numbers) after the second world war to foster harmony and goodwill amongst the member nations for peaceful coexistence and to avoid any future calamities of war. Indeed a very noble cause. India is one of its 23 charter members since inception (1948) but paid little heed to its implementation. Most of the affluent members however had been working relentlessly on it all these years to chalk out modalities to implement the same without jeopardising their own interests. Liberalisation of trade and services is a part of globalisation and aims at providing a level playing field for all the participating members to avoid any discrepancy in terms of pricing as noted in sub Section (III). For example the affluent societies like US who spend

heavily on child education and in controlling industrial and environmental pollutions, insist that the developing countries should also abide by such norms. This means heavy investments and other measures which may be difficult for many developing nations to comply with, at least in the near future (India being one). Those who do not comply, may be disqualified from participating in the global trade or some kind of 'cess' may be levied on their products and services, which would raise their prices and make them incompetent in the global market. Many such norms and requirements, although good and justifiable – are yet not easy (or viable) for many nations to comply with, particularly the under-developed or the developing countries. Not only this, the affluent nations can also throw some more riders or find out some other shortcomings in the raw materials, product mix, lack of quality checks or R&D and health reasons to discourage member countries to compete with them in the open market or sell in their countries.

- Besides such norms to be complied with, our products and services must be saleable in the international market where innumerable brands with outstanding quality, technology and attractive appearances are already available. This is the real catch. If we take our products and services, as they presently are, we stand inferior in the global market. Even our local markets prefer foreign products compared to our own. In May 2001 we read that thousands of tonnes of wheat exported to Iraq as per international standards was rejected because it contained stones (although within permissible limits). Iraq's plea was that they didn't have machines to separate out the impurities. Unfortunately Iraq is in ruins now (April, 2003).

Corollary

Here we are not talking of the attitude of Iraq but our limitations to excel. Why should we allow even this small percentage of stones (even if it be within permissible tolerance)? **We must endeavour for 'zero tolerance' rather than 'within tolerance' philosophy to compete in all markets and with all buyers.**

Under these circumstances, we stand to be a loser, because of our terribly weak industrial base as discussed in Chapter 10. If we overlook this grave drawback and see only the FDIs, FIIs or selling out of our PSUs and private industries, or handover our service sector on lease to multi nationals, the same will be too short-sighted – and may lead to a catastrophe. In the subsequent pages we have discussed these issues and the reasons of our short-comings in depth. **Under-developed or developing countries who have little to trade will**

be great losers and may eventually fall into a debt trap besides loss of jobs.

- The ultimate philosophy of WTO thus boils down to, that a country will do only what it can do the best. Sounds good. One day we shall get only the best products and services and at most reasonable prices. But it may also undermine the self-sufficiency and self-reliance of those countries who are not able to perform the best. Many countries, particularly the developing, may ultimately have to depend for more products and services on other countries and per force close down their own shows. At present also we depend on other countries for technology, defence equipment, petroleum products and life-saving drugs. Tomorrow we may have to depend on them even for steel, cement and sugar which form our well established core sector, as others may be producing them better and at more competitive rates. **It is a harsh reality that only the more competent shall survive in future and not those who lack excellence. Societies and nations that are more affluent and advanced in terms of discipline, work culture, infrastructure, R&D, knowledge and expertise shall excel and outbid others. The noble cause of WTO may in reality be cruel for the rest.**

  Unfortunately our country today is one such nation that looks up at others and works for them rather than be its own master. We lack on all fronts and in all faculties. It is in this context that we stress that we are not as yet equipped to be a part of WTO. We must first become competent by acquiring the virtues noted above and then jump into the fire. An open market undoubtedly extends enormous opportunities to expand business and flourish. But we are ill-equipped to participate in that race at present. In this context it calls for a more pragmatic approach and prudent decision-making. We can only apprehend what possibly may happen in future, how bad it can be for us, only time will tell. "**Fittest to survive" – anyway is the punchline of the day.**

- WTO however, also provides enough safeguards to a country to prepare and face the open market conditions. The safeguards extend opportunity in a phased manner to build up infrastructure, smoothen the system for better working conditions, upgrade technology, gear up R&D and overcome other shortcomings or hurdles if any, to face the open market challenges. In keeping with the objectives of WTO, the whole world has now become a common market for all. Obviously only the best will sell and the rest shall have to pull their shutters down. Under these circumstances those not able to cope with the changed market conditions shall be dumbfounded and doomed. For our country it is already more than fifteen years when liberalisation was officially implemented.

Scenario in India

In this period a lot of reforms have taken place in India to do away with earlier impediments of MRTP, DGTD, quota and licence systems as a great relief to the industries. Industries also, with initial sluggishness have recovered admirably in the later part of these 15 years, to the surprise of many. Their product acceptability is gradually improving in internal and external markets.

Because of FDIs and Flls there is lot of fluid money in the market. The affluence is rising and so the demand. One can witness zooming activities in most urban areas. The sad part is that under this euphoric scenario also, our poor people reel under the same hardships as before. One can now easily distinguish that our country is formed of two nations, one that belongs to the system and the educated and well-to-do society as the haves or the privileged class of the nation forming 14% (16 cr) of the total population and, the other the illiterate rural masses and the rural migrants to cities, the disabled and the destitutes forming 68% (78 cr, Table 5.5) as the have-nots or the deprived strata of the nation. The remaining 18% (21 cr) being marginal cases. Under open market conditions the gap between the twain, shall only be widening (Chapter 6). But we may hasten to add that it is not the effect of liberalisation as much as the consequence of our callous and insensitive system of governance incapable of creating opportunities for the deprived also to reap the benefits from the changed scenario. There seems to be no savior for them in this country, who can come to their rescue, provide them solace and wipe off their tears. While the affluent class hence forth shall flourish more rapidly and amass wealth unbound, praise liberalisation and pronounce India progressing and shining, the poor, 99 cr of them shall only crumble, and watch them with awe and disgust. **The anarchy in our country that has already set in is indicative of it and people are getting armed with trishuls, spears and lathis. Since there are neither genuine efforts by the government to overcome this nor they have capability to do so, *our* concern about a bleak future with large people going without jobs or means of living should make sense and must be taken seriously.** Look at China's low cost and attractive household goods and consumer products invading our markets and throwing individuals and families engaged in such businesses out of job (Section 20.2)

(II) WHO NEEDS A JOB ABROAD OR A GLOBAL MARKET

Weaker Societies

- People look for jobs outside usually when their own country is incapable of providing them satisfactory job opportunities due to lack of development.
- It may also be lack of recognition in their own country.
- When people of a nation do not have enough to spend and are unable to support their secondary and tertiary markets that the producers of goods and service providers look for global markets.

Above is the situation of most of the developing (third world) countries, India being one with poor development. All such effects mean a general recession.

Affluent Societies

(like US, UK, France and Japan)

- When every household has acquired its basic needs, possesses enough luxuries of life and has only little to buy except for daily necessities.
- Also when a country is so developed that it has nothing much to do on the developmental front, except for maintenance and routine expansions that it may create such a situation and adversely affect its industrial sector.
- The agriculture sector too may be producing more than needed and the surplus produce must find additional markets. (Sometime back there were reports of dumping surplus milk and butter into the sea by some European countries who were not able to locate alternative markets).
- The service sector may still do well and support the primary and secondary sectors to some extent. Tourism and recreation activities usually rise with rise in affluence. This sector therefore flourishes irrespective of the primary and secondary market conditions.

The saturation of primary and secondary sectors because of limited demands may lead to industrial recession while the individuals may have surplus money. Since the manpower engaged in the primary sector in the developed countries is very low, the above situation may not cause a recession on account of agriculture surplus, except for loss of additional revenue. But without alternative secondary markets, industrial sector that is large and well established and engages large manpower may go into recession. Exactly what happened with US and Japan in 2000-2002. Unless therefore the external markets support their industries they may land into a recession, even when there is no dearth of capital. This is the reason why their currencies, Dollar ($), Pound (£), Euro (•) or Yen (¥) hardly slacken while ours is never stable (except for now (2004-2006) because of happy forex reserve position (≅ $ 170b by end 2006) and US's own slackening economy because of Iraq war. Therefore they look for global markets for primary and secondary sectors and also for further extension of their service sector. Here lies the catch. With their idle capacity and surplus money they want to invest in other countries to keep their show going. This is the major reason that has given boost to our stockmarket (2003-2006). Sensex jumping from about 3,000 to over 14,000 points by Jan. 2007 with large inflows of FIIs.

From here starts the role of WTO.

Inference

- A highly affluent society may bubble with money but industries may slacken, even giving rise to unemployment. Take examples of TVs, fridges, washing machines and other white goods or computers. If every household has these, there will not be much additional need for these items except for replacements, unless a company keeps innovating new models and features to attract the consumer and the consumer keeps exchanging the old ones with the new ones. But such gimmicks do not work for long and one has to find regular additional markets.
- More services and recreation avenues may however be necessary to cater to such societies. Service sector may boom but not the industries. We can witness people of means touring the world for recreation and fun and spending lavishly – Japanese coming to India to play golf and Sheikhs going to US to gamble at casinos. But all this cannot engage the industrial sector.
- In our case under-development and poor economy prohibits one to buy because of their lack of buying capacity except for the people of means. It is a different matter that despite this ours is still amongst the largest consumer markets in the world with nearly 16 cr prospective buyers (Table 5.5).

- Additional market is therefore necessary for all. It is easy for MNC's with their affluence, technology and money power to capture the global markets. The new markets for them are bonus. They can easily cut down their prices and yet supply a better product.

With the above analysis one can say that American and Japanese recessions quite compare with ours though the nature may be different (one has saturated market while the other lacks buying capacity). Therefore our status in the global market compared to theirs is vulnerable. In wars only the well equipped forces win not those who are ill-equipped. It is quite heartening, however, that we are also gearing up and our exports are also rising - yet it is chicken feed compared to global market. See Table 21.1 providing a glimpse of our exports vis-a-vis with China's. Irrespective of our rising exports our trade deficit too is galloping at an alarming rate and that is a dangerous situation to sustain on long term basis.

(III) WTO'S REQUIREMENTS

[GATT from 1948-1991, (23 member countries in 1948), WTO from January 1, 1995 (192 members by June 2006)]

- WTO demands certain disciplines by the government of a country to:
  - Curtail subsidies on exports or to farmers in whatever shape, which may reduce their natural cost directly or indirectly and make them cheap in the open market.
  - Curtail or abolish duties on imports also such that the costs of imported goods are not inflated to render them costlier in the importing country.
  - Avoid child labour – i.e. any kind of human rights violation. Because this also reduces the cost of home production for those who employ child labour. While in our country too child labour is a crime, many products like carpet weaving, tobacco processing and handicraft items employ large numbers of child labour clandestinely.
  - Control over environment and pollution. This shall mean disciplines noted in Chapter 18 and cost a country enormously leading to higher taxation and higher product cost.

  While all such measures are desirable, and one must endeavour to abide by the same in his own interest, WTO's present conditions are dangerous for us as these will enhance our cost of production or disqualify us to participate in global markets. In more than one way with our present home conditions, all these riders play against our interests. After 16 years of liberalisation we have done little to address the last deterrent falling under the direct control of government and indeed important for a country. In fact they are deteriorating at an alarming rate.

- These riders are in favour of those countries who are developed and disciplined and can compete in the global market in terms of quality and services. For them the entire world is their prospective market. For the rest, it may prove to be a bane. Only buying and no selling makes no sense and may pose the following serious and conspicuous threats :
  - Growing trade deficit leading to BoP problems (presently this is our problem also).
  - Closure of local industries in the face of better foreign products.
  - Consequent unemployment and shrinking job opportunities. This is the reason why anti-globalisation activists from different member countries demonstrate against anti-people policies of WTO and try to stall their conferences. Like they did at Seattle (USA) in 1999, Cancun (Mexico) in 2003 and Hongkong in 2005.

  The last that has emerged from Hongkong deliberations is that the affluent societies shall withdraw their subsidies to their farmers by 2013 to a great relief to the developing societies. In turn developing countries having enough time can protect their primary sector, continue relief operations, subsidies, also put curb on imports of primary produces or raise import tariffs on such items. It also provides some relief from opening up total primary and tertiary sectors from the invasion of mighty foreign players for some more time .

21.2 Liberalisation

Liberalisation is a part of globalisation to fulfil the conditions of WTO to enable a member country participate in the global market as noted above. The supporters of liberalisation have always favoured this policy and have proved right to a great extent looking at the zooming market scenario, if we ignore our poor people. They also said it would mean more competition for our home industries who would bring down their prices and improve their quality. This too has proved true to a great extent.

OUR APPREHENSIONS

- We are a member of GATT since 1948. GATT emphasised for open market but instead the government took over the core sector (PSUs) in its fold. Then during 1967 Smt. Indira Gandhi our then PM following in the footsteps of her father nationalised most of the banks, insurance companies and other institutes in the private sector. After doing the harm and plundering the nation thoroughly, the government now wants to privatise the same institutes once again. Is this not ridiculous? **Every time they will spoil the broth, bleed PSU's, bankrupt the nation, drive the people to deprivation, sicken the private sector and then put up a board 'for sale' for PSU's and throw private industries open to face the music of MNC's, themselves staying immune and all powerful. Surely in private hands the same PSU's would do well but is it not outrageous to privatise the PSU's in this fashion while everybody in the system responsible for their destruction stays unpunished.**

Everything that the government took in its fold, now wants to privatise. This time to outsiders to collect foreign exchange to meet its BoP obligations (it is a different matter that in the absence of foreign buyers they are now even content with local buyers in the face of happy forex reserve position). **It is therefore a mockery of our political system and bureaucracy, who have displayed their ignorance and incompetence at every stage and in all matters related to the nation and the people?**

They privatised PSUs after making them sick. They better privatise the political system and bureaucracy that have ruined the nation and pauperised the people?

Let us tell you, no nation on earth can ever develop or prosper by undermining its own people. One cannot bask under the strength of others (MNC's) to become stronger or wealthier. One has to be healthier himself to be stronger. With the use of crutches one can only limp not run. Indian industries have been asking for liberalisation for long but not in this fashion and hence our objection irrespective of the fact that Indian industries have withstood the initial threats bravely.

- With liberalisation we thought the checks and controls will vanish, the swaggering of inspectors and the bureaucratic shackles on businessmen, industries and the common man will ease and we will be free to perform with more national fervour, dedication and enthusiasm. But neither the bureaucratic noose loosened nor their attitude softened. The modus operandi may have changed but fleecing the public has not. Now instead of checking the records at their premises they may summon them to their offices.

Let us not forget, liberty to our people is first and foremost for which we fought the long battle for freedom, rest all is false and fraudulent.

- Our doubt on the sanctity and truthfulness of liberalisation is therefore not unfounded. In the face of mounting budget deficits (Table 5.1) and trade deficits (Table 21.1), rising debts and other retardants noted already it may not be farfetched to apprehend for how long and to what extent can we sustain such bereft and highly vulnerable condition of our country when there is no respite from such frightening indicators and condition of 86% poor to stark poverty-stricken populace remaining much the same.

Earlier liberalisation was a half-cocked experiment, now it is a compulsion as without foreign assistance we cannot survive.

Liberalisation and open market conditions are essential for a country to develop, as it invites technology and foreign funds to support the home industries and economy of a weak nation. We implemented it in a haphazard manner and invited a large scale opposition from many quarters. The haste in which it was implemented could be catastrophic like the Partition of India. But to our good luck it did not happen. The most vulnerable area was our industries as they had been throttled for long 44 years and needed time to regain their strength. The resilience, perseverance and latent strength particularly of our large and some medium scale industries have somehow steered through their insurmountable initial hurdles to their great laurels and have coped with the changed scenario bravely and successfully. The next was our primary sector and that still is as we have failed to improve the rural conditions, farming, water and land management and education. The invasion of outside players who have been eyeing on this sector for long is somehow impeded because of farm subsidy that is still not resolved between the developed and the developing nations. WTO Hongkong deliberations (Dec. 2005) have however provided some relief to the developing nations as noted earlier.

Presently, it is a goody-goody situation for our country. But a word of caution is still necessary. For better understanding of the topic and impediments of open market conditions we are giving below an account of its probable threats that one cannot overlook even under present happy scenario (2007) when we are chanting "India Shining."

(I) THREATS OF LIBERALISATION

1. Without curing the disease a good tonic alone can do no miracle. Our deplorable infrastructure, poor work culture and bureaucratic hurdles may hamper the long-term growth.

2. Our infrastructure and condition of cities is so deplorable that it may not be able to endure even the present urban population in the long run. The cities are fast deteriorating. The rural front is totally neglected and about 68% (Table 5.5) of our population reel under impoverished conditions. And it is not out of place to apprehend how shall we survive in the long term.

3. Same medicine may not suit all patients. In the name of reforms we can collect good money through FDIs, selling of PSUs, opening up the stock market to foreign investors (FIIs) and other sources of foreign funds, but let us not forget all this money will be at the cost of selling our sovereignty (economic colonialism) and will be consumed once again by our enormously costly and highly kleptocratic system of governance. They have consumed it in the past, they will consume it now. It is a simple logic. Look at the few indicators of galloping and alarming cost of our system (Chapter 6), perennial and ever-rising deficit financing (Chapter 5) and trade deficit (Section 21.3). Regular and ever-rising big scams and swindling of public money coming to light every day in practically every department of the government, centre or the states.

   Due to non-performance of government machinery (more than the paucity of funds), many projects have remained stagnant for the last 15 years and they may remain so in future also, while most money is already consumed and project costs enormously inflated. There is no work in the name of rural development except for relief work and the rural populace still reel under the same sorrows and hardships of lives as before. Floods, droughts and epidemics remain their perpetual problems and have become permanent woes. In 2005 comes yet another bonanza for the rural poor in the shape of 100 days job/year to one member of each family living below the poverty line under NREG scheme and other dole-outs (Section 8.3(8)). What good shall this do to the rural poor we already know. And this too is no developmental work as farmers' suicides continue unabated.

   Under these circumstances disinvestment or selling of PSU's except for meeting the enormous expenses of the system shall provide little relief to the nation. For example, Rs 18,000 cr collected in 10 years (1991-2001) through disinvestment of about 110 PSU's and about Rs

11,000 cr collected during 2001-2002 through auctioning (privatisation) of about 30 PSU's (a news item of July 2002) have so far proved only chicken-feed. Despite selling large households (140 PSU's) no significant good this little money has done in the name of development of the nation. Presently, however, the liberalisation process itself has gone into a temporary jeopardy and so also government's future projections (with government's inter-party differences on liberalisation in late 2002) and Supreme Court directive (mid 2003) to obtain parliamentary approval before doing so. And in the regime of PM Manmohan Singh (2004-) comes another imbroglio stirred by Left Front, stalling disinvestment and privatisation processes as such (also see Section 8.3(8))

4. Industries particularly small and medium-scale may suffer and indeed they are and many have closed down. It is mostly our large industries that are doing well who already have a technology back-up, manpower and finances. Open market is surely a boon for them. But not so for small and many of medium scale industries.

4(a) Liberalizing imports shall mean dragging our already tottering industries to stagnation, sickness and ultimately to closures. **The landing of hundreds of containers with foreign goods [worth more than Rs 2200 cr everyday as imports during 2006-07 may exceed Rs 8.0 lac cr (Table 21.1)] on our ports is a testimony to this, and this is rising.**

- Gradually our dependence on foreign products would rise and so will rise the demand for foreign exchange. We may have to export our riches (natural resources) to them and be left only with service industries (that also we are trying to lease out to MNC's).
- Every consumer will gradually discard what is Indian and get used to foreign goods. The global players (at least those who have already invested) foreseeing a promising market (we make amongst the largest consumer segments in the world (16 cr, Table 5.5)), may initially keep on remitting rather than repatriating their profits to build up their base, boost up their operations and earning our confidence. Initially therefore we may not face a foreign exchange problem but gradually imports may rise that we may not be able to stop and then will start the repatriation of their profits and commissions on other businesses and services they may be providing to us and then we shall be feeling the heat of it . Let us not forget, no one does business for charity. We should also not forget that we are generating a trade deficit year in and

year out. It shall rise with time in the face of our rising foreign exchange demands and at some stage may even exceed our receipts in terms of FDIs and FIIs. The present ecstatic situation of healthy forex reserves may then reverse and unceremoniously once again push us back into the same BoP rut, as in 1990s and consequently into a debt trap – and that shall be our total bankruptcy. If it happens we may not find a saviour for us unlike Mexico[1] who found it in the US. Our's is an enormously large country; if we start crumbling there may be no stopping. **If *we* say it will be evolution of our economic colonialism there is no exaggeration in the face of our deeds.**

4(b) Our exports are rising too, as the foreign participants are establishing their manufacturing activities here [mostly assembly of the semi-knocked down (SKD) components that they shall import from their parent units (to keep their home industries engaged) sort of a screw driver activity in our country] and may export their goods to neighbouring countries. But it is doubtful that we will earn enough to meet our ever-rising need of foreign exchange. After 16 years of liberalisation our trade deficit stands at about $ 55 billion (derived from Table 21.1 for 2006-07). With the dwindling value of rupee, it is not wise for any country to have high level of imports and exports anyway (see the next article on "devaluation").

- Since the market is now open for 100% foreign participation, gradually our blue chip companies may also go under their control either deliberately or by design, the foreign companies buying their shares from the market[2] In the changing scenario what will be our future industrial scenario only time shall tell?

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1. In case of Mexico, in 1995 when their economy failed to recover, all their foreign investors lost patience and withdrew their total investment of $ 28 billion in just 3 months shattering their remaining economy also. It was US, IMF and WB who came to their rescue with a financial aid package of $ 50 billion. Now the country is in permanent debt (about $150 b in 2004, source : Index Mundi). The investors lost patience because the expectations with which they had invested in portfolios (stock market), share holdings or whatever, were not fulfilled because of Mexican's internal working system that refused to kick-start, while their currency's continued slide sent out adverse signals. Their story is a caution to us.

2. Look at the recent (2006) takeover bid of Belgium steel giant Arcelor SA's by steel giant L.N. Mittal. Arcelor rejected the bid calling it "hostile and unfriendly takeover," not in the interest of shareholders, employees and customers. The truth is that the company and the country as such didn't like an outsider taking →

5. Job opportunities other than IT professionals and MBAs will also shrink because of paperless offices, automation, mechanisation and latest techniques of production adopted by most manufacturers. On the other hand we shall also have to support a large force of fresh unemployed youth emerging every year. Private industries and government organisations are already doling out attractive VRS to their employees to cut down their flab and to save on cost. When new job opportunities are shrinking as a result of under-development, where will this surplus staff go? **If the youth remain out of job, their parents are thrown out of jobs then what shall be tomorrow's India scenario — a total chaos and anarchy!**

   Note

   As noted above the professionals and experts, shall remain in acute short supply and frequently shift their alliances in lure of higher perks and pays (Section 14.1). The salary level of our today's bright youths is therefore galloping and breaking all bounds. So much so that many home-sick youth abroad are also willing to come back home giving a false hope to their parents and infusing an issue for debate for the supporters of liberalisation in public and government that one day our boys abroad shall come back home.

6. In case of private sector, only those who can collaborate or manage equity participation or can outright sell their establishments to foreign companies may make a fast buck. Some traders may also benefit marketing foreign goods.

7. Foreign players and now home players too have their eyes on our primary sector, to grow high quality agri-produces. Once the trend starts and they see the benefits, there may be no stopping. As we all know, our present agri-yield is far too inferior in quality and much too low in produce. As noted in Chapter 11, optimum use of land, hybrid seeds, fertilizers, scientific cultivation and mechanised farming can raise the agri-produce manifold. This is a highly profitable proposition for the foreign and home players. This will render our already under-utilised farm labour, daily wagers and small farmers surplus and without any work. Remember minimum 73% of our people are agri-dependent. If they fall surplus what will happen? A few players have already emerged on the Indian soil and it has been a good beginning for them (Section 11.2).

→ over their running unit. This issue has given rise to a debate world-over whether such type of attitude by Arcelor or Belgium government is in keeping with the spirits of WTO! Arcelor is ultimately gone to Mittal for his rejoice. Since then there is a spurt in frequent takeovers worldwide.

Inference

For other countries reforms may mean progress and prosperity like China, Taiwan, Singapore, Malaysia and Korea even Indonesia, but under the present impediments, it is still too early to make an accurate assessment about ourselves. After all we are not fortune tellers, we can only analyse and predict our findings. **China's case is totally different than ours as they are capable of generating huge trade surpluses year after year as shown in Table 21.1**. Therefore, whatever we decide today, we should not overlook its consequences for tomorrow, lest in our short-sightedness we mess up everything.

Caution : This time we shall not be able to do a volte-face like we could do in our earlier policies. Remember, to provide means of living to 115 cr people is the responsibility of the nation and its guardians and no one can absolve himself from this basic responsibility, liberalisation or no liberalisation (for that matter reservation or no reservation).

Liberalisation may be essential but with the existing impediments particularly under-development for the 86% deprived, it may prove disastrous at some stage.

(II) DEVALUATION

Devaluation is indicative of stagnation, poor economy and its continuous degeneration.

We don't understand as to how devaluation can improve one's status. Our rupee that was about Rs 18 to a dollar in 1991 now stands at about Rs 46 to a dollar (2006). But many financial experts still term this healthy. They even voiced for its further devaluation.

The economic condition of a country has a large bearing on the strength of its currency. **The perennial deficit financing, heavy borrowings (internal and external), high interest liability, steeply rising expenses of the government machinery, printing of excess currency (everything fictitious that builds the economy) have resulted in such a depleted value of our currency.** This is indeed alarming, irrespective of what experts may say. After all devaluation undermines the worth of the nation and each individual. Our foreign debt and interest liability have become more than 300% of what they were in 1990-91. We pay about 2.5 times for everything we buy and get only 40% of what we sell in terms of dollar compared to Re to a $ in 1991. Or for the same dollar price we have to supply goods 2.5 times in quantum as compared to 1990-91 level. For every transaction that involves foreign exchange we are heavy losers no matter we buy or sell or pay for debt servicing. It must be borne in mind that while exporters and importers themselves may not get affected by the devaluation of Re as the RBI pays them or charges them as per the prevailing rate of Re to a $ but the country gets pauperised with every transaction in foreign exchange and this depletion of country's wealth is not visible to the common man.

The exporters crib on strengthening of Re to $ because it raises their prices in dollar terms and render them incompetitive in the global market or slash their margins.

(III) FOREIGN DIRECT INVESTMENTS (FDIs)

It may elevate us for a short while. Money may also appear in the market (printing of equivalent rupees of dollars received), and government can also sit complacent against a comfortable foreign exchange reserves (over $ 170 billion by end 2006). **Question arises, should we encourage such finances if they become our liability in future? If it can support our economy by providing some "seed capital" it is surely welcome. But if we invite FDIs and consume it in meeting our expenses and trade deficits rather than doing any developmental work, it shall only add to our liabilities and may prove disastrous at some stage.** Presently a sizeable chunk of it we are consuming in meeting our trade deficits and debt servicing while tangible developmental projects are eluding. If it is so, it would be defeating the basic purpose and may play havoc with our economy, like it did with Mexican economy or the economies of other South-East Asian countries in 1990's. Foreign investments in our case are sort of a cover-up to hide our incompetence, excessive government expenditures and consequent galloping deficits. **It may mask the actual financial condition of the country which is a grave situation. What may glitter may not be gold. With our kind of attitudes and kleptocratic habits it may only deteriorate our condition because easy money given to a spoilt child is spent carelessly rather than with prudence and does more harm than good (look at import of costly coffins, Section 9.1 and absence of tangible developmental work for the 86% poor of our country).**

Too much of foreign investments may also not be healthy for a country having poor financial base of its own. In any case it is a liability for the country. This money is not ours in the first instance and has to be returned one day in one form or the other. For the time being, however, we may consider it as a loan so long as the conditions of business and relations with the investing countries remain cordial. More importantly, we should spend it on developmental work rather than in meeting trade deficits, deficit financing, paying for interests or debt servicing. Take the example of Enron (Dhabol Power Co., Maharashtra), AES Corp. [Orissa Power Generation Co. (OPGC) and CESCO, Orissa] PSEG (Public service Enterprises Group Inc. - major share holder in Tanir Bavi, Karnataka and Pillaiperumalnallur (PPN), Tamil Nadu) or Mirant Corp. and CMS energy – all from US and all at one time were in trouble and wanted to sell off their stakes and exit. **If they had exited we would have had to pay back their huge investments in foreign exchange. Therefore to fatten on somebody else's money beyond a reasonable limit may be dangerous.** More so when our financial and trade deficits are galloping unbound.

Enron (Dhabol Power Co., Maharashtra) is already an embarrassment. Enron power project is a stray case of a multinational company operating in Maharastra where Maharastra's two previous governments had carried out tough and cautious negotiations on pricing and other business terms, yet they were unable to pay Enron's dues for the power MSEB bought from them. Then there was a big imbroglio. Enron ceased operations since June, 2001, but it has already raised a large dust besides exposing our incompetence. And it is just the beginning, things have yet to happen. What next, only the time shall tell. Now (Dec., 2005) MSEB and Enron are trying to settle all disputes out of court withdrawing all cases pending at various courts in India and abroad. The plant that was shutdown in 2001 is still under status quo while the country is reeling under acute shortage of power.

We cannot be ecstatic about short-term gains and oblivious to the long-term catastrophe (deceptive surplus of foreign exchange). It is similar to short-term enrichment of land owners and farmers who sell their lands to builders or their lands getting acquired by the government, which eventually render them lead a wretched life in a few years without tangible source of livelihood.

21.3 A comparative analysis of China and India

(Why liberalisation is so beneficial there and not in India)

It might be interesting to know why certain reforms in a particular country are a great success, while in another it may be a bane. Let us analyse it from the following angle:

- China is maintaining a regularly rising trade surplus year after year (Table 21.1) while our trade is only a trickle. On the top of it we are accumulating large trade deficits year after year, while their trade surplus is rising unbound. It is a matter of grave concern. It means our industries in the global markets are still laggards and lack lustre. The effects of liberalisation here therefore have no similarity with the liberalisation there.

Table 21.1
A glimpse of trade scenario India vs China

Year	India			China		
	Exports	Imports	Trade Deficit	Exports	Imports	Trade Surplus
	b$	b$	b$	b$	b$	b$
2000	45.45	57.9	-12.45	249.2	225.1	+24.1
2001	44.70	56.28	-11.58	266.2	243.6	+22.6
2002	53.77	64.46	-10.69	325.6	295.3	+30.3
2003	64.72	80.18	-15.46	438.5	413.1	+25.4
2004	82.15	118.78	-36.63	593.6	560.8	+32.8
2005	100.61	140.24	-39.63	>745[a]	—	>80.0[a]
2006	79.59[b]	115.63[b]	-36.04[b]	>1000[a]	—	>120[a]
	See also Table 5.3 Source : DG of Commercial Intelligence and Statistics (DGCI & S) & Dept. of Commerce (GOI)			Source : PRC General Administration of Customs, China		

[a] Estimated
[b] April-Nov. 2006.

Notes

1. China's exports are galloping at an amazing speed. Even we are facing the brunt of it due to their continuously rising exports to our country.
2. Their expected exports during 2006 may exceed a staggering $ 1,000 b.

In the face of this qualitative huge disparity between the two countries it will be inappropriate to draw a comparison between the two. China and other countries like Taiwan, S. Korea and Malaysia are using foreign companies and their investments to tie up their technological and financial needs to strengthen their industrial base and capture the global markets. Due to their sincerity of purpose they surely are a success.

Why Chinese Products are Cheaper than Ours

Continuous inflations over the years have sent our prices sky-soaring. Even at current prices our quality, quantity and work output is much inferior compared to Chinese. The labour there are disciplined and conscientious to their work and adhere to quality norms. No *inspector raj* bothers them there neither does a power breakdown hinder their work. There is an abiding sense of duty amongst all. Back home we lack all this. How with these qualitative differences in the basics of work culture can we compete with them or any foreign player for that matter? **We have to bear this brunt and witness our sluggish growth helplessly.**

Besides poor work culture there are three more conspicuous reasons of our high prices – high cost of governance, under development and black economy, resulting in recurring deficit financing, printing of excess currency and heavy dose of internal and external debts and interest thereon. All these have caused inflations by leaps and bounds over the years. In 1950-55 the wholesale price index (WPI) was 5.8, that has jumped to about 146.2 (more than 25 times) by 2000. It should be quite liberal to consider an average inflation of about 5%[3] each year, in a healthy economy, in which case the price in 2000 would stand at about [5.8 (1.05^{50})] = 66.5. Compared to this, our today's price is about 2.2 times (146.2/66.5) of what it should be in a healthy economy. Even if we consider an inflation level of 200% the actual price of our products should be less than half of what it is in the market presently. If we count the inefficiency of our labour, power interruptions, old technologies, poor and outdated machinery and other work hold-ups, extraneous delays and extraordinary holidays, the cost of our products should not be more than 30-35% of what they are. Moreover heavy dose of devaluation too is telling high on our domestic prices.

By this analysis we can emphatically say that the foreign products (even Chinese) at whatever price they are selling in our markets may be costlier than us in their intrinsic (basic) values and not cheap as we think. At one-third of our normal prices even China's cheapest products will become costly. It is quite possible that some multinationals may be

3. In fact even 5% inflation each year is too high compared to almost stagnant standard of living of most of our rural and urban poor (@ 68%) in the past 50 years. This fact is also corroborated by the amount of parallel black economy that stands at minimum 80-125% of our GDP and is directly responsible for escalating the cost of production and services in the same ratio, as most of black money goes out of business, only raising the cost of products and services.

selling their products at a higher price because they can fetch that price against our still costlier yet poor quality products. In case of arms, ammunitions, aircraft, life-saving drugs, hybrid seeds, specialised machinery and components etc. we may not even know their actual costs.

Note

The public resentment that our industries are over-charging for a poor quality product is true but unfounded. This is what our industries could do under Indian conditions.

> *'It is like a teacher scolding the child for not doing homework without realising that he had no electricity the whole night.'*
>
> *(For those who blame Indian industries.)*

21.4 Scenario post-liberalisation

An overview of 15 years of liberalisation shows that everything that builds the economy is still in shambles:

• Perennial budget deficits (Union & states)	> 10% of GDP (Rs 2.92 lac cr during 2003-04 . which was ≅11.6% of GDP at 25.24 lac cr (Table 5.2))*
• To meet the above large borrowings from internal and external markets	> 10% of GDP
• Dependence on foreign grants & loans	
• High interest liability (Union & states)	> 5% of GDP (Rs 1.75 lac cr during 2003-04. which was ≅6.9% of GDP)*
• Large and perennial printing of excess currency to meet the deficit	≅ 10% of GDP
• Debts rising unbound	> 100% of GDP (Rs 27.56 lac cr during 2003-04. It is 109.2% of GDP (see note of Table 5.2))

• Of this external debts stand at	- $ 111.83 b (during 2003-04 (Table 5.2))
• Trade deficit is galloping year in and year out and eroding foreign exchange reserves. It is a phenomenon, which our economy is highly susceptible to and is exposed to the same threats as of the 1990's.	- Rs 2.29 lac cr (during 2005-06 (Table 5.3)
• High Forex reserves (It is a misnomer to call it reserves, as it is a liability and payable in one form or the other.)	~ $ 157 b (by end 2006)
• Large circulations of fake stamps and stamp papers.	worth Rs lacs of cr

* Source : The Economic Survey (2004-05)

The above scenario is indeed alarming and leaves little for any tangible development that can uplift the poor masses. The plight of our poor people is indeed woe betide and destined to remain as such. The sooner we accept this harsh reality, the sooner we can start working for it. Moreover the non-performance of government machinery negates whatever little government tries to do in this front.

(I) PER CAPITA INCOME

Large inflow of FDIs and FIls is surely providing support to our businesses and industries and boosting our GDP. Apparently, per capita income is also increasing, but it is incongruous to draw conclusions based on it. The rise in GDP is not reaching the masses and cannot be construed as improving the plight of our poor people (see Table 5.5). This is a major reason of galloping rich-poor divide and consequent "Feel Good" factor amongst the rich and the elite.

(II) STOCK MARKET

Indian stock market basking on FIls is highly susceptible to internal and external threats. Small jerks in the rate of interest at home and US, swing in the exchange rate Re vs. $ (Re dipping), scanty rainfall, performance below expectations of blue chip companies and rising international oil prices, send the stock market tumbling as FIls withdraw their investments. **If stock market boom can make us jubilant with our limited investments, so it can enrich enormously the foreign investors with their much larger investments.** It will be wise to foresee what may happen when they repatriate their riches one day and make our country pauper. Even now small withdrawals by them send out a panic down our spine as market crashes unceremoniously. It is possible that in the long run they take control of many of our blue chip companies also. Presently everything that relates to Flls and FDIs appears goody-goody and long awaited Sensex[4] has crossed 14,000 mark (Jan. 2007). But, it is difficult to predict what scenario it shall be in times ahead, more so in the light of our bereft foundation, on which stands precariously the whole nation, with lack of infrastructure, galoring illiteracy, backwardness and poverty of our 86% people, exploding population and an insensitive system of governance on top of it. It is therefore, imperative to have a move of caution at this stage despite our euphoria.

(III) UNEMPLOYMENT

"Number of unemployed youth up threefold in 10 years (from 13.8 m in 1991 to 44.5 m in 2001)" (TOI, 22 June, 2005). But, we shall not go by the published figures on unemployment as they cover only the educated youth and those who are enrolled with the employment exchanges. Many more are not enrolled. Rural youth, much larger in numbers, usually illiterate or marginally literate are enrolled nowhere also need employment. If we add them, the unemployment scenario becomes staggering. Liberalisation is making the situation worse in the face of automation; mechanisation and paperless offices and work culture extending 8-12 hours a day. Jobs are shrinking for labour class and yet fewer jobs for non-specialised educated work force.

Unemployment may, however, slow down for some time when the new businesses and industries that are in the offing become operational. But this apart, that shall be for sometime and only for some till the making up period. The level of employment shall recede ultimately in absolute terms and unemployment shall rise unbound. It can be contained only by development on various fronts as discussed under various heads of this book (summarised in Chapter 1), and strict control over population (not by Supreme Court ban on cow slaughter or unwarranted and treacherous slogan for Hindu Society by our learned leader K. Sudarshan of RSS (November 2005) to have more children — minimum three to propagate Hindutava). In absence of both (development and control over population), the situation is already worsening rapidly and we must have an eye to see the same.

4. Sensex - Sensitive Index of Bombay Stock Exchange

(IV) RURAL AFFLUENCE

Many economists, analysts and individuals claim of rural development and affluence, their rising buying power, consumption to consumer durables, two wheelers, TVs, fridges and other items of luxury. This is true also to some extent and we don't deny it. About 2.19% rich farmers (Section 5.3, Table 5.5) and 2.12% affluent that we have estimated amongst rest of the rural masses already make a strong force of about 4.31%, which is too optimistic and makes a very large rural consumer force of 4.96 cr. With this assumption and urban affluence at 9.54% (10.97 cr), the rural affluence stands at 4.96 : 10.97 or 45.2%[5] that of urban affluence. But so much affluence is scarcely[6] visible. Nevertheless it corroborates our findings regarding the level of poverty and acute hardships that majority of our people are forced to endure.

It is no surprise that despite the dismal status of our country as a whole, the rural and urban affluence makes a large middle class sector that the world has an eagle eye on. Thus, our total 14% (about 16 cr) affluent strata makes our country amongst the largest prospective consumer markets in the world. But all this does not alleviate the miseries and hardships of our 78.2 cr (68%) very poor people.

Liberalisation and huge forex reserve is meaningless without tangible developmental works to uplift the 86% poor of the country. It also tantamounts to cheating the masses.

21.5 Conclusion

- In whatever sectors privatisation is happening things are improving. Communication, power, aviation, banking are a few services one can feel the comfort. There are therefore obvious advantages of liberalisation and open market conditions. It has threats also and cautions us to be vigilant and resilient. Unless we are able to curb our trade deficits, forex reserve position that is so encouraging today shall start dwindling or external debts shall rise as we have witnessed in the past. Moreover, it is natural that with time there will be decline in the rate of investments, as there is a limit to foreign investments too (it cannot be infinite in terms of volume or period), besides the large payments that we shall have to make to the foreign investors and business houses for their profits and commissions.

5. It considers the rural migrants to urban areas in the urban population. If we consider it a part of rural population this ratio will become about 54%. See Table 5.4 & 5.5.

6. The real affluence therefore would be much less than projected by us.

- **Our present concept of liberalisation aims at collecting money in whatever manner, irrespective of its consequences (a parasitic approach). It is surprising that we are ready to resort to any kind of compromises, even if it may lead us to an economic colonialism, but are not willing to mend our ways of governance responsible for all this. We must adopt to liberalisation, we do not deny it, but for that our system of governance needs to be revamped. Unless we do this, liberalisation or globalisation shall only mean catastrophe and the wealth of the nation shall concentrate in the hands of a few. A small percentage 9-14% reaping benefits of liberalisation and the rest 91-86% looking at them with awe and disgust is no euphoria.**
- **In fact the evolution of anarchy is already set in, we must have an eye to see it. Look at large-scale disturbances in many parts of the country, J&K, North-Eastern states, Orissa, Andhra, Bihar, MP, Tamil Nadu, Karnataka, UP and now Gujarat to name a few, killings, kidnappings, train lootings, murders, suicides and unnatural deaths, people eating wild roots and dying of poisonous food, and government providing mid-day meals to the dying farmers or 100 days employment to one person in a family as a sustenance allowance to the very poor people. All these are indicative of a state of anarchy, poor development and rapidly deteriorating economic condition of our vast country.**

  Our indebtedness in 2003-04 stood at a staggering Rs 27.56 lac cr (Table 5.2), is more than the GDP at Rs 25.24 lac cr which we may never be able to repay. In fact this is rising year after year. On top of it we have heavy dependence on foreign loans, grants, aids, FIIs and FDIs that have rendered us highly vulnerable to external threats. This all is the result of our past deeds. The clouds of doom have begun gathering, but we see only its glittering. One day they may thunder their gloom and we may be slaves again in terms of illiteracy, impoverishment, under-development and destruction of the whole nation. Rural front is already in shambles and woes.

The decision for liberalisation is therefore a decision in haste, similar to:

- the partition of the country in 1947 (Section 25.2)
- imposition of feudal system through non-professional and inexperienced bureaucracy (Section 8.6) and
- ill conceived mixed economy (Section 10.1)

Liberalisation can be compared with our past, when we became slaves about a thousand years ago. At that time our weak and divided rulers in a quest to conquer their rivals or neighbours requisitioned forces from outside the country to fight for them and then one day fell prey to the same forces (arrival of Babar[7] in 1526 and founding of Mughal empire is one such testimony). Similar is the case of the fall of great Marathas in 1761 at the hands of Ahmed Shah Abdali. East India Co.[8] came here around 1601 and how they conquered and ruled the whole nation is already a sad memory. They started trading from Surat (Jahangir allowed them) and gradually established their base on our soil. Then also we had nothing to sell to them and for their merchandise paid them by way of our riches in shape of gold, gems and jewellery. We also invited Israel and Italy once to protect our borders and fight terrorism for us (Section 25.5). Imagine if the history repeats although far fetched but cannot be ruled out! After 16 years of liberalisation we are still under heavy debts and that is rising and have galloping trade deficits. If we are not able to pay them this time also for their profits and services in terms of dollars that will be our **economic colonialism**.

- On the top of it we are trying hard to make our rupee convertible in the international market. We are afraid, it shall only be a disaster knell for us with our present economic scenario. It may even be worse than it was for South-East Asian countries or Mexico in 1990s.

Many of us may argue that our exports are rising in terms of industrial goods and it is oil that is causing the trade deficit. But deficit is a deficit and oil is our necessity. We shall have to earn for it and for this our present industrial scenario is far too inadequate. To the surprise of the same supporters of liberalisation we may like to apprise them that this euphoria is already short-lived with the exports falling short of imports even without the oil bills since 2004-05 and the deficit has started rising unbound. For details see Table 5.3 and its inferences.

Post liberalisation and globalisation, it is not the private sector and individuals with specialised education and training backup that we

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7. Rana Sanga ruler of Mewar invited Babar from Turkey to invade Central India and conquer Ibrahim Lodi. Babar came and conquered but never went back.

8. During 1765 East India Co. started collecting revenue from West Bengal, Bihar and Orissa on behalf of the King (George III). It is considered as the advent of slavery.

have to worry about, as they are capable themselves, to weather market forces and threats. Liberalisation was indeed a boon for them. We worry for those who remain unemployed and also as how to reach out to the rest. Rejoices and celebrations by 9-14% and gloom for the rest 91-86% negates the "feel good" euphoria. Surely those who love to ignore these 91-86% have reasons to rejoice but those for whom they matter, it is a matter of insurmountable worry.

Now reversal from globalisation is not possible neither do we want it. The only solution is to somehow overcome the present hurdles in the way of our industries, businesses and upliftment of the poor masses, which is possible only through a prudent system of governance. In our new system that we have envisaged we have plans to address these issues as under:

- Evolve industry friendly-system, rules and regulations and provide them prompt support when required.
- Induce fresh vigour and hope and inculcate healthy work culture amongst the people of the land.
- Give extensive thrust to Research & Development.
- Improve power position (Chapter 17).
- Create jobs for all (Chapter 1). It will pull them out of their impoverishment and will raise their consumption.
- Improve primary sector (Chapter 11) and do its extensive development.
- Improve tertiary sector (Chapter 19).

Besides an overall development and growth of the nation, uplifting the 86% negated subjects, the above will also give tremendous boost to industries. With these measures we envisage a minimum industrial growth of 300-400% within 5-7 years (Table 12.2), besides gearing up and establishing them in the global market. In fact, our targets are much higher but we cannot overlook the hundreds of containers with foreign goods that are landing on our soil every day.