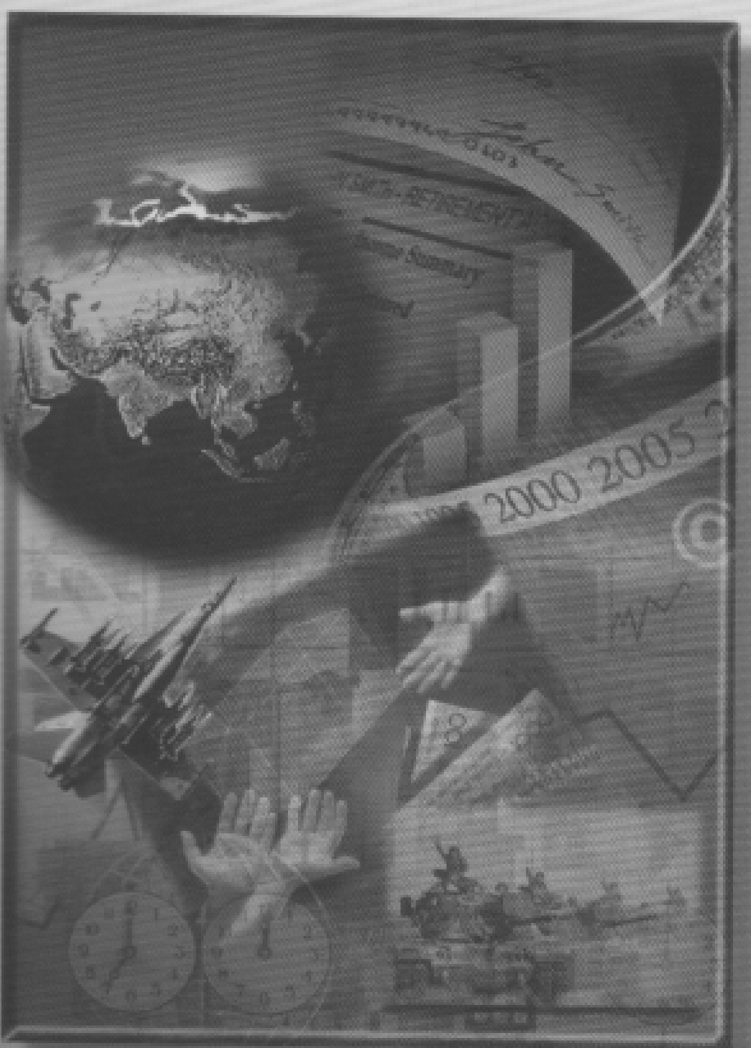
Globalization

Debts, Arms and Reforms in *South Asia*



Sures Chandra Jain

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About the Author

Before taking up a contractual assignment as Resident Consultant for one year with the N.P.I.U. for implementing the World Bank project under the Ministry of HRD, Government of India, **Dr. Sures Chandra Jain** had worked as Chief General Manager for nearly 20 years at M.P. Laghu Udyog Nigam (an undertaking of the Government of Madhya Pradesh) in Bhopal when he voluntarily retired in 2002. Dr. Jain had also worked for many multinational corporations like I.B.M., Massey-Ferguson, Atomic Energy of Canada Limited, and G.T.E. when he was in Canada and USA from 1970 to 1983. He was a visiting Fellow at UNESCO, Paris, France.

Dr. Jain obtained the degrees of Doctor of Education (Ph.D.) from Columbia University, New York, U.S.A. and B.I.S. from the University of Waterloo in Canada, Besides several research papers, Dr. Jain has written five books, two in Hindi and three in English, all of them published by Concept Publishing Company, New Delhi. He is either an author or co-author of many government reports which are not meant for general publication.

GLOBALIZATION
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Dr. Sures Chandra Jain

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Preface

The State control of the economy through licence, permit, quota, etc. is being given up in a phased manner, which has been the hallmark of policy right from independence in 1947 till the end of century. Since 1991, economic reforms are being initiated in India.

These attempts to liberalize the economy of India and many other developing countries are substantially based on foreign "debt", "aid", and "technology". The object of this book is to critically analyze the pitfalls associated with this dependence on foreign debt, aid and technology, which leads of perpetuating poverty. This situation has worsened with the arrival of so called *Globalization*. Frans J. Schuurman of the Institute of Development Studies at the University of Nijmegen in the Netherlands said *"...That if there ever was anything like globalization then that is already over because we have now entered a period of increasing fragmentation and de-globalization."*

The foreign debt of India has doubled just in two years, from Rs. 1,28,451 crore in 1989-90 to Rs. 2,46,038 crore in 1991-92. This doubling of the debt is not reflected in dollar amount, because the Indian currency was substantially devalued in 1991. The value of the US dollar has also become twice in less than three years, from approximately Rs. 18 in 1991 to almost Rs. 32 during 1993-94, and reaching nearly Rs. 50 in 2002. The new loans are now being negotiated to pay for the interest on the previous loans.

Now, with this situation in the beginning of 2000s, India has been caught into the debt-trap, the way Mexico, Brazil and many other developing countries have been since the early 1980s. With this debt-trap, the speed and direction of the Indian economy, like that of many other developing countries, is also being substantially dictated by the International Monetary Fund (IMF) and the World Bank combine, the money-lending agencies effectively controlled by the Western powers. After all, the motives of the Western powers during colonialism were to exploit the economic resources of the colonies, which, in the aftermath of colonialism after the Second World War, are being done through the remote control of the IMF and the World Bank combine, which takes back more money in the form of interest on debt, creating social conflicts in developing countries and then selling arms forcing them to cut down expenditure on Health and Education, the basic necessities of life. An editorial in the *Hindustan Times*, New Delhi, 25-7-2000, lamented that:

> It is no secret that the debt burden is crippling the HIPCs' (Highly Indebted Poor Countries) efforts to sustain growth or to gain independence from the international financial institutions. While they are having to spend 10 per cent of their income on health and education, about 60 per cent is going towards servicing of the debt. ... *heavily indebted poor countries (HIPCs)...are spending $ 60 million a day towards debt servicing.*

What does this dependence on foreign debt mean for the sovereignty of the nation? It is simple and brutal: Just perpetuating poverty. This Book is primarily designed as a general reference material for the layman who wishes to become familiar with the subject of foreign debt, arms, international developmental agencies as an instrument of maintaining poverty and finally, the globalization and so called economic reforms, as they it relates with the overall socio-economic development of the country.

This book was originally written in 1982 when I was in Canada, updated and thoroughly revised ten years later in 1992, and now updated and revised again the same ten years later in 2002. As a result, some part of this book may in the first instance appear to be a bit disjointed but, in fact, analyses and arguments made 20 years ago and 10 years ago are even much more relevant today. This is precisely because expenditure on arms and debt servicing adversely affecting investment in health and education continue to be perennial problems and pressing issues facing India and other developing country. These problems of expenditure on arms and debt servicing adversely affecting investment in health and education have only gonė from bad to worse in these last 20 years when the book was originally written.

My wife, Dr. Krishna and our two little children, Nidhi and Amogh, who so gracefully provided with me what otherwise would have been their time.

Bhopal, **Sures Chandra Jain**
September 18, 2002

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Introduction

...But I do not know of any country in the world which might have become prosperous with the help and formulae of the International Monetary Fund (IMF).

—Kuldip Nayar[1], 1991

"...That if there ever was anything like globalization then that is already over because we have now entered a period of increasing fragmentation and de-globalization."

—Frans J. Schuurman[2], 2001

"Globalization and destabilization are coinciding phenomena; a causal relationship is probable."

—Kristoffel Lieten[3], 2001

The upshot is that debt has become a form of bondage, and the indebted economies have become indentured economies—a clear manifestation of neo-colonialism.

—Julius K. Nyerere[4], 1990

A number of policy planners and intellectuals in India and other formerly colonized countries, almost always look towards their old masters' ways and means and often seek their "guidance" and do so with rather gracious submission.

The policy planners and intellectuals in India are so Westernized in their outlook that they virtually develop a contempt for their native indigenous values and cultural traditions, and follow everything that is Western no matter however ridiculous, absurd and irrelevant. It is these policy planners and intellectuals who must seek foreign "aid" and global "interdependence", regardless of their disastrous socio-economic consequences.

There are several chapters in this book. It is a historical fact that what is now called the "Third World" is yesterday's colonized world, the world that was ruthlessly plundered and its inhabitants mercilessly dehumanized. Dr. Martin Luther King Jr., the slain civil rights leader of the blacks in the United States, a Nobel Laureate for Peace, said[5]:

> "We in the West must bear in mind that the poor countries are poor primarily because we have exploited them through political or economic exploitation."

Those individuals in India and the Third World who seek foreign "aid" and global "interdependence" continue to ignore, basically for their selfish reasons, what is now a very well-documented fact that foreign aid has contributed nothing as far as the development of the nation is concerned. L.B. Pearson, former Prime Minister of Canada, a Nobel Laureate for Peace[6], said:

> "On the whole, the evidence suggests that economic assistance has, at best, made little contribution to the aided nations' growth and, at worst, has seriously distorted it... (Aid) too, perpetuates what is in essence a colonial relationship."

This gloomy picture shows that we have reached the ironic state "Who aids whom". The total outflows from India and the developing countries have already begun to exceed the amount of capital receipts coming from abroad. Table 1 shows External Debt, Military Expenditure percentage of GNP, Public Expenditure on Education and Health of the Various Regions of the World for 2000. Debt is ever increasing, reaching $ 100 billion in 2001 (Rs. 4,67,589 crores) and interest being paid is between Rs. 5000 to 6000 crore every year during the decade of so called reforms since 1991. The value of one $ in 1981 was Rs. 7.81, which increased to 17.94 in decade later in 1991, which further jumped to Rs. 48 in another decade in 2001. During the ten years of reforms from 1991 to 2001, the value of one $ became nearly three times. The highly indebted poor countries suffer the brunt of military spending[7]:

> "It is no secret that the debt burden is crippling the HIPCs' (Highly Indebted Poor Countries) efforts to sustain growth or to gain independence from the international financial institutions. While they have to spend 10 per cent of their income on health and education, about 60 per cent is going towards servicing of the debt. ...*Heavily indebted poor countries (HIPCs)...are spending $ 60 million a day towards debt servicing.*"

Mortgage the nation's economic control with the Western money lenders! Why not? After all, the State in India is the "personal property", as Arun Shourie[8], a noted scholar and an eminent journalist, remarked. There is apparently no need to mention the national humiliation that goes with this kind of borrowing. The agony of this whole scenario is pretty bizarre: the prospective nation first must carry a 'begging bowl', and if endowed with "charity" it must allow its economy's control and plunder by the moneylenders. Yet more bizarre is the fact that this exploitation is blatantly carried out under the philanthropic banner of "helping the helpless".

South Asia is the most militarized zone moving against the world trend. In South Asia countries, percentage of population living below the poverty may have come down in the decade from nearly 45 per cent in 1987 to 40 per cent in 1998, but the fact remains that the absolute number of them has increased from 475 million to 522 million. So at the current rate of progress in implementing the poverty alleviation schemes, the poverty would never be out of the face of the South Asia. Most of the poor of the World live in South Asia as reported by the World Bank[9]:

> ...Poor people are active agents in their lives, but are often powerless to influence the social and economic factors that determine their well-being. ...The world has deep poverty amid plenty. Of the world's 6 billion people (in the year 2000) 2.8 billion—almost half—live on less than $2 a day, and 1.2 billion—a fifth—live on less than $1 a day, with 44 per cent living in South Asia.

India's military budget for 2002-03 in Rs. 65,000 crore. The military expenditure of the entire World is $ 780 billion in 1999 (Rs. 37,44,000 crore).

The specific details and the statistical analysis of the transactions, e.g. aid received and payments on interest, amortization, debt servicing, repatriated profits, etc., appear in the appropriate sections in the text.[10]

The various chapters in this book deal with the role of so called foreign "aid" in the task of nation building, wherein we have reached the ironic state of "who aids whom". If we simply put on one side of the scale the total inflow of money from the rich nations, the so called aid-givers, and on the other side the total outflow of money from the poor nations, the so called aid-seekers, it turns out that it is the poor nations who actually aid the rich nations by way of interest and amortization on borrowed money, money repatriated by multinational corporations, money paid to import the generally obsolete technology, and money paid to purchase arms, etc.

Table 1.1: External Debt, Military Expenditure percentage of GNP, Public Expenditure on Education and Health of the Various Regions of the World for 2000

Region	*External Debt $ Millions 1998*	*Military Expenditure % of GNP 1997*	*Public Expenditure on education % of GNP 1997*	*Public expenditure on health % of GDP 1990-98*
	WDR P 315	*WDR P 307*	*WDR P 285*	*WDR P 287*
World	–	2.5	4.8	2.5
Low Income	579,545	2.9	3.3	1.3
Middle Income	1,956,501	2.9	4.8	3.1
Low and Middle Income	2,536,046	2.9	4.1	1.9
East Asia and Pacific	667,522	2.5	2.9	1.7
Europe and Central Asia	480,539	4.0	5.1	4.0
Latin America and Caribbean	786,019	1.8	3.6	3.3
Middle East and North Africa	208,059	7.0	5.2	2.4
South Asia	163,775	3.1	3.1	0.8
Sub-Saharan Africa	230,132	2.3	4.1	1.5

Source: The World Bank, *World Development Report 2000/2001*, Oxford University Press, New York, 2000.

The multinational corporations, which are now being increasingly promoted to start their operations in India and other Third World countries, no doubt barely cater to the consumer needs of the 2 to 5 per cent of the upper crust of the population in return for which these multinational corporations repatriate profits, utilize our market as a waste bin, a dumping ground for their largely discarded and/or environmentally dangerous technology. Now, with the so called opening of the economy to the world in general and to India in particular since the middle of 1991 by increasing de-regulation of industries, these multinational corporations would obviously have no regard for the fact that India's industrial infrastructure is to be based on self-reliance and the development of indigenous technology, if India is to develop in the long run. For example, by inviting multinational corporations to open their industries in India for manufacturing soft drinks, potato chips, chicken, etc., are we not depriving our native industrial entrepreneurs with an opportunity of developing their products? How can a struggling Indian entrepreneur, who is manufacturing soft drinks, can compete with the multinational giants manufacturing Pepsi and Coca Cola?

There are five chapters in this book.

Chapter 1 deals with the colonial legacy. This chapter deals with how, in the aftermath of the disintegration of the colonial rule after the Second World War in 1945, the various western powers through the media of so called international developmental agencies have taken the control of the economy of their former colonies. In the 1960s, these international developmental agencies worked under the aegis of first UN Development Decade, which did not produce any tangible developmental gains in the interest of the poor countries.

Probably having this fact in mind and also the lessons from the failures of the first UN Development Decade, in 1970, the UN International Development Strategy for the 1970s was launched. This strategy was based upon the then published

(1969) Pearson Report on the theme of International Development based on and the UNCTAD-I and UNCTAD-II resolutions. Unfortunately enough, neither the recommendations made in the Pearson Report nor the UNCTAD resolutions have been carried out. This strategy was dead even before its scheduled mid-term review in 1975. For the 1980s, we have the Brandt Commission Report, and for the 1990s we have the South Commission Report (details on these various Reports are given later and also in the text in Chapter 4). In terms of economic relations between developed and developing countries, the developing countries have been left with the following three alternatives:

1. Let the present international monetary system and the monopoly of the developed market economies continue,
2. Cut themselves off from the above alternative and make 'profits' from 'losses' of 'aid' and 'investment' as discussed earlier, or
3. To make a clean break from the alternative No.1, and follow a rough course of 'go it alone, involving the highest degree of bitterness and frustration, the way the Chinese accomplished in the aftermath of Communist take-over, and practiced in Tanzania but without success.

Chapter 2 deals with the quantitative figures of the foreign debt and aid from the 1950s to 1990s. The mounting amount of debts and subsequent negotiations of new loans to pay for the interests of the previous loans is a precarious situation.

Debt of India is ever-increasing from 1980 onwards, and skyrocketing since 1991 when the so called reforms began. This debt reached $ 100 billion in 2001 (Rs. 4,67,589 crores) and interest being paid is between Rs. 5000 to 6000 crore every year during the decade of so called reforms since 1991. The value of one $ in 1981 was Rs. 7.81, which increased to 17.94 in a decade later in 1991, which further jumped to Rs. 48 in another decade in 2001. During the ten years of reforms from 1991 to 2001, the value of one $ became nearly three times. The highly indebted poor countries suffer the brunt of military spending[11] :

> "It is no secret that the debt burden is crippling the HIPCs' (Highly Indebted Poor Countries) efforts to sustain growth or to gain independence from the international financial institutions. While they have to spend 10 per cent of their income on health and education, about 60 per cent is going towards servicing of the debt. ...*Heavily indebted poor Countries (HIPCs)...are spending $ 60 million a day towards debt servicing.*"

Mortgage the nation's economic control with the Western moneylenders! Why not? After all, the State in India is the "personal property", as Arun Shourie[12], a noted scholar and an eminent journalist, remarked. This statement of Shourie is much more true now 20 years later now than when it was said in 1980 when India had negotiated a big loan at that time from the World Bank and the IMF. There is apparently no need to mention the national humiliation that goes with this kind of borrowing. The agony of this whole scenario is pretty bizarre: the prospective nation first must carry a 'begging bowl', and if endowed with "charity" it must allow its economy's control and plunder by the moneylenders. Yet more bizarre is the fact that this exploitation is blatantly carried out under the philanthropic banner of "helping the helpless".

The above figures are discussed and put in Tables in the text of Chapter 2(B) of this book, all taken from various Government of India documents and the World Bank.

These increases in the amount of debt, amount of interest, debt service ratio and foreign exchange rate without any doubt indicate that India in the early 1990s has been caught in debt-trap, as have been Mexico, Brazil and many other developing countries since the 1980s. After getting India into debt-trap in the early 1990s, the World Bank and the IMF combine is also controlling the speed and direction of the Indian economy.

What used to be done by the Western powers during the colonial period of Asian, African and Latin American poor countries, is now being done through the IMF and the World Bank combine, the money-lender agencies effectively controlled by the Western powers.

After all, the motives of the Western Powers during colonialism were to exploit the economic resources of the colonies. Now, in the aftermath of the colonialism after the Second World War, this economic exploitation of the former colonies is being done through the remote control of the IMF and the World Bank combine.

What does this dependence on foreign debt mean for the sovereignty of the nation?

With this much money being paid back to the developed nations through the World Bank and IMF combine, the poor countries are simply not left with bare necessary resources for the funding of their various socio-economic developmental projects. This huge interest on debts is a drain on the country's resources, not to mention the money repatriated by the multinational corporations of the Western countries.

A New York-based think-tank, North South Round Table (NSRT), in its findings, categorically stated in 1993 that the IMF and the World Bank have failed to provide social and economic security for most of the world's people.

Kuldip Nayar, a noted journalist of India, rightly stated in *Rajasthan Patrika*, Jaipur, on 17-7-1991[13]:

> "...But I do not know of any country in the world, which might have become prosperous with the help and formulae of the International Monetary Fund (IMF)." (Translated from the Hindi by the author)

In view of the above, the problem is how the developing countries can achieve economic independence after having been politically independent from the colonial rulers. J.K. Nyerere[14], a widely acknowledged authority on the problems of the Third World countries, wrote:

> "To burden the people with the big loans, the repayment of which will be beyond their means, is not to help them but to make them suffer..."

The rich countries, through a mechanism of highly complicated jargon of phraseology by which they calculate the figures of debt, aid, amortization, principals and interests, etc. of the developing countries, and the developed countries through the International Monetary Fund and the World Bank combine have begun to control the economies of not only the smaller countries in the developing world but also the giants among them such as Brazil, Mexico, Argentina in the 1980s and have now also got in their paws India as well since the beginning of 1990s. What was the pathetic situation of the Latin American giants in the 1980s, has begun to happen in India in 1990s, for heavy borrowings by India from the IMF and the World Bank since 1985 in general, and from 1991 in particular, are clearly based on the fact that India had to give the control and direction of the Indian economy in the hands of the IMF and the World Bank combine. There has been several instances, where the Finance Minister of India since middle of 1991 had been writing to the IMF and the World Bank, giving them full assurance in writing in advance of the policies to be adopted by the Government of India. One such letter was written on November 11, 1991. The text of the letter is produced in Chapter 2(C) of this book. Lal Krishna Advani[15], an eminent political leader of India and President of Bharatiya Janata Party made the following observations while commenting on the liberalization policy of the Government, which began since the middle of 1991:

> "Our party is committed to liberalization, but there is a Government that talks of liberalization in a manner so as to make our entire economic approach subject to the dictates of the IMF and the World Bank."

Chapter 3 deals with the expenditure incurred by India and other developing countries on armaments and arms imports *vis-à-vis* health and education, etc. The total amount of expenditure on arms is over $ 1000 billion every year. This is a fact of life that only a small amount of current expenditure on arms is sufficient for the eradication of literacy and for providing basic health care needs and malnutrition of the entire developing world. The expenditure on arms manufacturing and for importing of arms is one of the major sources of the debts of the poor countries.

For example, the money spent by India on defence is nearly 4 times that of the combined expenditure on health, education, and rural development[16], when the improvement of our socio-economic conditions is most essential for equity and social justice.

Yet, at the same time, given the perception of threats at India's border right from China's invasion in 1962, Pakistan's attack in 1965, and India's involvement in the erstwhile east wing of Pakistan (now Bangladesh) on the one hand, and the growing unrest within the country since early 1980s, on the other, it is obviously not possible to cut down expenditure on defence without risking the security of the country itself.

India's military budget for 2002-03 was Rs. 65,000 crore. The military expenditure of the entire world was $ 780 billion in 1999[17] (Rs. 37,44,000 crore).

> "Total world military expenditure rose 2.1 per cent in real terms in 1999 after a long period of decline... The United States, Russia, China and France accounted for most of the global increase but countries spending relatively the most on guns are the emerging economies... *Arms spending totalled about $780 billion in 1999.* ...The countries with the heaviest economic burden on military expenditure are generally poor countries involved in armed conflict and/ or located in areas of tension."

The political changes in the world have been far too sweeping since 1989. Communism is dead in the countries of Eastern Europe. The erstwhile USSR has been converted into a Commonwealth of Independent States (CIS). Communism is now in the books of history. East and West Germany have been united into a single State. Efforts are made to economically unite the countries in Europe with a single currency, etc. This rapidly changing political environment of the World has certainly been in the positive direction for international peace, but it is not necessary for international security. Nevertheless, with this positive international environment, if the leaders of the world community, particularly USA and countries in Europe, heed the recommendations of the Brandt (1980) and South Commission (1990) Reports, the world would be a better place to live in both for the developed and the developing countries. The plight of the HIPCs' (Highly Indebted Poor Countries) regarding the amount of interest on debts and expenditure on health and education is quite disturbing[18] (For details on these Reports, see Chapter 4):

> It is no secret that the debt burden is crippling the HIPCs' (Highly Indebted Poor Countries) efforts to sustain growth or to gain independence from the international financial institutions. While they have to spend 10 per cent of their income on health and education, about 60 per cent is going towards servicing of the debt. ...*Heavily indebted poor Countries (HIPCs)...are spending $ 60 million a day towards debt servicing.*

Chapter 4 deals with the role of international developmental agencies in transforming the economic lot of the developing economies.

We notice that the following International Reports have been published from 1950s to 1990s on the development of issues in the Third World:

1. For the 1950s: The United Nations Development Decade I. It failed miserably.
2. For the 1960s: The United Nations Development Decade-II. It too failed. It did not achieve its stated objectives.
3. For the 1970s: "Partners in Development", report of the Commission on International Development, commissioned by the World Bank, under the Chairmanship of L.B. Pearson, former Prime Minister of Canada, a Nobel Laureate for Peace. Recommendations of this report were dead even before their scheduled review.
4. For the 1980s: "North-South: A Programme for Survival" the report of the Independent Commission on

International Development Issues, under the Chairmanship of Willy Brandt, former Chancellor of the then West Germany and Nobel Prize winner for Peace.

In the Brandt Commission Report, an emergency programme for the upliftment of the developing countries for 1980-85 was spelled out, none of which has ever been implemented, such as[19],

"There must be substantial increase in the transfer of resources to developing countries in order to finance:

(a) Projects and programmes to alleviate poverty and to expand food production, especially in the least developed countries.
(b) Exploration and development of energy and mineral resources.
(c) Stabilization of the prices and earnings of commodity exports and expanded domestic processing of commodities."

5. For the 1990s: "The Challenge to the South", the Report of the South Commission, under the chairmanship of Julius K. Neyrere, former President of Tanzania and internationally acclaimed authority on developmental issues in the Third World. The Non-Aligned Movement sanctioned this Report in 1986 in Zimbabwe. (Dr. Man Mohan Singh, Finance Minister of India since 1991, was one of the principal authors of this Report).

In this Report[20], emphasis has been laid on cooperation within the developing world (i.e. the South, as mentioned in this Report) and a request has been made to the developed countries (i.e. the North as mentioned in this Report) to reduce the debt burden:

"The time has come therefore for effective multilateral action to scale down the debt and reduce the burden of debt service to tolerable levels. In most cases, the debt crisis has turned out to be a crisis of solvency rather than merely of liquidity. ...

The upshot is that debt has become a form of bondage, and the indebted economies have become indentured economies—a clear manifestation of neo-colonialism. This state of affairs cannot go on. The debt and its service must be reduced to a level that allows growth to proceed at an acceptable pace. ...

We reaffirm the need for an International Debt Conference with the participation of the debtor governments, the governments of the creditors, and the international financial institutions, whose mandate would be to arrive at a binding international agreement on a framework solution."

6. For the 2000s, the Millennium's first decade, United Nations Millennium Declaration.

The leaders of the World Community met at the United Nations and resolved to eradicate poverty from the face of Earth by 2015[21]:

The Millennium Declaration's Goals for Development and Poverty Eradication

As the world entered the new millennium, heads of state and government gathered at the United Nations General Assembly to lay out their vision for the world. The leaders of the summit adopted the United Nations Millennium Declaration, recognizing their "collective responsibility to uphold the principles of human dignity, equality and equity at the global level". Among the many objectives set out by the declaration are specific, quantified and monitorable goals for development and poverty eradication by 2015:

- To halve the proportion of the world's people living on less than $1 a day.
- To halve the proportion of the world's people suffering from hunger.
- To halve the proportion of the world's people without access to safe drinking water.

- To achieve universal completion of primary schooling.
- To achieve gender equality in access to education.
- To reduce maternal mortality ratio by three quarters.
- To reduce under-five mortality rate by two-thirds.
- To halt and begin to reverse the spread of HIV/AIDS, malaria and other major diseases.

These goals build on the international development goals, which include three more targets—namely, to reduce infant mortality rate by two-thirds, to provide access for all who want reproductive health service and to implement national strategies for sustainable development by 2005 to reverse the loss of environment resources by 2015.

What are the prospects for achieving these goals?

As far as the implementation of the recommendations of these highly acclaimed international reports is concerned, nothing significant has been achieved right from the 1950s to the present year in the 1990s. The international developmental agencies, including that of the UN agencies such as the UNDP and the UNCTAD, have not even been able to scratch the surface. They have indeed often hampered the indigenous efforts of the developing countries, which remain under the illusion of assistance from these agencies.

As far as the role of the international developmental agencies in helping the socio-economic lot of the poor countries is concerned, it is the prior decision-making by the developed countries that carries in it the mechanics of guaranteed failure of the interests of the developing countries. This is the reason behind the failures of the international conferences and developmental agencies. The outcome of the whole conference usually turns out to be an illusion. Why an international illusion? Because the output results in three things at the end of the conferences:

1. The impractical resolutions, which in many cases are accepted by the underdeveloped nations reluctantly because they have no other choice;
2. The agreement to disagree and to arrange another conference (maybe up to four years), the UNCTAD, for

example. This, too, drags the issues out and sweeps the urgent and bare necessities of more than two-thirds of the people on earth under the political rug;
3. The collection of fresh statistics of the nations; how much poorer the nations have become, and how much more the rich nations have accumulated, thus ensuring that the economic gap goes on increasing.

Thus the realities of the whole exercise of the conference turn out to be like going to a circus or watching a theatre.

The three main policy generating 'isms' are liberalism, conservatism, and the so called radicalism. The development strategy of the poor nation has to be worked out in close coordination of all these three 'isms', for being liberal alone poses problems in implementation of the policies; being conservative alone and following the traditional way can no longer be accepted if we have to keep up pace with the technological renovations of today; and being radical may well create more problems than it could resolve. But we need radical policy recommendations to bring about the change, to break the stagnation, and to make the social systems dynamic and the move. The policy-generating machinery, so formulated, will produce the forces that will inevitably accelerate the development system.

Now let us look at some other alternatives to make the development assistance more effective. It should be designed in such a way as to be beneficial to both the donor and the recipient. One of the main reasons for the amount of money that is being repatriated to the donor nations is that this money simply could not be reinvested in these poor nations because of lack of business. Now the developed nations can do one thing to help establish small-scale industries that do not need much sophisticated technology, and the poor nations can then reinvest this repatriated money. After this, the developed nations should trade and import some manufactured goods from these poor countries. This would be beneficial to both groups, the developed and the underdeveloped, in a number of ways:

1. This reinvestment of what is repatriated today would help the developing nations in their struggle for economic independence. It would help move the take-off process towards self-sustained growth faster. It would help them in industrialization and urbanization, without much suffering from the scarcity of foreign exchange.
2. The scarcity of foreign exchange is more or less being financed by the developed nations in the form of loans and grants. With this reinvestment, these aids and grants would soon no longer be needed.
3. This would reduce the foreign borrowings, which cause the greatest danger that new loans could dry up and foreign exchange earnings fall.
4. This economic development of the underdeveloped, in this way, will serve the long-term interests of the developed nations. It will generate trade.
5. At the same time, the developing nations themselves will have to provide the political stability to encourage investment and to keep the tax rate at a lower level.

Aids, loans and grants, at this time proving to be not effective at all, could in the way mentioned above be a great contribution to both the developed and the underdeveloped. There would then emerge real peace and prosperity among all nations, without a burden being placed on any rich nation to provide 'aid'. Gunnar Myrdal says truly that trade, and not aid, will be the real test of intentions. Along with this, improved trade helps enrich social, political, and cultural environment as well.

Economic reforms as being initiated now since 1991 have not been able to bear fruits in more than a decade of their implementation[22]:

> "It has been argued that India had a restrictive, inward-looking regime, and that, therefore, the economic breakthrough could not come about. Beginning around 1980 with the first IMF, and speeded up with the radical

> changes in economic policy around 1990, India opted for an export-led and foreign-capital-driven development. The fruits of such development should have become visible, but they have not. The Indian upper middle classes have gained access to cable television, cellular phones, computers and king-size cigarettes. The goods remain by and large restricted to a one-digit percentage of the population. The vast majority of the population has hardly seen progress. GNP growth patterns have remained at the levels of the 1960s and 1970s, occasionally going up, as they did over the last two decades, attracting eulogies for the policy of liberalization, and then falling again, as they had done in the past."

Chapter 5 of this book is a conclusion, which illustrates the myth of the so called global interdependence. In this chapter, various policy alternatives have been examined, in which the role of aid and loan can become a catalyst for the development projects, if conditions are favourable to the underdeveloped nations.

In the various chapters in this book, the picture so far and the future prospects indicate conflict, non-coöperation, a gloomy outlook, and the frustrating desires on the part of the underdeveloped nations, precisely because we have not been fair enough to analyze all the problems facing the poor countries beyond our selfish interests. In spite of this gloomy picture, let us dare to be optimistic! I cannot see any reason why we cannot transform all these gloomy and frustrating outcomes into a positive contribution to help fight hunger and illiteracy, and provide shelter and clothing (the bare necessities and requirements of more than two-thirds of the people on earth over the three continents of Africa, Asia and Latin America). The fulfilling of these basic necessities and requirements will help create a feeling of human dignity and responsibility among these masses. This will eventually enable them to help themselves, in other words, to be self-reliant. The lawlessness, social disorders and unequal opportunity etc. are the phenomena that set the stages for change—change in existing socio-cultural value system. With the necessity of social change, an idea of revolution is inevitable. Revolution and brutality, especially the suppression of human freedom, are almost synonymous. But a planned revolution does not necessarily have to be brutal and barbaric to bring about social change and to create the required momentum necessary for it. This change, in terms of international development, can be made only through goodwill and unconditional international cooperation based upon mutual respect and peaceful coexistence among the nations involved within the existing UN system. In other words, it will mean that we have to adjust our national goals within the broad international economic system, as is being done in many developing countries after the disintegration of Communism in the erstwhile USSR and Europe in the late 1980s and the early 1990s.

In this regard, however, India and other developing countries must protect their national interests by adopting the following policy alternatives:

1. Since the middle of 1991, India is witnessing the liberalization of the economy, and subsequent reforms in the industrial sector. To harness the benefits of these reforms, it is equally important to have parallel reforms in the bureaucratic structure as well, which in essence still remains an extension of the British colonial administration, which had nothing to do with socio-economic development of the country. (This issue is beyond the scope of this book, about which I am writing separately.)
2. Economic reforms since 1991 should go on, but it should be kept in mind that it is nothing but a mirage to imagine that the country would develop on foreign debt, because the total outflow from the country has already begun to exceed the total inflow into the country, and that new loans are essentially being negotiated to pay the interest on the earlier loans.

In November 1997 the Institute of Development Studies of the University of Nijmegen in the Netherlands organized a workshop on the significance of globalization (as a concept, a theory, a discourse and/or as an ontological process) for development studies in developing countries. The following summary of the views of the many scholars who presented their papers in this workshop[23]:

Reinhart Kossler[24]:	*"Globalization may be considered a complex and multi-dimensional set of processes of rapid change, while at the same time delineating a programme of fundamental and multi-dimensional change and an ideology to legitimize such change."*
Frans J. Schuurman[25]:	*"...That if there ever was anything like globalization then that is already over because we have now entered a period of increasing fragmentation and de-globalization."*
Kristoffel Lieten[26]:	*"Globalization and destabilization are coinciding phenomena; a causal relationship is probable."*
Reinhart Kossler[27]:	*"In a time of enhanced globalization, inequality of life chances and life levels on a world scale has become an ever more acute problem."*
Ton van Naerssen[28]:	*"Global cities are not only sites for the accumulation of capital but also major sites for the creation of a new global culture. It is in these cities, and particularly in the world cities, that new cultural and political identities are being constructed."*
Frans J. Schuurman[29]:	*"...Globalization is...primarily cultural in nature. ...Traditional identities are under*

threat, indigenous people are alienated from their cultural heritage through the global movement of consumer capitalism."

Kristoffel Lieten[30]: *"Beginning around 1980 with the first IMF, and speeded up with the radical changes in economic policy around 1990, India opted for an export-led and foreign-capital-driven development. The fruits of such development should have become visible, but they have not."*

So this process of economic liberalization should not be made synonymous with dependence on the IMF and the World Bank, or, as discussed earlier in this Preface and also in the text in Chapter 2(C) of this book, this would turn India from the present position of debt-trap into a Banana Republic.

If the above policy alternatives were honestly translated into action, it would then certainly remove poverty, what we have not been able to remove in India for nearly the last five decades since Independence in 1947.

The data analyzed in this book are mainly from India, South Asian countries, China, and the developing countries as a whole. The analysis in the book is applicable to India and South Asian countries in particular, and to the Third World in general.

The nations in the South Asian region, particularly India, Bangladesh, Pakistan and Sri Lanka, share the same colonial heritage. All these nations are the classical victims of:

1. The divide-and-rule policy of the British colonial domination, and
2. The socio-economic neo-colonialism being practiced by the western countries after direct political colonialism in the aftermath of Second World War.

Since we have now been free from colonialism for over four decades, there is a little point in putting the blame on these former colonizers, for it is we ourselves who form our own polity and developmental policies with an urban bias, largely based on western style. Hence, an all-out effort to strengthen civil society in South Asia under the chairmanship of the former prime minister of India I.K. Gujaral[31] is a commendable step in the right direction:

> We have before us the experience of detente between the East and the West and the confidence-building measures undertaken by two sides of divided Europe through the Helsinki process that finally led to the end of the Cold War, the establishment of the Organization for Security and Cooperation in Europe (OSCE). The Europeans were able to overcome the animosities created through two world wars and centuries of intra-European wars.
>
> Eminent personalities from India, Bangladesh, Bhutan, Maldives, Nepal, Pakistan and Sri Lanka have formed a citizens' commission for South Asia and brought out a joint declaration after their first meeting in Kathmandu on December 1-3, 2000. The chairperson of the group is former Prime Minister Inder Kumar Gujral and includes personalities with both stature and credibility not only in their respective countries but also in the world outside. The objective of the commission is a very laudable one, to stress the major role and responsibility of civil society in creating a favourable opinion for promotion of regional cooperation. It has urged the governments, opinion-makers and civil society of the SAARC member countries to reaffirm their political will to work collectively for peace, progress and prosperity with a view to improving the quality of life of one-fifth of humankind.

NOTES

1. Kuldip Nayar, *Rajasthan Patrika* (Hindi Daily), Jaipur, 17-7-1991; p. 6. This passage of Nayar has been translated by the author from the original in Hindi. Nayar is an eminent journalist of India.
2. Frans J. Schuurman, Globalization and Development Studies: Introducing the Challenges, in Frans J. Schuurman, Ed., *Globalization and Development Studies: Challenges for the 21st Century*, Vistaar Publications (A division of Sage Pub.), New Delhi, 2001, p. 8.

3. Kristoffel Lieten, Multinationals and Development: Revisiting the Debate, in Frans J. Schuurman, Ed., *Globalization and Development Studies: Challenges for the 21st Century*, Vistaar Publications (A division of Sage Pub.), New Delhi, 2001, p. 104.
4. *The Challenge to the South: The Report of the South Commission*, (New York: Oxford University Press, 1990); p. 227.

   This Report of the South Commission, sanctioned by the Non-Aligned Movement (NAM) in 1986 in Zimbabwe, was prepared under the chairmanship of the former President of Tanzania, Julius K. Nyerere.

   India's Dr. Man Mohan Singh, former Governor of the Reserve Bank of India, and Minister of Finance since 1991, was one of the principal authors of this Report.
5. Dr. Martin Luther King, Jr., *Conscience for Change*, Canadian Broadcasting Corporation, Toronto, 1967; p. 36.
6. Lester Bowles Pearson, *Pearson on Pearson Report*, CERES, FAO Review on Development, Rome, Italy, March-April 1970; pp. 20, 24. The "Pearson Report" is a document prepared under the Chairmanship of L.B. Pearson, former Prime Minister of Canada, a Nobel Laureate for Peace, to outline the strategies for the development of the Third World's poverty-stricken people. This Report was commissioned by the World Bank. The report is titled "Partners in Development", (New York: Praeger Pub., 1969).
7. Editorial, Blessed are the poor, *Hindustan Times*, New Delhi, 25-7-2000, p. 15.
8. Arun Shourie, "The State As Personal Property", *The Economic and Political Weekly*, Bombay, March 8, 1980; p. 509.
9. The World Bank, *World Development Report 2000/2001*, Oxford University Press, New York, 2000, p. 3. The poverty line is $1.08 a day at 1993 PPP.
10. For details and tables on data and their sources, see *Chapter 2(B)* and *Chapter* 3 of this book.
11. Editorial, Blessed are the poor, *Hindustan Times*, New Delhi, 25-7-2000, p. 15.
12. Arun Shourie, "The State As Personal Property", *The Economic and Political Weekly*, Bombay, March 8, 1980; p. 509.
13. Kundip Nayar, *Rajasthan Patrika* (Hindi Daily), Jaipur, 17-7-1991; p. 6. This passage of Nayar has been translated by the author from the original in Hindi. Nayar is an eminent journalist of India.
14. This statement was made in the Arusha Declaration. Julius K. Nyerere, *Freedom and Socialism*, (Dar-es-Salaam: Oxford University Press, 1968); p. 240.

15. *Economic Times*, New Delhi, 10-8-1993, p. 2. In this article in the *Economic Times*, L.K. Advani has expressed his views on a wide range of issues dealing with the liberalization of Indian economy.
16. For details regarding various data on investments in health, education and armaments, see Chapter 3 of this book.
17. SIPRI, World's arms expenditure rising, *Times of India*, New Delhi, 15-6-2000, p. 16.
18. Editorial, *Blessed are the poor*, *Hindustan Times*, New Delhi, 25-7-2000, p. 15.
19. *North-South: A Programme for Survival*, Cambridge: The MIT Press, 1980; p. 290.
20. *The Challenge to the South*: The Report of the South Commission, New York: Oxford University Press, 1990, pp. 226-28.

    This Report, sanctioned by Non-Aligned Movement (NAM) in 1986 in Zimbabwe,was prepared by the South Commission under the chairmanship of the former president of Tanzania, Julius K. Nyerere. India's Dr. Man Mohan Singh, former Governor of the Reserve Bank of India, and Minister of Finance since 1991, was one of the principal authors of this Report. Dr. Man Mohan Singh, in his capacity as Finance Minister of India since June 1991, is without doubt the single force, backed-up by Prime Minister P.V. Narasimha Rao, of course, who has caused the foreign debt of India to become twice just in two years, from Rs. 1,28,451 crore in 1989-90 to Rs. 2,66,167 crore in 1991-92. This debt has doubled partly by borrowing heavily and partly by devaluing the Indian currency in 1991, at the behest of the IMF and the World Bank combine.
21. *Human Development Report 2001*, UNDP, Oxford University Press, New York, 2001, pp. 21, 24.
22. Kristoffel Lieten, Multinationals and Development: Revisiting the Debate, in Frans J. Schuurman, Ed., *Globalization and Development Studies: Challenges for the 21st Century*, Vistaar Publications (A division of Sage Pub.), New Delhi, 2001, p. 112.
23. The proceedings were published in Frans J. Schuurman, Ed., *Globalization and Development Studies: Challenges for the 21st Century*, Vistaar Publications (A division of Sage Pub.), New Delhi, 2001.
24. Reinhart Kossler, *Globalization and Human Rights: Some Developmental Reflections*, in *Ibid.*, p. 83.
25. Frans J. Schuurman, *Globalization and Development Studies: Introducing the Challenges*, in *Ibid.*, p. 8.
26. Kristoffel Lieten, *Multinationals and Development: Revisiting the Debate*, in *Ibid.*, p. 104.
27. Reinhart Kossler, *Globalization and Human Rights: Some Developmental Reflections*, in *Ibid.*, p. 90.

28. Ton van Naerssen, *Cities and the Globalization of Urban Development Policy*, in *Ibid.*, p. 183.
29. Frans J. Schuurman, *The Nation-State, Emancipatory Spaces and Development Studies in the Global Era*, p. 63.
30. Kristoffel Lieten, *Multinationals and Development: Revisiting the Debate*, p. 112.
31. K. Subrahmanyam, A Citizens' Commission: Strengthen Civil Society in South Asia, *Times of India*, New Delhi, 18-12-2000, p. 12.

1

Introduction: The Colonial Legacy

We in the West must bear in mind that the poor countries are poor primarily because we have exploited them through political or economic colonialism.

—Dr. Martin Luther King[1], Jr., 1967

The object in this book is to analyze why the developing countries, the so called the "Third World", are poverty-stricken. It is historical fact that these nations, the "jewel" of which was India, as the imperialist Sir Winston Churchill said, have been blatantly exploited, both economically and politically. The Rev. Dr. Martin Luther King[2], Jr., said in 1967:

> We in the West must bear in mind that the poor countries are primarily poor because we have exploited them through political or economic colonialism.

Towards this end, the "contribution" of foreign debt, aid and arms is to be analyzed in the task of nation-building in India, South Asian countries in particular, and in the developing countries in general, formerly under the colonial control of the Western countries.

After the disintegration of colonialism in the aftermath of Second World War, the rich nations undertook to help their former colonial countries to develop economically. Now the question arises as to why these rich countries should seek to help other nations when even the richest of them is saddled with fairly acute social and economic problems within its own borders? The answer is: "The fullest possible utilization of all