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India's Experience for the African Continent

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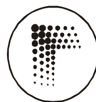

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Development Policy Management Forum (DPMF)
C/O UNECA
P.O. Box 3001
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Tel. 251-1-515410/ (DL) 443197
Fax: 251-1-515410
Email: dpmf@uneca.org
Website: http://www.dpmf.org

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Globalisation: India's Experience for the African Continent

Subhash Narula[*]

'Competitive edge acquired by specific industries in various countries in global markets has not come from mere 'laissez faire'. Advantage is rather the outcome of deliberate policies of governments that develop those specific industries in a competitive way.'

- Michael Porter, *Competitive Advantage of Nations*

In recent times, the concept of globalisation has nearly overtaken all other streams of economic policies throughout the world. It has put its effects, directly or indirectly, on practically all the major macro-economic policy decisions of the governments everywhere. Never in recent history, such a powerful phenomenon affected developing countries, their financial and trade institutions as well as their policies, as the globalisation policy is currently up to. This process has presented an entirely new flow of thinking towards foreign investment, trade, technology etc., which, as a result of it, are geared to play a role of significance as never before. The perception, that a country's progress depends not only on the size of its domestic resources, but to a considerable extent, on what it can obtain from other countries, is much stronger today than ever in the past.

What is Globalisation?

The core of globalisation lies in freeing a country's economic frontiers to allow unrestricted international trade in goods and services, entry and exit of foreign capital and technology and giving the foreign investors a treatment similar to that given to domestic investors. In its essence, the term globalisation refers to the integration of economies of the world through uninhibited trade and financial flows, as also through mutual exchange of technology and knowledge. Ideally, it contains free inter-country movement of labour as well. The move towards globalisation (say global-integration) is reflected in various forms such as extensive tariff reductions, implementation of other trade promoting measures, fiscal liberalization, easier foreign capital inflows and allowing access of foreign financial institutions, banks, insurance companies etc. to domestic capital (stock) and

[*] Associate Professor, Department of Economics, Faculty of Business & Economics, Addis Ababa University, Addis Ababa, Ethiopia

money markets. The level of this integration is measured in terms of variables such as rising importance of international trade, capital and labour flows, extent of technology transfers from the rest of the world and so on. It is important here to note that the revolution in information and communication technology in the form of e-mail, e-commerce, fax etc. as well as in the means of transportation, has helped make this globalisation process a near reality.

It is said that there are many benefits of globalisation, which manifest through increasing trade. This, in turn, gives the consumers and producers a wider choice of goods, which often incorporate more advanced technology. In pure theory terms, it is said that both the consumers and producers in a globalising country reach higher consumption and production indifferences curves, reflecting greater satisfaction level for the consumers and higher profit level for the producers. More over, opening of the economy means increasing the size of the market. This helps producers reap large economies of scale. The country also gets benefits of an increased international competition. Advantages to a country accrue through bigger capital and private investment inflows as well as through increased availability of resources. This helps the recipient country to accelerate the pace of development beyond what could otherwise have been possible.

Here it needs to be pointed out that, as is true with other macro-policy variables, globalisation has not remained restricted to economic sphere alone but has played an increasingly important role in other spheres as well. Particularly in social sphere, this has reflected in the growing involvement of international NGOs, human rights groups, media groups, voluntary organizations etc. in various countries. Consider for example, the role of international bodies like OXFAM, Christian Aid, Save the Children, CIDA etc. This role becomes apparent particularly at the time of need such as droughts, famines, conflicts, refugee-settlement, or at politically sensitive occasions such as general elections, or when it is felt that some repressive legislative measures like curbs on free press, human rights etc. are in the offing. This implies that under the current wave of globalisation, even domestic, non-economic issues attract as much cross-border interest as economic issues do. But this some times gives rise to an anti-globalisation feeling too. This feeling gets further fuel when it is found reflecting on cultural and social aspects of everyday life via introducing a new set of values, say ‘western’ values, new life style, unfamiliar consumer products, western dresses, music, dance etc.! All these look as endangering the long established socio-cultural equilibrium of the country. In the name of

globalisation, or integration with the world, this appears as a veiled attempt to impose occidental cultural hegemony. So, at times, such interests by outside agencies in local sensitive issues, or propagation of western values are disliked by powers that be.

The Present Study

This paper, as the title makes it clear, is concerned with an analysis of the globalisation process as it has been working in India in recent times. It also attempts to study the relevance of India's globalisation experience for countries in Africa. As such, this paper has two sub-themes:

i) To analyse the globalisation process in India, especially since the early 1990s. As is widely known, India stepped in the economic reforms arena more than a decade ago. Given this sufficiently long experience of a large, continental-sized country like India, one is tempted to make an assessment of what these reforms were essentially all about, what was their nature, what was the extent of their application and how were they brought about? These reforms, as a cursory glance on them informs us, have focused mainly on the industrial, trade and financial sectors. It is commonly believed that these reforms have affected the Indian economy and a wide section of its people in one way or the other; for example, in terms of growth rate of the GDP, standard of living, availability of consumer goods, services, foreign trade, employment opportunities and so on.

ii) The second sub-theme of the Paper pertains to examining the relevance the Indian experience has for countries in Africa continent. It concentrates on reading the Indian experience in the light of the present status of the African countries; as also the viability or limitations of the globalisation process here. A study of Indian experience helps us in examining if any modifications need to be made in globalisation approach here so that it has more local ethos and is more suitable to the African economies, given their different cultural, social and political milieu.

PART I

India's experiment with the globalisation started in full stream in the beginning of 1990s, when P.V. Narasimha Rao government, belonging to India's largest political party, the Congress Party, was in power (1991-96). India's financial position at that time was quite shaky. India was, for the first time, just on the brink of international default, with no forex reserves left for debt-servicing even. In 1990-91, India had a current account deficit of $9.7 billion that had nearly emptied the reserves and driven India close to

bankruptcy. Apart from Gulf War-I, the situation then had turned bad for India on two more accounts, an unfavourable trade balance as well as the colossal size of foreign and domestic public debt. Both the World Bank (WB) and the International Monetary Fund (IMF) blamed that situation to ever-rising subsidies to agriculture and exports (in the form of high administrative food prices paid to the farmers and providing them with cheap fertilizers). They also pointed out that provision of subsidized food, sugar, kerosene oil, cooking gas etc. to the poor people under the public distribution system, and selling of diesel below-cost to the public transport system and trucks carrying public goods, had further contributed to the bad shape which the Indian economy found itself in.

What ever be the reason, the situation necessitated some drastic and immediate steps. When approached for relief, the WB and the IMF put some stringent conditions before the hapless Indian government. Given its weak bargaining power at that time, Indian government agreed to meet those conditions, which have by now become a popular euphuism for economic reforms. These included a structural adjustment program (SAP) (ridiculed later by public and newspaper columnists as 'starve Asian people', 'stop all production', 'send away profits,' and so on!) and fiscal consolidation. The government, especially on account of the dynamic approach of the then Finance Minister, Dr. Manmohan Singh, started implementing new economic policies based on WB-IMF prescription. The reforms progressed furthest in the areas of opening up of foreign investment, liberalizing the trade regime, and deregulating domestic business and the capital market. With these policy steps, India soon appeared to be very much back on a trajectory of relatively rapid, sustainable growth.

But before going into the detailed features of this reform process, it is important to briefly study, what was India's economic policy like before 1990s, (i.e. before the reforms started), what happened to that policy and what finally led to a situation where India was left with no other option but to introduce the WB-IMF prescribed reforms?

The Pre-Globalisation Period in India (1951 – 1991)

India got her freedom from the British Empire on 15th August 1947. But it was not till 1951 that India's Federal Constitution was ready, general elections were held and the first duly elected government under Prime Minister Jawaharlal Nehru took power in New Delhi. The year 1951 marks a turning point in India's history in another important way as well. It was

the year, in which the process of economic planning was initiated, with the First Five Year Plan starting that year on 1st April. This exercise had been undertaken with some long-term goals for India's economy, its growth rate, food production, infrastructure-development, employment generation and reduction in regional imbalances etc. The plan model was largely based on (Soviet) Russia's growth model, but was somewhat modified to take account of differences in the nature of the two economic systems. This model remained the basis of planning in India for the first four Five Year Plans.

In core terms, the Plan model highlighted two things:

a) Importance of capital goods industries: these industries were expected to supply the basic productive capacity of the Indian economy in times to come and were, thus, to provide a solid foundation for India's future growth. With the main objective of India's plans being self-sufficiency in practically all fields of production in the next twenty-five years, the hub also was to produce everything under the sun within India.
b) Crucial role of the state: the state (central and state governments together in India's federal setup) was expected to play a pioneering role by investing heavily in agriculture, industries and infrastructure for the overall development of the economy. An implication of this strategy was that in India's economic development, private sector was to play only a secondary role.

The importance of the public sector was made further clear in the Industrial Policy Resolutions of 1948 and 1956, which highlighted the responsibility of the government in matters concerning promotion, assistance and regulation of the development of industry.

So, what we see is that during the first four plans, relatively big investments were made on the establishment of capital goods sector under public ownership and a large industrial capacity created. This was particularly true for steel, cement, heavy machinery, heavy electricals, engineering goods, transport equipment, fertilizers etc. In infrastructure, power generation was given the top priority, followed by railways, road construction, irrigation network, housing and communications.

The Inward Looking Approach of the Indian Plans

(or, the anti-thesis of Globalisation)

One of the major implications of the above policy approach was to turn India, through restrictive measures, into a virtual 'closed' economy or state of 'autarky'. This meant domestic substitution of all that what was earlier imported. This also implied shifting focus away from exports and export promotion to import substitution. It all happened because the planners had made a crucial assumption that only after the first stage of striving for self-sufficiency was over (i.e. only in the second stage), India should re-orient its polices towards export promotion. This approach in economic literature has been termed as 'inward looking approach' (in contrast to an 'outward looking approach').

However, as a consequence of this inwardly approach, India's exports fell by (-) 6.8 per cent during the first plan itself and grew by a meager 0.9 per cent in the second plan! Similarly, imports, as a share of India's GDP also averaged around 7 per cent only during the first three plans. India started losing her share in the world trade. This share, which at the beginning of the plans was 2 per cent, fell to a low figure of just 0.4 per cent in mid-seventies. Such a closed economy also became quite vulnerable before 'external shocks' such as oil price hike of the early seventies.

Here, it is important to know that not only India, but during 1950s and 1960s, many other newly independent countries in Asia, Africa and in Latin America also embarked upon development process through a similar planning process, thinking it as a panacea for all their economic ills and as the only effective strategy for development. They also gave a leading role to state. Thus, that was the period highlighted by interventionist policies under the banner of planning. It can be said in retrospect, that these decisions were influenced to a large extent by socialism and planning, the two slogans, which had held a major influence over the economic thinking of that time.

Role of the Leadership

It is important at this stage to also refer to the role of leadership in India's planning process. This is important particularly in today's Africa which is sadly missing its great leaders of yester years like Gamal Abdel Nasser, Kwame Nkrumah, Haile Selassie, Patrice Lumumba, Julius Nyerere, Jomo Kenyatta etc, all of whom were bestowed with charismatic leadership qualities, profound vision and an exceptional world-view of issues prevailing at that time. They spearheaded not only the Non-alignment Movement but also carved out a special and significant role for the Third-World countries in UNO as also at other important political and economic

forums. Like wise, in India, the foremost personality behind India's planning exercise at that time was Jawaharlal Nehru. (Nehru himself was the Chairman of India's Planning Commission). Though educated in the West (mainly UK), Nehru was well acquainted with India's socio-economic problems and he very well knew the pulse of the Indian economy. He was also quite impressed with the economic progress (the Soviet) Russia had made. He was convinced that Russia could take strides in industrial development essentially because the government there had totally participated in that process. He wanted India too, to follow the same strategy, with state in the lead. His being a philosopher, historian and a reputed literary writer also added to his qualifications to lead the country's fortunes. India's first three Five Year Plans were implemented under Nehru's premiership, who till his death in 1963 continued to have the command of the government in his hands.

Disenchantment in India: The Seeds of Globalisation

But by the time India entered the seventies, a deep sense of frustration had already taken place in the minds of Indians. The euphoria that had started in 1951 had by now turned into a deep disenchantment with the whole thing called the public sector. Public sector, instead of being a leading sector or on the 'commanding heights' of the Indian economy, had by now become a white elephant - eating all the resources, but productivity-wise proving highly inefficient. Most of the government undertakings were showing either huge losses or only nominal profits. Inefficiency, wrong choice of technique, overstaffing, high salaries and bonuses etc., had resulted in colossal wastage of monetary and physical resources of the economy. The unduly high capital intensity of the technology had meant capital-output ratio turning disproportionately high. It was, in fact as high as in USA, as some studies pointed out. In a labour-abundant, capital-scare economy, this looked totally an incongruent state of affairs. Add to these, the regular interference by central and the state governments in the day-to-day functioning of these enterprises. In fact, influential groups had emerged within the governments, as also within the bureaucracy and the ruling party, which started cornering unethically economic benefits at the cost of public exchequer. Public at large was stung by the huge and ever-rising government's transactions' and administrative costs, say bureaucratic costs. These costs had become so heavy that the whole thing, called public sector, became unwieldy, unmanageable and unproductive.

All this happened during the period, which came to be known as the 'Counter Revolution' (1970s) period. This period was characterized by the

realization all over the developing world that state could also be ‘wrong’. This was a major departure from the previous thinking that states ‘does no wrong’. During the ongoing debate in current economic thinking over the role of public sector and planning process, came harsh remarks from celebrated liberal economists like W. Arthur Lewis, W.B.Reddaway, John P. Lewis etc., that the ‘Government is as much a problem as a solution’.

Not only that, at macro-level also, India’s performance was becoming increasingly more and more disappointing. Exports gave a very dismal performance throughout the sixties and seventies. It was clearly being felt that India lacked any ‘export culture’. With import-bill going up sharply, India’s balance of payments was in a very bad shape. The second oil shock caused further deterioration in India’s balance of payments. The current account deficit had increased from $347 million (0.3 percent of GDP) in 1978-79 to $3.5 billion (2.0 percent of GDP) in 1981-82. At the same time that the oil shock hit, India suffered its worst drought since independence with agricultural production dropping by 15.2 percent in 1979-80. Commodity shortages and higher oil prices led to very high inflation rates of 17 per cent in 1979-80 and 18 per cent in 1980-81. India’s fiscal deficit in the mean time also increased from 5.7 per cent of GDP (1978-79) to unprecedented 8.6 per cent in 1980-81. Situation on employment front was equally deplorable as with each plan, the number of unemployed educated youths was multiplying.

Not only on account of the domestic economic problems, but also on account of two major developments on international front also, the attention was being diverted away from planning: one, India’s main competitor country, China was demonstrating a much robust economic progress and second, in India’s east, the small but ‘miracle economies’ of Thailand, Taiwan, South Korea, Singapore etc. were also showing tremendous performance. Their GNP, as well as their exports, was growing at exceptionally high pace. All this was attributed to their outward-oriented policies, under which they had opened up their economies, adopted export-promotional policies and encouraged foreign investment. India’s inward-looking policies were just opposite to them.

The Creeping Globalisation of the Eighties

Thus, when India’s new and the youngest Prime Minister Rajiv Gandhi (1985-89) came to power, globalisation got its first firm support. Rajiv was convinced of the need to march with the changing time. With clear signals of a liberal regime emerging from him in his various policy statements,

'economic reforms' soon became the buzzword of the day. And without delaying, Rajiv Gandhi's government introduced various reforms in the shape of a) promoting exports by lowering tariffs, b) rationalizing the tax system to provide greater incentives for growth and c) liberalizing the government regulation of private industry. So, it was Rajiv Gandhi who is credited with ushering a new era and instilling fresh air in economic thinking in India. Like his grandfather, Jawaharlal Nehru, Rajiv had an idea of making India a modern and a strong economy.

This process was encouraged by a powerful and very vocal lobby for globalisation in India, which had also emerged by then. This lobby included the influential sections of Indian society like nations' top CEO's in industries, exporters and importers, and above all, the Indian Diaspora (Non-Resident Indians or NRIs) in the Western countries. To them, globalisation appeared something as a bonanza in the form of new business opportunities in a globalised India. Indian industrialists, who had so far failed to invest in research and development and were losing the battle for market share, were ready for globalisation in the fond hope of partnering with MNCs that would enable them to stabilize or expand their sinking business ventures. Eventually, every successive administration since Rajiv succumbed to the pressures of globalisation.

Globalisation in India (1991-2003): The Present Phase

Globalisation in India, as is being implemented now, is thus a reflection of India's strong desire to undo some of the mistakes of the past and venture into a new world-system. In order to make the process of globalisation smooth, privatisation and liberalization policies are moving along with as well. Under the privatisation scheme, most of the public sector undertakings have been/ are being sold to the private sector. Under the liberalization scheme, a liberal, investor-friendly regime is replacing the previous restrictive policy regime. Other examples of economic reforms include reduction in protection levels, reforming the banking, insurance and the power sectors, price-decontrols, a significant reduction of fiscal deficit through reduction in budgetary subsidies, changes in the labour laws, liberalizing the exit policy and so on.

As for as globalisation per se is concerned, the policy-roadmap was ready before the Indian government. The roadmap followed what is now popularly called 'the standard IMF-WB-WTO menu'. The essence of this 'menu' contains steps such as opening-up of the economy to foreign trade, investment and technology, and to provide MNCs free access to most of the

sectors in the economy by lifting all restrictions. It also includes removal of barriers on imports and pursuance of a free trade policy as specified under the WTO (World Trade Organization) agreement. Prior to 1991, FDI in India was limited to 40 per cent of joint ventures, except in a few high-tech areas. Its approval itself was very time consuming and arbitrary. In 1991, the government established a Foreign Investment Promotion Board (FIPB) to provide single-window approval for projects. In 1996, new guidelines were issued extending automatic approval for ventures with up to 51 per cent foreign equity in 13 major industries and adding automatic approval for foreign equity up to 74 per cent in nine industries, predominantly in infrastructure area. In three mining industries, how ever, not more than 50 per cent foreign equity was allowed, while in some limited circumstances, the new regulations permitted even 100 per cent foreign equity. The criteria for FIPB were codified and published for those areas where automatic approval was to be guaranteed. A Foreign Investment Promotion Council (FIPC) was also created that year to further encourage FDI. In January 1997, India opened its $36 billion government securities market to FII's (Foreign Institutional Investors) taking the first step towards selling of government debt in overseas markets. By the end of March 1997, there were 427 FII's operating in India. In 1997, the government announced the goal of increasing FDI inflows to India's to $10 billion a year by the year 2000.

As far as tariff rates were concerned, during 1991-96, under the Rao government, they were significantly reduced from an average of 85 per cent to 25 per cent, and practically all the quantitative controls were also rolled back. The rupee was also made convertible on trade account.

Fiscal Incentives under the Globalisation Initiative

Under the new policy, the Indian tax system also offered a lot of concessions and exemptions to the private industrialists as also to the foreign investors in the form of five-year tax holiday (waiving of the corporate tax) for all infrastructure projects. Very generous depreciation allowance, even 100 per cent accelerated depreciation, was allowed and exports earnings made totally exempt from taxes. As a result of these concessions, the tax paid by the corporate sector in proportion to their gross profits fell from 23.55 per cent in 1993-4 to just 17.07 per cent in 1994-5. According to one estimate, though the rate of corporate tax is 45 per cent, the corporate tax incidence works out to just 20 per cent, given large number of exemptions (in total, there are 148 exemptions, concessions and rebates, like development rebate, full tax exemption for developing export-

promotion zones and other export-oriented projects, rebate on expenditure for research and development, duty drawbacks, duty exemption entitlement certificate (DEEC) and import replenishment schemes for exporters etc.).

Deepak Nayyar, the erstwhile chief economic adviser to the Government of India, opined that ‘if one added up indirect advantages with the direct 20 per cent subsidy extended to engineering exports, the total subsidy to them might be as high as 100 per cent.’ Not surprising that an American specialist in international investment and tax problems, Matthew J. Kust has also commented that the Indian tax laws are presently permitting ‘extremely liberal and accelerated depreciation which allows a new enterprise to write off 85 per cent of its investment during the first three years’!

Gains from Globalisation

Let us have a brief look at the gains to India after it followed the globalisation strategy. The first major indicator in this direction is the level of foreign investment. Figures show that during the period just prior to the start of globalisation, foreign investment was increasing only gradually-from an annual average of less than $100 million a year in the 1980s it had risen to $158 million a year in 1991-92. But during 1990s, it moved on sharply to $4.7 billion in 1994-95, and then further to $6.4 billion in 1996-97. Foreign direct investment (FDI) grew from $158 million in 1991-92 to $2.6 billion in 1996-97, and to $3.5 billion in 1997-98. Portfolio investment in Indian firms was allowed only in September 1992. It has since grown to an annual net total of $3.85 billion, with $2.39 billion coming from the stock purchases of FII’s in India's capital markets and the balance $1.46 billion acquired through Global Depository Receipts (GDR's).

Let’s have a look at India’s foreign exchange reserves. These amounted to only $1.1 billion in June 1991, covering less than two weeks of imports. But these increased to $17.0 billion at the end of 1995-96. Reserves now stand at a record height at $76 billion (2003) and exceed India's entire issue of domestic currency. In this sense, India now has more dollars than rupees! This has made India as one of the top reserve-holding countries in the world today. This has raised India’s capability for financing higher import bills in the event of steep escalation in global oil prices or some other exogenous ‘shock’. An additional comforting factor is that now India enjoys a current account surplus of $1.7 billion. Compare it with India’s current account deficit of 3.7 per cent of GDP in 1990-91. Another feather in India’s cap now is increase in the ratio of foreign trade to GDP, which moved from 14

per cent in 1990-91 to 21.8 per cent in 2000-2001. This has resulted in India's share in total global exports increasing from 0.41 per cent in 1992-93 to 0.67 percent in 2000-01 (a rise of 0.26 per cent). India aims to raise this share further by 0.33 per cent so as to have 1 percent share of total world exports by 2006-07. In 2002-03, India 's exports touched a high figure of $ 44.56 billion. It is creditable that through 1990s, while world trade increased 1.9 times, India's exports in US$ terms were up 2.5 times. According to WTO statistics, India's export growth in 2000 was 16.46 per cent as against world export growth of 12.4 per cent. An important thing to note is that India's exports are now moving away from resource-based products to technology-based products.

Globalisation in India had a favourable impact on the overall growth rate of the economy too. During 1991-92, the first year of Rao's reforms program, Indian economy grew by 0.9 per cent only. However, the trough was narrow and growth increased to 5.3 per cent in 1992-3, 6.2 per cent 1993-4, 7.8 percent in 1994-5 and 7.2 per cent in 1995-6. In the fiscal year 2002-2003, there is an overall growth rate of 5.8 per cent as against 5.6 per cent in the previous year 2001-02. The reforms implemented so far have helped India attain 6 plus per cent growth rate. Indeed, if the crisis-affected year of 1991-92 is omitted, GDP growth in the past nine years (1992-93 to 2000-01) averaged an unprecedented 6.3 per cent. And during a sub-period of 1992-93 to 1995-96, the growth rate averaged even higher at over 7 per cent a year. (Compare this with 3.6 per cent average growth during the 30 years, 1950-51 and 1980-81, and less than 1 per cent a year in the half century before that!) The present high growth of the Indian economy has belied the earlier general belief (or the fear) that India was bound by the tardy 'Hindu rate of growth' of 3.5 per cent a year, whatever one may do!

What is quite significant here is that in an international perspective, this has put India among the top-10 fastest growing developing economies. In fact, India's growth performance of the last two decades has ranked amongst the top-six in the world growth league, along with China, Korea, Thailand, Singapore and Vietnam. Since the 1997 East Asia meltdown, India's rank is now second only to China in growth rates. In fact, on corrected data, the growth rates of China and India in the 1990s have been nearly equal. There is no reason why the Indian growth rate cannot exceed that of China during the first two decades of the 21st century. In PPP (purchasing power parity) terms, the 1990s growth has already put India among the top-four countries in the world.

While discussing of the domestic market, we see big buoyancy in demand in the economy, which has imparted a big boost to economic activities like output and employment. The rate of inflation has also remained modest all these years and in some sectors, there is even a fall. When the Indian government opened the doors to foreign investment in automotive manufacturing and relaxed licensing requirements for carmakers, employment in the industry grew by 11 per cent and overall productivity increased by 256 per cent over 1992-99. Similarly, when India lifted regulations on the cellular phone industry, demand rose and prices fell drastically. The progress of the ICT sector in India in terms of rise in employment opportunities and income generation during this phase is widely known. India is undoubtedly recognized as a world power in the field of software.

The Negative Side of India's Globalisation

On the negative side, how ever, any audit of the performance of the Indian economy since globalisation was initiated, reveals many failures or drawbacks. First thing which distresses any observer is that the opening of the economy to foreign capital did not succeed in attracting that significant a flow of capital or technology into the country, especially into the productive sector, as was anticipated. This shortfall has often been the reason of a slower growth of GDP in those years when the assumptions of high foreign direct investment were not proved right, and when it was well below the projected figures. Even today, FDI in India remains considerably below that of many developing countries. India, a country with 19 per cent of the population of all developing countries, has received only 2.9 percent of all FDI going to developing countries (1996). Even in the latest financial year, 2002-2003, for which figures are available, foreign direct investment for the first six months was $3.6 billion, well below the projected annual figure of $10 billion.

Low figures apart, FDI has not gone to any major industries like oil exploration and production sector, in which the government wanted it to go. Ironically, since 1990-91, when globalisation started with full steam, investment in oil-exploration as a percentage of GDP has fallen dramatically. In spite of deregulation and the award of licenses to multinationals for oil drilling, domestic production of crude has been falling in both absolute and percentage terms. Similarly, a sizeable portion of the foreign investment has not gone into the creation of new productive capacities in advanced electronics, computer or telecom hardware, aircrafts, advanced industrial materials, capital goods and modern tools and

equipment, or robotics. These are the areas of cutting-edge technology where India is completely dependent on imports and is likely to fall further behind. One sees, major part (almost 90 per cent) of foreign capital going into three select sectors - namely consumer goods, automobiles and computer software. This has resulted in a skewed industrial development in India. Not only that, even within these three sectors, much of the investment has simply gone into takeovers of existing Indian enterprises. The remaining foreign investment has gone to the speculative segment of the Indian economy, i.e., the Indian stock market. As a result, other than India's 'hot' IT companies and select MNCs, the vast majority of Indian stocks have not benefited from FDI flows. According to a survey by the Centre for Monitoring Indian Economy, projects worth \$3.5 billion were abandoned for various reasons between October 2001 and October 2002, including 34 power generation projects worth \$1.6 billion, as the foreign investors kept on giving the usual alibi- India's average import tariffs are still higher than many other Asian economies - Indonesia, Malaysia, Philippines and Sri Lanka!

Thus, the argument that globalisation brings in new technology, has been belied to a large extent in Indian case. Globalisation indeed has brought world brand-names in consumer items like cold drinks, wafers, potato chips, breakfast cereals, tinned food and chocolates! These are the 'priority' areas for multinationals like Coke, Pepsi, Kellogs, Nestle, Kentucky Fried Chicken (KFC) or MacDonald's! Or for that matter, the leading manufacturers of cosmetics and designer clothes! One can see what new technology of any consequence have they brought to India? Same is true of advertising companies and manufacturers of consumer non-durable goods like soaps, detergents, toothpastes, cereals etc. Unfortunately, these are mainly the types of companies, which have entered the Indian market ever since globalisation started!

So, with FDI having centred around the 'luxury/fashion' segment of the Indian society, it will not be wrong to say that the process of globalisation means 'birth of the *McWorld'* - a cultural integration and uniformity that mesmerizes the developing world with latest fashion apparels, fast and loud music, computers with higher and higher gigabytes and fast food! It is all MTV, McIntosh and McDonald's! This means, as pointed out at the outset, a cultural imperialism. What one sees in Indian metropolitan cities, is that the traditional cultural values such as family, community, respect for life, hospitality, etc., are coming into strong confrontation and losing battle with the values communicated through Western movies, videos, cable, music and

satellite television, advertisements, and the idolized figures of entertainment and sports. This has been resented to by traditionalists all over. So, there have been repeated assaults on the hubs of western culture such as cinemas and theatres showing western films, music or cultural shows, fashion shows, fast food centres etc. This has led to the emergence of reactionary groups like Swadeshi Jagran Manch/ Be Indian Buy Indian etc. So, one sees some traces of disharmony in society too in the post-globalisation India.

And if some one thought that globalisation would result in India taking a technological leap in those sectors in which it has a comparative advantage, then one would get disappointed here too. For example, while India's potential in the information and communication technology (ICT) area stands well demonstrated (with world's third largest scientific manpower), it has yet to go a long way to become a world player in hardware. Similarly, if patents are taken as one of the quantitative indicators of innovation or growth of knowledge, the number of patents India obtained in U.S. in 1999 was only 114 compared with Taiwan or South Korea, which got as many as 4,000. For the developed countries such as the U.S., Germany or Japan, the numbers are much higher. Even in the case of domestic patents, there were 1,660 in India, 12,000 or so in China and 3,00,000 in Japan.

Coming to exports, we find that of course, post-reforms, India's exports have picked up, but that is partly as a result of devaluation of the rupee in 1990-91 and partly because of general improvement in world trade climate. After an initial slump, imports have grown rapidly, and present indications are that there is likely to be a huge trade deficit in the coming years. Foreign debt, too, has increased significantly and the WB has cautioned that the servicing of the debt and repayment obligations might begin to exert pressure on the international balance of payments again.

In fact, if we calculate the value of concessions and facilities extended to foreign and Indian companies for exports (like import replenishment, concessional railway freight, concessional bank finance, supply of raw materials at subsidized prices, grants-in-aid, etc.), the total cost of the export promotion efforts may well turn out to be not quite proportionate to the net gain actually accruing to the country as foreign exchange.

The fiscal deficit as proportion of GDP has also gone up from 4.1 per cent in 1996-97 to 5.9 per cent in 2001-02 and, for the centre and states together, from 9.5 per cent in 1999-2000 to 10 per cent in 2002-01. This is a cause of serious concern and carries a huge inflationary potential.

Another significant fact about growth rate is that the past trend in decadal growth rates looks increasingly better, partly because of the declining population growth rate over the years (2.2 per cent in seventies and eighties, but 1.8 per cent during the nineties). So we find the per capita GDP growth accelerating from 0.8 per cent in the 1970s to 4.6 per cent in the last decade. But the average growth performance during the four most recent years is disappointing. While the government keeps on talking to push GDP growth rate to 8 per cent, the harsh reality is that India seems stuck in the 5-6 per cent range. Of much serious concern is the decline in agricultural growth to 1.4 per cent, accompanied by a significant fall in industrial growth to 4.9 per cent. In 2000-01, the rate dropped to 2.1 per cent. Indeed, the drop in GDP growth in these four years would have been much steeper but for the extraordinary buoyancy in services sector, which averaged a growth of 8.8 per cent.

As just mentioned, growth in services sector has been much faster than in the more productive sector of industry. The importance of services in India's economic growth is brought out by the fact that for the full nine years (1991-92 to 2000-01), the average growth-contributing role of services was as high as 60 per cent. This proportion rose to 70 per cent in the last four years. This is clear from the data released by India’s Central Statistical Organization (CSO), which presents (in per cent terms) the contribution by the three main sectors of the economy to the growth of India’s GDP, during the two sub-periods (one, from 1980-81 to 1990-91 and second, from 1991-92 to 2000-01). The respective figures (in per cent) for the two sub-periods are: agriculture: 21.9 and 14.0, industry: 32.0 and 27.3 and services: 46.1 and 58.7. This is a pattern that raises questions of sustainability as well as substance in the growth process. No economy can continue to grow this way for long.

An important question is being raised on the impact of foreign investment on rural labour absorption in non-agricultural employment. On this front too, record is disappointing. Employment in the private industrial sector, which stood at 7.55 million in 1982-83 and 7.67 million in 1990-91, was only 8.34 million in 1997-98- that is, only a 1.2 per cent increase. At the same time, gross capital formation at current prices has risen by four times-400 per cent. This reflects that development of the modern industry, being knowledge-intensive, resulted in jobs for the highly educated, but not that many for the poor, especially the surplus work force of rural India. On poverty front, there is no clear consensus yet on the key question: have the globalisation in particular and reforms in general helped the poor? The data put out by the National Sample Survey (NSS) Organization suggests that

poverty rates have remained static during reforms period. How ever, National Council for Applied Economic Research (NCAER) data show that poverty rates have fallen.

Now look at the globalisation from the angle of India's social structure. It has basically three segments, crust (the creamy layer of the society) consisting of about 60 million people (6 to 7 per cent), who do not need to be canvassed about globalisation. The next layer contains about 250 to 300 million people (27 to 33 per cent) belonging to the middle class, who are beginning to appreciate the benefit of globalisation and are seeing this as an opportunity for its advancement to the upper class. Today, they have more colour TVs, more channels on cable, more imported goods, and so on. Nobody in this layer is any longer ashamed of conspicuous consumption. The very fact that there has been a huge increase in salaries of senior managers, accountants, lawyers and public-relations personnel working in MNCs or their local competitors or in the IT concerns further proves the point. Then comes the next segment, of 550 to 650 million (60 to 71 per cent) of lower income and poor people who remain unappreciative of the changes in the economic policies. Amongst this lower income group, the largest part consists of agricultural labourers, who constitute 26 per cent of the labour force. They are worried as they see happenings around them. They even don't know what liberalization or globalisation is? Or what the capital market is? They simply want more jobs and less inflation.
So, it appears, in globalisation, only some sections of society are benefiting with the majority only to the extent that a fraction of this new prosperity trickles down to them. Some may not benefit at all, while some may even be adversely affected. In addition, it is possible that globalisation may also have some hidden consequences too, i.e. it may negatively impact the quality of life even of those prospering through globalisation! As Rodrick showed through his analysis, globalisation has led to greater competition and greater income-insecurity, which implies that with the opening up of the economy, more of social protection by the government becomes necessary. Government social security expenditure is thus, bound to rise than fall.

Not only in terms of effect on different sections of society, from spatial equity also, we find that growth has been unevenly distributed in terms of regions. Some dynamic states like Maharashtra are sprinting ahead, while the likes of Bihar have stagnated. This could put pressure on the federal system, since the bulk of the poor and rapidly growing population lives in the already populous northern states.

The Balance of Pluses and Minuses

Thus, what we see is that here is a country India, which embarked on globalisation, with all its sincerity and limitations, with all its strength and weaknesses and has seen only a mixed bag of negative and positive results. Positive in the sense of higher export growth rate, higher growth of GNP and accumulation of big foreign exchange reserves. Negative in the sense of unsatisfactory foreign capital inflows, investment of the foreign capital in non-priority, low technology areas, rise in fiscal deficit and unemployment, growth in regional disparities and so on.

But, that not withstanding, let us stress once again, India's positive and strong attributes before we proceed further. This reiteration will help us in not only taking a more balanced view and also help us in comparing India's example with Africa, but also in deriving our final conclusions:

a) A stable government with a democratic set up
b) A big middle class
c) Self sufficiency in food,
d) A vast, modern industrial set up
e) A well developed social-physical infrastructure

It was because of these **strong attributes** of the Indian economy that it could venture to undertake globalisation. These attributes gave India **strength and resilience** to meet the foreign challenge. These also provided the Indian economy with an **absorptive capacity**, which was a necessary condition for any investment on large scale to succeed.

PART II

Globalisation: An African Perspective

Keeping in view India's experience with globalisation, we can now proceed to discuss its relevance to modern day Africa. We can examine the whole issue at two levels. At one level, we try to see what is the present record of countries in Africa on the front of globalisation? How far have they moved towards that direction? On the second level, we shall look at the present economic, social and political situation in various African countries. This will be done to examine if these economies have had the necessary basic preconditions like the absorptive capacity? If these are missing, or insufficient, then it means the country concerned lacks necessary wherewithal to go for globalisation. It is short of capacity to properly utilize foreign capital or technology. It can also not withstand the external shocks associated with opening up of the economy. Therefore, any large investment, in that case, instead of raising output and productive employment, will only lead to inflation and consequent domestic

disequilibria. In that situation, the economy undertaking reforms is likely to suffer more than getting any gains.

Globalisation Experience

Ironically, going back into history, we find that Africa has been experiencing the process of globalisation of different kinds over the past five hundred years. First, in the form of slavery for the benefit of Arab, European and American countries; then in the form of colonialism, when Britain, France, Belgium, Portugal, Italy and Germany dictated the continent and its agricultural and mineral resources were exploited; third, when through neo-colonialism, economic forces were unleashed to set trade patterns, investment policies, debt arrangements, technology introductions, political alliances, etc. and now as *WB-IMF-WTO led Globalisation.* History tells us that all the previous types of globalisation led to Africa's exploitation and its pauperisation. So, in the present case too, the moot question is, will the current globalisation also follow the past pattern?

The efforts for present reforms in the African countries gained momentum under the 'Washington Consensus' with WB, IMF and WTO collectively deciding the nature and conditions of programs for macro-economic stability and structural adjustment programs.

The poorer countries in Africa were to be supported by adequate financing on concessional terms for undertaking these reforms. In this regard, IMF put its concessional lending facility, the Extended Structural Adjustment Facility (ESAF).

Many challenges before them notwithstanding, most African countries, in particular, in Sub-Sahara Africa, have tried to move towards adopting trade and exchange liberalization, elimination of multiple exchange rates and non-tariff barriers, and also lowering the degree of tariff protection. They made some strides in opening their economies to world trade. A good indicator of this is the fact that since 1993, almost all the 31 Sub-Sahara African countries, accepted the obligations of Article VIII of the Fund's Articles of Agreement. A recent study by the African Department of the IMF indicates that the number of countries in Sub-Sahara Africa with a 'restrictive' exchange regime declined from 26 in 1990 to only 2 in 1995, while the number of countries with a 'substantially liberal' trade regime rose from 26 to 38 over the same period.

Presently, as per IMF reporting again, the restructuring of many African economies is gaining further momentum. Throughout the Africa continent, government intervention in economic activity is on the wane. Administrative price controls are being reduced and agricultural marketing has been widely

liberalized. The process of restructuring and privatising state enterprises has been underway for some time in most countries, though with varying speed and degrees of success. And finally, fiscal reform is gaining ground with many countries taking steps to rationalize their tax systems, introducing VAT, reducing exemptions and attempting to enhance administrative efficiency. At the same time, they are also reorienting expenditures away from wasteful outlays towards improved public investment and spending on key social services, particularly health and basic education.

It needs to be pointed here that some countries had initiated the reforms process even earlier. For example, in Morocco, significant reduction in protection has taken place since 1983, under which maximum tariffs were reduced from 400 per cent to 45 per cent. In Nigeria, trade liberalization began in 1986 in which import licensing and tariffs were substantially cut. In Senegal, most quotas were removed and selected cuts were made in tariffs between 1986 and 1988. In Ghana, import licensing was substantially liberalized and a uniform tariff introduced for most imports during this time. In Tunisia, import licensing was removed on more than half of imports by mid-1990. The maximum tariff was reduced from 220 per cent to 43 per cent.

But, in the present ranking by WB, mainly two countries Ghana and Uganda ('the successful reformers') have taken lead in implementing the reforms. Also in this list are Ethiopia, Mali and Tanzania. Then there are what the WB says as 'mixed reformers' like Côte d'Ivoire, Kenya and Zambia who have also implemented some of the steps suggested by the Bank. But countries such as Nigeria and DPR Congo have landed in the list of 'non-reformers'. The link between adjustment and performance continues to remain very weak because out of 15 countries identified as core adjusters by the WB, only three were subsequently classified by IMF as strong performers!

Looking at the overall weak response from African countries in general, starting 1999, there has been a departure from the structural adjustment programs to Poverty Reduction Strategy Papers (PRSPs), with the ESAF also being replaced by Poverty Reduction and Growth Strategy (PRGS). A joint debt-relief plan earlier by the WB, IMF and individual donor nations, under the 'Paris Club' had agreed to forgo 80 per cent of the foreign debt owned by the poorest heavily indebted countries on condition that these countries adopt a strict program of market reforms, including lowering of trade barriers, privatisation of state industries and more openness towards foreign investment. It was also agreed to raise additional $25 billion over the next decade for development in the poorest countries of Africa. Moreover, since 2001, IMF and the WB, implementing an action plan for resolving the external debt problems of 'heavily indebted poor countries' (HIPCs), including their large multilateral

debt have incorporated Poverty Reduction Strategy Support Credit (PRSC). Burkina Faso, Côte d'Ivoire, and Uganda became the first three countries to take advantage under the HIPC Initiative.

But observers were quick to point out that there is no fundamental difference between PRSPs and the previous macroeconomic and structural adjustments policies. Only the nomenclature had changed. From 'get prices right', wordings had changed to 'get institutions right' or 'show good governance'. The core remained liberalization and rapid and close integration with the global economy.

The Ground Reality in Africa

But, as mentioned before, to see if the experiment of globalisation, even under the new labels of HIPC Initiative/PRSPs, will be a success here, it is necessary to see whether the ground reality is in some conformity with that or not. This, in turn, depends crucially on the absorptive capacity of the country concerned, on the already attained industrial strength, presence of a big middle class, a stable and strong government and so on. From this angle, when we first delve on the ground reality in Africa, we find the following insurmountable problems there:

The Problem of HIV/AIDS

First, look at the grim social-economic reality, which is marked nay, marred by the killing disease, AIDS. Of the world's 42 countries infected with HIV/AIDS, 35 countries are in Africa alone. Among these, seven African countries (or the most affected countries such as Botswana, South Africa, Swaziland and Zimbabwe) have above 20 per cent of their population suffering from AIDS. Life expectancy there is just 48.3 years. In 25 major AIDS affected African countries, 7 million who died of AIDS till year 2000 were peasants or farm workers. In South Africa, average age of AIDS dying people is 37 years. At this rate, it is estimated that 16 million more peasants and farm workers will die by 2020.As per one estimate, AIDS infected people in Africa number as high as 28-30 million. Most of these are young men and women in their most productive segment of life. In 2001 alone, AIDS victims there are supposed to have increased by 3.4 million! In terms of absolute number of people infected, Ethiopia ranks third (2.6 million) to South Africa and Nigeria, which have about 4.2 and 2.7 million people respectively. According to another study undertaken by UNAIDS/WHO, at present, more than 70 per cent of total people living with HIV/AIDS, 78 per cent of AIDS cases and 68 per cent of newly infected are in the Sub-Sahara Africa alone! More important here to note is the *Adult HIV Prevalence Rate*, which is as high as 37 per cent in Botswana, 25 per cent in Zimbabwe and 20 per cent in South Africa!

Not only AIDS but also malaria is another epidemic inflicting its causalities in Africa. Figures narrate the seriousness. Nearly one million people are dying of malaria every year in world of which about 90 per cent of cases are in Africa alone! Recent Report from WHO/UNICEF says that each day, 3000 children are dying of malaria in Africa, of which 90 per cent are from Sub-Sahara Africa. Both these epidemics are playing havoc with the socio-economic fiber of the continent, reducing immensely the productive capacity of the economies here and forcing the governments to divert their valuable resources to fight them, rather than use them (the resources) for economic upliftment of the masses.

Poor Food Availability

From AIDS and malaria, let us go to the food situation, which presents an equally dismal picture of recurrent shortages, famines and droughts. Simply putting it, one finds that during the last six years (1995-2001), food production has grown annually merely by 0.3 per cent in the whole of Africa while its population rose annually at a high rate of 2.4 per cent. This indicates a widening disparity between food availability and number of consumers. With an already poor daily calorie intake for majority of the people, the effect of the reducing availability of food on human health and general living can be easily imagined. The poorest calorie intake is found in Somalia (1555). Countries like Zambia, Tanzania, Mozambique, Madagascar, Congo, Kenya, Ethiopia, Burundi etc. are also equally worse off in calories terms. In Zimbabwe, the erstwhile food surplus country has presently 12 million people living on food-aid. No wonder that the near stagnation in food output in Africa has led to growing dependence on food imports. The overall food self-sufficiency ratio in Africa stands merely at 73 per cent (2000), which has resulted in an import dependency ratio of above 27 per cent!

To add to the woes, nothing perceptible is being done in terms of providing irrigation facilities, provision of fertilizers, high yielding variety of seeds, pesticides etc. There are hardly any aggressive, concrete plans worth name in these countries, which are designed to take them away from dependence. The agriculture sector is a scene of general hopelessness and gloom. The incessant droughts and famines have failed to awaken the rulers of these countries from their deep slumber. About the current year drought, in which millions of people are starving, the less commented upon, the better. As per World Food Program (WFP), this year itself, 38 million people in Africa are suffering from threat of starvation. The situation is worse mainly in Southern Africa where 16 million people are starving. The number of sufferers are, in Zimbabwe 6-7 million, Malawi 3.3 million, Zambia and Sudan 2.9 million each, Angola 1.9 million, DPR Congo 1.4 million, Uganda 1 million, Swaziland 6500000, Mozambique 590,000, Lesotho 270,000, and the West African countries (Côte d'Ivoire, Guinea, Liberia and Sierra Leone) 791,000. In Zimbabwe, famine condition is

embroiled with political tensions too on account of land reforms. In the Horn of Africa, in Ethiopia nearly 10-14 million people are facing hunger. Poor rainfall has led to this situation, in which maize, wheat, sunflower, sorghum, soya crops were badly affected. Biggest fall was in case of maize crop.

With the countries' main energy being centred on fighting draughts and arranging food, where is an environment for globalisation? Globalisation looks totally incompatible with the ground reality here.

Conflicts and Hostilities

A matter of further distress is the fact of devastating conflicts and hostilities, tension, acrimony and mutual suspicion that dot the whole region! There are at least 35 civil wars or regional wars worldwide. Of these, 16 are reported to be in Africa alone, in nations like Somalia, Sudan, Rwanda, Liberia, Angola, DPR of Congo, Sierra Leone and Burundi. The reasons of these conflicts are diverse. In some cases, there are large cliques around heads of states to ensure their political survival. They keep large armies to save them from coups, but which are too large for country's economy. Armies are also split with polarized loyalties to different leaders. So some states are known as 'wobbly' state (as Hla Myint and Deepak Lall called them) in which interest groups have captured power. Some weak states have been labelled as 'shadow' states too.

While discussing conflicts, have a look at Somalia, much of whose economy has been devastated by the civil war. Many observers suspect that Somalia could easily turn into a breeding ground for terrorism. And then also have a look at Sudan, which has been at war on and off for over 40 years. Sudan is accused of helping Ugandan rebels and so Sudan has problem with Uganda as well. And going by the allegations by Eritrea that Sudan had hatched a plot to assassinate Eritrea's President, we find situation all the more confusing. But then there are accusations by Sudan that both Eritrea and Ethiopia are backing rebels fighting Khartoum! Similarly, despite the multilateral agreement following the war between Ethiopia and Eritrea that resulted in 75000 deaths, the tension between the two continues. The land dispute between Ethiopia and Eritrea is not seeing any end. Nearly 5000 people are reported to have died for a disputed village called Badme. There are 4200 UN peacekeepers there at the border, which is costing the two countries every year $206 million. The list of conflicts seems endless with another war between two neighbours of Angola and Congo as well. The worst thing is that all such hostilities continue to wreak havoc on the area's economy, with dire consequences for the region's long-term economic development. Left unattended, the situation in Africa could degenerate into a major ruin for these economies.

Some say, these wars and conflicts in Africa have become a 'profitable business for Western countries and African leaders', both joining hands for the ultimate destruction of African resources. These wars have been fed by arms trade. Shockingly, even some African leaders are charged as agents who are paid to keep conflict situations in their countries. That is why they allow wars, which destruct schools and other infrastructure in Africa while they send their children to be educated in Europe! By keeping the continent in constant conflict, Western nations also get benefited by importing cheap raw material from Africa (which otherwise would have gone to industries within Africa) and a market for their goods, including armaments. This is, perhaps the best example of what has been described as 'savage capitalism' in the context of globalisation. And may be that is why state in many African countries is also labelled as 'predatory' state.

In most of these countries, food shortage, weather adversities, civil strife, family displacements and disease have all become mixed issues. For example, in Somalia, drought has exacerbated a dire food supply situation caused by long-running civil strife and poor harvests. In Ethiopia, both, those suffered rain failure and those displaced by the fighting with Eritrea, are in need of food assistance. Same applies on Eritrea, where people affected by the conflict with Ethiopia need food assistance. In Sudan, nearly 2.4 million war-affected people are receiving emergency food assistance. In southern Africa, fighting in Angola has displaced an estimated 1.5 million people.

Politics of Corruption

An area of deep social and administrative concern is corruption. From incidents which keep on appearing in the Press, it appears most of the leaders are milking their country's economy, through central bank, commercial banks and other institutions. Existence of a large state apparatus with substantial powers to generate and distribute rents is one major reason why there is so much corruption, money laundering frauds and white-collar crimes. In politics, notion of fairness in election is very low, and one way or the other, corrupt practices do enter the arena.

As a result of corruption, abuse of power and high bribery costs, the economic situation has become all the more unhealthy, unwholesome and unpalatable. In most of African countries, there is a tendency to treat public office as private means of enrichment. This is due to the fact that there is a pervasive influence of politics in economic decision-making process. The legal system is weak and accounting practices unreliable, both of which create difficulties of contract enforcement and of verification of information. Situation is very bad, particularly in Ghana and Mozambique. In Kenya, for example, there are few African entrepreneurs in large-scale business. They are at the bottom, operating

on a small scale. Still through politics, they have become quite rich. Market being small, large chunks have been controlled by them. Through that, they have been able to have a rise in importance in politics. Then it becomes easier also for them to get loans. That is why, there is a long list of scandals in Kenya, involving 'the socialized and politicalised' commercial banks.

In countries like Nigeria, the Shagari regime was known for fiscal irresponsibility and high scale corruption. In Zambia, Ghana and Kenya, the previous regimes were known for using fiscal tools wrongly and for personal aggrandizement of the ruling entity. In many cases, foreign countries withheld investment due to abuse of rules, high bribery leading to rise in costs. Read this latest report from Kenya, where the Parliamentarians have only the other day bestowed upon them a super-deluxe car for each one of them at the cost of the exchequer! Then look at the funny aspect of sixty-eight corruption charges against Winnie Mandela of South Africa! On account of these, today she is in jail!

All this has the potential to cause less inflow of FDI to Africa, even if some of the countries fully embark upon globalisation policies, or some states have democracies. On that account also there is a problem; these democracies are new, fragile and unstable. They are too recent to provide a credible context for encouraging FDI inflows. More over, the unlimited large borrowings regularly done by the governments from the country's captive central bank, means already these countries are debt-ridden. Donors can put conditions on proper use of their capital but they are foreigners and so highly vulnerable to local nationalist forces, which can any time raise voice against. For example in the exchange rate debate in 1986 in Nigeria and Tanzania, there were questions against foreigners' role.

The problem after the recent Iraq war is that most of the donors' money now is likely to go there instead of coming to Africa. So Africa is likely to suffer more now. Global slowdown has already cast its shadow over Africa.

Problem of Indebtedness

As if wars, hunger and disease were not sufficient, there is an alarming financial problem of indebtedness too. The total debt figure of Africa at present is as high as $334.3 billion (2001), which jumped from a mere $8 billion in 1970. It comprises of $38.9 billion as short-term obligations and $295.4 billion as long term. Many of the African economies are put under the 'heavily indebted' category. Indebtedness is generally measured in terms of ratio of debt to a country's GDP or its annual exports. Presently, the total outstanding debt amounts to 58 per cent of GDP for the whole of Africa, while as a ratio of exports, it is still higher at 182.6 per cent. Similarly, debt servicing as a percentage of Africa's GDP is 5.2 per cent while that of exports, it is 16.2 per

cent. Given such high values, it is clear that these highly indebted countries are not in a position to pay back the previous loans, given their continuous regular demand for fresh loans. Donor countries also know that most of the debt would not come back. No wonder, debt-cancellation has become now quite a regular feature in this part of the world.

The present governments blame the previous governments for such a high level of their countries' indebtedness. They say, previous regimes misused those debts for waging wars, self-aggrandizement or perpetuation of their (mis-) rules! An estimate puts this clandestinely accumulated African wealth in Western banks at around $285 billion! It is also said that if this wealth becomes official, then Africa will no more be called as an indebted country. So, one see the enormity of the underhand financial dealings of the regimes, past and present.

Unfavourable Trade Scenario

Globalisation can bring benefits provided the external trade environment of the country concerned is conducive or favourable. It can be looked at from the angles of trade balance as well as terms of trade. Terms of trade refer to a country's earning capacity of its exports. Unfortunately, for Africa as a whole, what we see is that the terms of trade are declining which means it is getting less and less for its exports. For 1995-2001, this dismal situation is clear during which, for two years Africa's terms of trade improved marginally by 3.3 per cent and 3.6 per cent, but then declined by 0.3 per cent and 7.6 per cent in 1998-99 and 1999-2000. In 2001, there was a further decline of 5.8 per cent. Agricultural prices, especially of cocoa, coffee, timber and cotton have shown poor prices, which fell by as much as 30 per cent in 2001. In most of the cases, the prices are even lower than the 1990 level!

As if fall in the prices of their primary produce was not sufficient, the African countries continue to face many trade barriers (protection) too from rich, industrial countries. Such barriers are more in agriculture and labour intensive manufactures where these countries have some advantage. It is reported that the industrial countries are giving around $ 300 –350 billion of subsidies to their agriculture every year which is equal to the GNP of entire Sub-Sahara Africa, and six times the global aid to the developing countries! In non-agricultural, manufactured items, African countries generally lack competitiveness and as such there is no levelling of the playing field. The only recent positive exceptions have come in the form of 'African Growth and Opportunity Act' (AGOA) from USA and 'Everything But Arms' (EBA) from the European Union. Africa's trade balance has also been largely negative with figures rising as high as $17.5 billion and $10.4 billion in the last two years. The aggregate current account of the Balance of Payments has also been negative through out

with the figure touching $24.6 billion in 1998, a huge deficit figure from any angle. In 2001, it was still negative at $8.6 billion. Only oil exports from Nigeria, Algeria, Cameroon and Congo have shown some respectable figures.

From various examples, it some times appears that Africa has little stake in globalisation. Take even a small segment of trade, i.e. banana trade. The world banana market is dominated by only three US corporations, Chiquita, Dole and Del Monte which collectively control 66 per cent of total banana sales to Europe. The expansion of these companies is destroying Africa's indigenous banana trade. It is these companies who fix the rules of the game, who fix the price. Same is the case with coffee, where five leading companies from the West, namely Nestle, Procter & Gamble, Sara Lee, Kraft and Tchibo Holding AG have full control over world coffee market. The direction towards which coffee prices are moving, and the plight of African coffee producers are before every one to see and ponder over!

No denying that, though globalisation has been referred to 'omni-merchandisation' of the world, for Africa, it has meant only its 'cornerisation' in world trade.

Globalisation Incompatible with Africa

After looking at the crucial aspects of the African reality, we are now in a clear position to juxtapose them with the Indian reality and then draw conclusions about the workability of the globalisation process in Africa. We see a clear dividing line between the Indian situation and her globalisation experience and African situation as it obtains today. At domestic level, Africa has to go in for a long and sustained struggle against AIDS and malaria, solving food shortages and resolving civil strife and conflicts. There must also be stable governments, which are in full command of their countries and are in a position to bring peace in their countries. Governments themselves have also to come with a clean slate, reflect sincerity, be able to rise to the occasion. There must be strong leaders, who have a clear vision of their country's future and who are respected by the masses. Similarly, at global level, Africa needs to come up with an image of a continent, which *is* solving its problems, and has moved firmly on a clear path of economic development. Its production capabilities should clearly define a range of those things, which it can export on a regular, sustainable basis at a price, which brings earnings. It has to be able to break its dependence on primary exports and prepare ground for supplying processed stuff, some thing manufactured, something with greater value added and something, which has a greater elasticity of demand in world market. Its immediate task should be to fight against the declining terms of trade, which are creating havoc for its poor peasantry. Clearly, all these indicate that before jumping the bandwagon of globalisation, Africa has to do many things.

In concrete terms, Africa can use India's experience with globalisation by observing the following four points:

First Lesson: *Before Embarking upon Globalisation, Create Minimum Necessary Conditions*

India was able to meet all the major preconditions before it started the journey towards globalisation. The agricultural, industrial and infra structural development during the first six Five Year Plans had made the economy very strong as well as diversified. This structure had the necessary capability of facing the onslaught of foreign goods. In many areas, this structure could even give stiff competition to the foreign countries. More importantly, this process created in India a big class of entrepreneurs, which at later stage was able to successfully face foreign entrepreneurship. Therefore, the first lesson, which Africa can learn from India, is that *it must first develop and give top priority to the development of local industries and local entrepreneurial class.* This will not only help utilize domestic resources, raw material etc. but also provide productive employment to the vast army of unemployed workers. Emergence of an entrepreneurial class will give local economy a confidence to face foreign challenge, on whose shoulders, Africa will move to its bright future. Such an enterprising class and entrepreneurial spirit have to be developed if Africa wants to grow economically. In the absence of these basic capabilities, globalisation can bring doom to the African economy.

Secondly, Africa should try to first have food self-sufficiency. Food dependence and globalisation are two anomalous terms. Globalisation has a meaning and substance only if the country concerned has freedom on food front first. India reached this goal in early 1970s and proceeded on reforms in mid-Eighties. Without this basic requirement fulfilled in Africa, there can be no meaningful globalisation. It is possible that in the beginning, some countries in Africa go in for a program of 'Collective Food Security', which in any case is the primary need of the hour. In Africa, at a time, there are countries, which are endowed with food surplus, and others, which are cursed with famine. The surplus African countries can come forward to fill the deficit of other countries. Food surplus countries can pool their excess produce and create a buffer for meeting the needs of countries in distress. But that is only a temporary way out. African countries ultimately should strive for a complete and permanent food self-dependence. A complete and final freedom from food aid or food imports is what should be the top priority of the economic policy.

Globalisation, they say, is a pill which should be taken only on full stomach. If some one takes it empty stomach, it can spell disaster!
Another very important area which should get priority over globalisation in Africa is a determined fight against HIV/AIDS, if the governments there really feel concerned about the well being of their people. That requires a massive expenditure of resources and manpower, on expansion of educational, medical facilities and awareness programs in the length and breadth of Africa. A protective paramedical umbrella to the masses from the onslaught of HIV/AIDS is immediately required.

***Second Lesson**: Move Gradually on the Path to Globalisation*

It is equally advisable that no hurry is shown while adopting globalisation as a policy tool. Governments concerned in this regard should be able to resist or withstand pressures from WB, IMF or WTO. They must know the ground reality in their country, keep their eyes wide open, and do only what is possible, which does not hurt local interests and is good for the country in the long run. For example, IMF has been, since long, hell bent on India for Rupee-convertibility on capital account. But Indian government has not done that till date. Even for Rupee-convertibility on current account, Indian government resisted for very long and finally agreed only when India's foreign exchange reserves position became quite strong and reliable, and there emerged pressures from the local trading community also for relaxation on this account. Freeing domestic currency at international level is a very tempting proposition, but after looking at the experience of East Asian countries in late 1990s, and the harrowing experience they had gone through, one must be very cautious on this front.

Similarly, WB was insisting too much on allowing free entry of FIIs, foreign banks and insurance companies into Indian capital market. The Indian government, knowing very well that this step has the potential of threatening the very working of Indian banks and insurance companies, which had been, otherwise, performing reasonably well, did not allow that till last year. The present acceptance is also with several conditions attached with their ownership and functioning. These shall keep them strictly under the rules and regulations of India's central bank, the Reserve Bank of India and the Insurance Regulatory Authority of India. Same has been the case with allowing Western media companies, which are not getting permission to operate in the Indian market. India's IT minister Arun Shourie recently clarified once again in the Parliament that all the hardware and software for important installations would be sourced from India only. Interestingly, he gave an instance of how sometimes sourcing key IT technologies may not be in the country's interest also. He said 'an internet provider from abroad was ready to give internet services for a mere Rs.

5 (ETB one only) per hour. According to him, the intelligence agencies found that the firm was linked to a Mauritian firm, which in turn, was a subsidiary of a Hong Kong company having connections with the Peoples' Liberation Army of China and the Chinese intelligence. It was found that the internet provider had access to the memory of a personal computer through a back window and if a senior defence personnel or an installation had subscribed to it, it could have led to vital security information being leaked out.'

Looking at the limited commodity composition of Africa's trade, which mainly consists of primary commodities facing inelastic demand, and also at the adverse terms of trade, it is important for Africa to downplay any advice by WTO for an unrestricted trade. Allowing free trade at this stage will, in all probability, mean a further disaster for Africa's industries. Whatever little scope exists for local industries, will be ruined with a free inflow of cheap imports. Africa requires domestic industrialization, which is possible only with firm protection to domestic industries. Even international trade theory fully justifies protection for the infant industries. It is here that Indian experience is again very relevant for Africa. In the first three plans, India established a large range of industries which today are the backbone of the Indian economy. So, if Africa wants to be a part of the globalised community of countries, it must first develop a range of local industries. It must create its basic productive capacity. That will help it have a level playing field in international trade. If it initiates globalisation without this, it is bound to ruin any future chance of industrialization. Remember one thing, globalisation is a *'silent takeover'*, which takes place as foreign multinational companies emerge on the domestic scene.

Lesson Three: Prepare a Proper Sequencing of Reforms

Even reforms need to be properly planned! They cannot be applied in a haphazard way. These reforms include steps like stabilization, structural adjustment programs and liberalization measures. All of these have the potentials of dislocating virtually the whole economic set up. So, going by the ground situation, these should be implemented in such a way that they do not hurt the existing production process. First concrete steps should be taken to develop and strengthen domestic industries. There are examples from Latin American countries, which suffered many disastrous effects of liberalization on domestic production process, income-generation and employment.

It is possible only if, to start with, some homework is done on country's national accounts in detail. In particular, country's input-output matrix must be ready with the government. That matrix alone shows interdependence of one industry/sector of the economy on the other. That establishes clearly linkages of one industry, not only with one another, but also with agriculture, transport,

power, irrigation etc. It shows the agricultural-industrial balances of the economy and so on. Without going through its nitty-gritty, and disturbing the established production-distribution network in the economy under pressures from WB, IMF or WTO can result in complications and losses. This is true since WB-IMF insists on overhauling the economy through structural adjustment programs affecting fiscal and monetary policies, industrial policies, and production and ownership structure as also foreign trade. India's example is before others to see in which various Indian statistical authorities, along with the Planning Commission, worked out in great detail to prepare India's complete input-output matrix and other national income accounts. Ultimately, that proved to be of immense use during creation of capacity in various sectors.

Growth in domestic industries and country's export-potential depends on one more crucial factor, i.e., existence of a big middle-income class. Unfortunately, in most of the African countries, this class is missing as a sizable group. It is presence of this class, which sustains growth of industrialization by providing the bulk of demand for the industrial products. There is one very important theory developed by the famed Swedish economist, Staffan Linder which states that if any country wants to initiate export of any commodity, then first, it must have a sufficient domestic demand for that commodity. One cannot simply start an industry on the hope of exports only. Only when there is an initial internal demand for a commodity, that production will take place. This helps the country to achieve expertise, economies of scale and efficiency in production, and thereby a competitive edge in international market in terms of price and quality. So, in any country, it is the middle-income group, which provides the back up and becomes the main buyer for any industry. India's chief strength, as discussed above, lay in its huge domestic market, read, its massive middle-income group of nearly 300 million people. But, nearly reverse of this has happened in Africa, particularly in SSA. As reported by UNCTAD, whatever middle-income class was there in SSA, the trade and financial liberalization, privatisation and retrenchment of the public sector played a major role in its hollowing out.

Fourth Lesson*: If you move towards Globalisation, keep a Constant Watch on that*

The final important lesson, which can be learnt from India's experience, is that when a country does proceed in full steam on the journey named globalisation, it must, along with that, develop a vigilant institutional and social mechanism for keeping a constant and close watch on its effects on different sectors of the economy. Various administrative and statistical bodies, recognized NGOs, policy groups etc. can be given the charge of regular monitoring different indicators of the economy such as employment, poverty, prices, industrial

output and so on. Any adverse effects of these policies on such important variables can be noticed by these ‘pressure or awareness groups’ who can immediately report to the government and the public. The government should also be ready to respond with different corrective policy measures. Its attitude in this regard ought to be flexible and accommodating. India has been rather fortunate in this regard, with a large number of governmental and non-governmental organizations, groups etc. participating in the globalisation debate and process. Many of them came forward with different studies, statistical exercises and learned observations on different aspects of the whole issue. All these did enrich understanding about globalisation.

This vigil is equally necessary at socio-cultural front too which has also to bear the onslaught of globalisation. As experienced in India, the traditional cultural life, values and social norms, dress and food habits etc. all feel the heat and are the first to melt. But it is very necessary that each country here strives to maintain at least the positive qualities of its traditions, which symbolize its strength and character, history and geography. These give a nation an identity. So, here, as well as on the front of economic policy-making and implementation, more the involvement of the public and pressure groups, better for the country. After all, who can be a better watchdog of a nation’s interests than the people of that nation themselves? Africa is fortunate to have those inhabitants who are ever eager to see their continent move on the path of prosperity, with or without globalisation!

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