THE MYTH OF PROSPERITY:
GLOBALIZATION AND THE SOUTH

Viraj P. Thacker

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Abstract

Despite many important advances since the “Bretton Woods” agreement, the state of
Third World development remains extremely unsatisfactory. About a billion people live
in extreme poverty and more than 800 million do not get adequate nutrition. Third World
Debt looms large on the horizons of most underdeveloped nations and development
continues to benefit the Third World elites, the developed nations, and their multinational
corporations. The North-South divide continues to widen with very little “tricking down”
to the poor majority in many nations. It is strongly believed that one-third of the world’s
poor are getting poorer.

The conventional approach to development theory and practice, focusing on economic
growth, investment, trade and free markets continues to benefit developed nations. Even
in nations where free trade and markets have spurred growth, the net results of
globalization have not reached the majority. Globalization defined as the “economic,
social, political and environmental integration of nations” creates some major imbalances
in a world system increasingly based on liberal market economies.

Ultimately, the IMF-WTO corporate globalization model has failed to deliver for
developing countries, severely punishing those least capable of protecting themselves –
the billions living on $ 400 million annually. Market access is only useful to countries at
a stage of development that allows for their engagement in world markets, in a manner
that promotes improved standards of living for their populations. The promise of market access is a distraction that has served to create a myth of prosperity.

This research seeks to raise issues regarding the impact of globalization on North-South imbalances highlighting the crucial gaps in the globalization process. Initially, the research outlines the parameters and theories surrounding the globalization process and then progresses on to demonstrate the imbalances of the global system, highlighting the key areas of impact that adversely affect the development of Southern nations. Using India’s economic liberalization as a case in point, this thesis attempts to unveil the growing myth of prosperity that is being propagated in relation to the issues of globalization and the South. Finally, the thesis attempts to draw pertinent theoretical lessons that would contribute towards a better understanding of the effects of globalization on the South.
DECLARATION

This work contains no material which has been accepted for the award of any other
degree or diploma in any other tertiary institution and, to the best of my knowledge and
belief, contains no material previously published or written by another person, except
where due reference has been made in the text.

I give consent to this copy of my thesis, when deposited in the University Library, being
available for loan and photocopying.

SIGNED: --------------------------------- DATE: --------------------------
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The Myth of Prosperity: Globalization and the South

Chapter One

PART ONE

Introduction

Whether it is the rapid proliferation of McDonald’s in China, the rapid boom of popular Western culture in India or the arrival of cable television in Nepal, the fabric of everyday life in many parts of the world is increasingly being affected by trans-national elements. Intensification of foreign direct investment, trade, cross-national corporate alliances and mergers, cultural exchanges and university tie-ups have fortified worldwide links between people, organizations and regions and governments. Terms such as “global economy”, “cultural diversity” and “global environment” have wandered into the lexicons of major business schools, while a constellation of demonstrations and slogans remind us of the “anti-globalization” movements.

Observing these trends and changes is easy enough, requiring little more than a walk along any major commercial street in any major city, or a casual perusal of university catalogues; how one analyses and understands the changes associated with “globalization” is an entirely different issue, one that poses a considerably complex intellectual problem. Does globalization writ-large promote greater understanding of cultural similarities and differences, or does it merely diffuse a wider array of simplistic and essentialist stereotypes? Does globalization propagate exploitation and income disparity, or does it offer the individual freedom of choice and the convenience of standardization? Do these shifts bring the world closer together, consuming the same “Big Macs”
in a new global community, or is this a homogenizing cultural imperialism, obliterating local cultures in “Mc World” synchronicity?

In an attempt to build some answers to these questions, one can find four conceptual cornerstones. First, the historical context behind globalization needs to be kept in mind. While there are some obvious continuities, colonialism, modernization, and technological determinism especially constitute the necessary media for the intensification of global ties. The use of modern statistical methods to measure economic output is a good example of a global standard originally propagated through the practices of colonial administrations in Asia. The decoupling of cultural experiences from particular geographical locales is not an unprecedented phenomenon; what is unprecedented is the speed, scale, and scope of these changes.

Second, it is important to examine the underlying assumptions and operating definitions that surround much of the debate. For example, “culture” is a frequently contested term that becomes a central analytical issue for some disciplines, while others consider it to be too vague to constitute a meaningful independent variable. Globalization is often equated with “Americanization”, a semantic manoeuvre that generates questions that inevitably gravitate around America and anti-Americanism.

Third, globalization like its historical predecessors is a complex process and while some conceptual constructs may in fact apply across many cultures and subcultures, “monocausal”, “reductionist”, and “universalist” approaches are not sufficient to explain the rapid shifts in the global landscape. Rather, finding parallels between the debates concerning relative power and autonomy of local and global cultures, and discussions of
local-trans-national relations are some possible avenues for generating a more sophisticated analysis of globalization.

Fourth, the pros and cons of theoretical and empirical approaches and their interrelations should be taken into consideration. There is a need for concrete and informed qualitative approaches as alternatives to the existing fascination with economic indicators in exploring the relevant issues, especially in relation to the nations of the South. An awareness of the limits and potentials of all approaches may help replace naïve certitude with a thoughtful uncertainty that may ultimately promote a superior understanding of the impacts of globalization on our everyday lives.

Although economic globalization has become an inevitable force that affects the development of the South, Third World development spearheaded by the North has not always generated the desired results (Hurrell and Woods, 1995). This flows into the idea that capitalistic development in the Third World may represent a continuation of colonialism and Southern nations by yielding to the demands posed by FDI, often ignore their own social welfare issues, environmental issues and the one problem that seems to be an eternal skeleton in the closet – poverty.

This research is informed by the theoretical perspectives of development and dependency theories. Although these are often dismissed as obsolete by many globalists, they still seem to be the best theoretical frameworks for any consideration of the effects of globalization on the formerly colonized world (the South). The issue of development in the South always tends to focus on the need to help the poverty stricken Third World. Unfortunately, this is a reality that most Southern governments, in their enthusiasm to
globalize, largely ignore. Development in its most basic sense is improvement in human well being and overall, despite economic liberalization and the opening of markets, human well being in the South still remains desperately lacking.

Development often relates to the basic issues of nutrition, sanitation, health care, housing, education and employment. Often turning a blind eye to these basic needs, Southern governments invariably focus on attracting foreign investment, industrialization and trade that further deprives and deepens the gaps between small wealthy minorities and the vast needy majority. Porter and Sheppard (1998) note that the focus on industrialization can be misleading since it can refer to a spectrum of activities that are heavily dependent on foreign investment.

In terms of Third World development, there seem to be two schools of thought that emerge. The liberal view is one that supports modernization and globalization. The radical perspective calls for less global interference in local economies. However, both points of view see FDI and foreign aid as being critical to the development of the South. This still leaves the South dependent on the North which dependency theorists see as a means of exploitation (Black, 1999).

The liberal perspective that promotes globalization asserts that environmental deterioration in the South is caused by local low-tech economic activities. This view suggests that free trade and economic liberalization are good for the South. Modernization theorists seem to focus on factors such as democratic politics, literacy, health and other basic infrastructure needs.
Viotti and Kaupi (1993) note that “proponents of this perspective point to the growth of scientific technology in transportation and communication, the rise of mass consumption, the growth of global ties as a legacy of colonialism and the extension of European political ideologies throughout the world. National autonomy becomes increasingly difficult as economic activities spill over borders”.

Scholars such as Herman Daly present a radical counter argument that sees free trade as maximizing profits with little regard for social and environmental consequences. Daly’s view is in line with that of dependency theorists who see FDI and foreign aid as being unhealthy for the South (Daly, 1996).

**Research Goals**

The research has been conducted with the following in mind:

1. **To raise issues regarding the impact of globalization on Southern nations:**

Globalization, which can be defined as the “economic, social, political and environmental integration of nations” creates “winners and losers” in a world system increasingly based on liberal market economies (Agarwal, 1998). The conventional approach to development theory and practice, focusing on economic growth, investment, trade and free markets continues to benefit developed nations. Even in nations where free trade and markets have spurred growth, the net results of globalization have not reached the majority.

2. **To highlight the crucial gaps (in the literature) in the globalization process and to channel the discourse towards a more holistic and sustainable approach:**

The literature on globalization tends to hold a strong Western bias and the major issues of the Third World (debt, poverty and political uncertainty) are generally put on the
backburner. If the issues of environmental degradation, cultural and political impacts are considered seriously, the problem becomes more complex.

Despite the various debates and theories, it needs to be pointed out that what is absent in the academic literature is a holism through the conceptual integration of the social sciences. Thus, while the economist may wholeheartedly support globalization, the political scientist may ambivalently question it and the sociologist will probably attack globalization. This is perhaps due to the lack of universalism in the body of knowledge related to globalization. This dilemma has profound social, political and economic implications for the global South, especially in consideration of the growing levels of inequity between the North and the South.

3. To effectively demonstrate the imbalances of the global system, highlighting the political, economic, social and environmental impacts that adversely affect the development of Southern nations:

It is quite evident that the current pattern of material consumption is environmentally unsustainable. The implications of the un-sustainability of material consumption, challenges some of our most fundamental beliefs about how we live. Nowhere is the political and ideological force of growth fetishism more apparent than in the area of environmental policy.

Environmental problems are climbing higher on the international political agenda and have become acrimonious in North-South relations, with rich and poor nations divided on how to delegate responsibility for reversing the planet’s ecological decline. Ecological globalization poses enormous challenges to traditional government structures, especially in the poorer nations of the South. National governments are ill
suited for managing environmental problems that transcend boarders and have a collective impact on the planet’s health and natural systems. Nations grant significant power to the WTO and IMF but environmental issues remain as an afterthought in these institutions. Over the course of the 20th century, the global economy stretched the planet to its ecological limits and international governance structures are much needed in the 21st century, to ensure a sustainable future. The mismatch between ecological imperatives and the prevailing economic practices will have to be bridged to check the deterioration of critical ecological systems. The new rules for the global economy are however, set by the WTO and IMF where maximizing on global commerce is the top priority.

4. To study the impacts of globalization in India (as a case in point) and its implications for the South:

Since the early 1990s, the Indian economy has been liberalizing with the unanimous approval of the more affluent sections of the population. Foreign investors that have flooded into the country and are not really subject to the purview of national laws as are the domestic investors. Dependence on foreign capital (as other nations have learnt) has always led to the sacrificing of national policies in favour of the demands and conditions of international agencies and agents of international finance (Nayyar, 2002).

International lenders rarely lend without conditions and external liberalization in India, the lowering of import duties was a condition imposed by international financiers. International lenders also call for a reduction in social spending that is often disguised as a matter of improving “efficiency” and controlling “unnecessary budget deficits”. India makes an excellent case study for the case against globalization in view of the 700 million who live in poverty and have increasingly been excluded from the process. In
India, globalization has, by and large, resulted in material benefits for the few and has not translated into a generous “trickle down” for the poor masses.

In India’s case for example, one may ask, what does water have to do with politics? The answer is “everything”. India’s recent general elections in May (2004), the ruling nationalist coalition was voted out in the midst of the most rapid economic expansion in years. The elections took place in the aftermath of the generous monsoons that boosted spending in much of rural India. But the voters got restless and showed a sharp awareness of their political clout (that runs counter to traditional rural passivity). Despite the good rains, much of the restlessness stemmed from the continuing lack of electricity, water and roads for most of the 700 million still living in rural India and the 200 million that constitute the urban poor (from a total of 1.03 billion, according to the 2001 census).

India’s intellectual elite periodically pays attention to these deficiencies but the middle classes were too much in thrall to the ruling party’s mantra of “India Shining” to anticipate the recent electoral shock. In its wake, the masses’ growing urgency for basic needs has come to the forefront again. The Indian Nobel Prize winning economist Amartya Sen famously observed that famines do not happen in democracies (Sen and Dreze, 1999). The theory, tested by widespread hunger in Rajasthan for the past four years, is upheld by India’s democratic record since 1947. Yet, India shows that democracy’s record of providing the most basic social services (like water) cannot be taken for granted.
India can build dams but cannot maintain rural irrigation systems. It can launch satellites but cannot or will not build public toilets. India’s political elite has taken a long time to grasp the message from India’s poor and the “feel good” liberalized economy has yet to provide the right balance for India’s poor majority.

5. To draw pertinent theoretical lessons from the research contributing towards a better understanding of the effects of globalization on the South:

The most important and unique feature of the globalization process is the “globalization” of national policies and policy-making mechanisms. National policies (economic, social, cultural and technological) have increasingly come under the influence of international agencies and processes (including MNCs and financial players) that has narrowed the ability of governments and people to determine their national policies.

The fears in the developing South relate to worries over the threats of neo-colonization, migration, loss of sovereignty, worsening inequality, increasing poverty and the many setbacks to development. If democracy and markets are the twin pillars to world peace and prosperity, then it becomes absolutely essential to introduce a degree of universalism in assessing the imbalances of globalization.

Parameters of Analysis

In keeping with the main goals of this research, the author will use a mix of available indicators to emphasize the nature of North-South imbalances and the subsequent impacts on the South. These include the Economic Index Measure, the Human Development Index and a close look in terms of human well being and standard of living that would indicate a measure of prosperity. The author’s parameter will consist more of a qualitative study of the above.
The question of prosperity is an issue that this research seeks to define and a major challenge that is posed is the method of measuring this prosperity. The author will attempt to tackle this problem (related to the impact of globalization) by using a qualitative “unit of analysis” that looks at economic inequities within the South, polarization and opulence within nations and the environmental, social and cultural impacts within societies in the South. This suggested parameter will come across as a practical measuring yard and not necessarily a quantitative measuring tool. Given the scope of the research, this seems like a more logical approach.

The Human Development Index (HDI) is a measure of life expectancy, literacy, education, health and the standard of living for countries worldwide. It is a standard means of measuring well-being and child welfare. It is used to determine and indicate whether a country is developed, developing or a underdeveloped country and also to measure the impact of economic policies on quality of life.

The HDI measures the average achievements in a country in three basic dimensions of human development: health, education and standard of living.

A developing country is one that has a relatively low standard of living, an undeveloped industrial base, and a moderate to low Human Development Index (HDI) score and per capita income, but is in a phase of economic development. Usually all countries which are neither a developed country nor a failed state are classified as developing countries.
Countries with more advanced economies than other developing nations, but which have not yet fully demonstrated the signs of a developed country, are grouped under the term “newly industrialized” countries. Other developing countries which have maintained sustained economic growth over the years and exhibit good economic potential are termed as “emerging markets”. The application of the term developing country to any nation which is not developed is inappropriate because a number of poor countries have experienced prolonged periods of economic decline. Such countries are classified as either least developed or as failed states.

Development entails a modern infrastructure (both physical and institutional), and a move away from low value added sectors such as agriculture and natural resource extraction. Developed countries, in comparison, usually have economic systems based on continuous, self-sustaining economic growth in the tertiary and quaternary sectors and high standards of living.

National wealth has the potential to expand people's choices. However, it may not. The manner in which countries spend their wealth, not the wealth itself, is decisive. Moreover, an excessive obsession with the creation of material wealth can obscure the ultimate objective of enriching human lives, distracting from the ultimate goal of enriching people's lives.

In many instances, countries with higher average incomes have higher average life expectancies, lower rates of infant and child mortality and higher literacy rates, and
consequently a higher human development index (HDI). But these associations are far from perfect. In inter-country comparisons, income variations tend to explain not much more than half the variation in life expectancy, or in infant and child mortality. And they explain an even smaller part of the differences in adult literacy rates.

Given the imperfect nature of wealth as gauge of human development, the HDI offers a powerful alternative to GNP for measuring the relative socio-economic progress at national and sub-national levels. Comparing HDI and per capita income ranks of countries, regions or ethnic groups within countries highlights the relationship between their material wealth on the one hand and their human development on the other. A negative gap implies the potential of redirecting resources to Human Development.

The main frame of reference for looking at the impacts of globalization and the myth of prosperity created, include the following:

1. Inequities across the nations of the North and South and within states like India

2. The polarization of opulence and depravation within states such as India and China

3. The fate of labor (including child labor) and the general standard of living

4. Environmental, cultural and social impacts of globalization in the nations of the South

In relation to the above, the main actors include (but are not limited to) the WTO, the IMF-World Bank, MNCs and national governments.
Methodology

Among a variety of issues, the pre-eminent critical issues of methodology included the definition of globalization and the historical antecedents that impact the effects of globalization in the South.

A point of basic import was that a closed economy can be liberalized and privatised (this was the strategy used in India in 1990 when it sought to liberalize and privatise) but not necessarily globalize. An irony of present day globalization is that even with liberalization and privatisation being in effect for some time through the pressures from the international community spearheaded by the WTO, globalization has returned graft, corruption and abuse of political authority with an unprecedented vengeance in the developing world. Capitalism nurtured in the South is tending towards crony capitalism with the state’s continued control of banking and financial sectors. No wonder there is now an increased cry for governance, accountability, transparency and financial liberation.

If the real driving forces behind globalization are the revolutions in biotechnology, improvements in transport and communication and information technology, it becomes vital to consider the impact of these technologies and their implications for Southern nations (especially nations that lack an industrial infrastructure). The treatment of this vital feature of globalization is largely absent.

India can be considered to be a good case study for the adage that *it is trade and not aid* that renders development, helps eradicate poverty and fosters dynamic economic growth.
This research uses the case of India’s liberalization to investigate the results of economic liberalization in India, where the gaps between rich and poor continue to escalate.

While few political scientists would dispute the importance of analyzing historical processes, there is little agreement on how to do it well and on the larger question of its role in producing verifiable propositions about cause and effect. Indeed, political scientists seeking rigorous approaches for assessing causation through historical methods face a recurring dilemma. Conventional co-relational techniques are too blunt a tool for describing in meaningful detail the mechanisms that account for observed co-variation between antecedents and outcomes. Yet few well developed alternatives exist that might combine the historian’s craft with the social scientist’s commitment to the systematic evaluation of causal claims. In recent years there has been a movement within political science to rectify this situation by developing new approaches to qualitative research.

Steinberg (2000) proposes several tools intended to refine the practice of historical process tracing as it applies to policy studies. The author has applied a menu of techniques for the collection, analysis, and presentation of information on causal pathways, with special emphasis on the challenge of producing valid causal explanations. For this research the author first explored the special role of qualitative research in policy studies and its application.

The central challenge in this research was to develop a technique that avoided a false choice between the well-developed canons of a methodological school inappropriate to the task at hand, and a free-for-all of case study methods based loosely on the practice of historians but lacking precise causal techniques. George and McKeown (1985, 35-36)
described the method as studying the "process by which various initial conditions are translated into outcomes." In contrast to co-relational approaches, process tracing evaluates "a stream of behavior through time… Any explanation of the processes at work in this case thus not only must explain the final outcome, but also must account for the stream of behaviour”. In essence, process tracing breaks down complex chains of events into smaller pieces, and distant relations between antecedents and outcomes into more proximate cause-and-effect couplings. For this research, this proved to be invaluable in the context of the impacts of globalization both on the South in general and specifically on India. Both issues have a “history of behaviour” that has ultimately affected the state of development in both contexts.

“Causal processes are selectively decomposed further and further until the plausibility of the component cause-and-effect relationships is so high that further explanation is unwarranted” (Roberts, 1998).

Bennett and George (2004) distinguish the practice of process tracing from conventional historical narrative as follows: "A process-tracing explanation differs from a historical narrative, as it requires converting a purely historical account that implies or asserts a causal sequence into an analytical explanation couched in theoretical variables that have been identified in the research design." They develop the concept in much greater detail than did the earlier work by George and McKeown (2004) laying the relevant groundwork from philosophy of science and describing different applications of process tracing in the development and testing of theories (Bennett and George, 1997, 2004).
However, to assess the causal influence of variables in a chain of events leading to a policy outcome, one must distinguish between the activities and impact of the agents aspiring to have influence (Steinberg, 2000). Failure to make this simple distinction has led to a profusion of ambiguous causal statements in the published literature. The target of Steinberg’s critique includes statements like: "Greenpeace affects global environmental politics by lobbying governments and by shaping public opinion."

Keeping this in mind, the author engaged in a lengthy and descriptive processing of the many impacts of globalization on the South.

The problem of conflating activities and impacts is pervasive in assessments of the impact of international environmental actors and institutions. The rapidly evolving facts of global environmental politics beg explanation, and researchers are often in the position of chasing some interesting new phenomenon - an international treaty, an advocacy campaign, or an industry initiative - in an attempt to characterize its impact. Too often these analyses neglect to study in any comprehensive way the intended target and the mechanisms and multiple causes that affect it. An example can be found in Keck and Sikkink’s (1998) analysis of transnational activism. Noting that policy reform is one of the intended goals of international environmental campaigns, these authors conclude that policy change results from a "boomerang effect," whereby domestic advocates in developing countries enlist the help of foreigners to leverage changes in domestic policy. Yet in research on the causes of environmental policy reform in developing countries, the boomerang effect - and international campaigns more generally - are found to be of minor importance (Steinberg, 2001). The reason is that while policy is important to international campaigns, the reverse is not true. Campaign organizations expend a great
deal of energy trying to affect policies, and these activities figure prominently in their promotional literature.

The author favours qualitative research and has employed a “triangulation” of methods (content analysis and analysis of secondary literature and primary data from the Government of India sources) in conducting the work. This research combines qualitative methods to describe the globalization phenomenon in terms of the prevailing conditions and practices and illustrates the nature and consequences of the impact of globalization on Southern nations. As a case in point, the author has chosen to focus on India and its attempts to join the global economy. As a Southern nation with a colonial past, India’s attempts highlight both the successes and massive failures of a newly liberalized economy.

**Process:**

At the start of the research, the author acquainted himself with the concepts of “grounded theory” as opposed to other types of qualitative research. The next step was to define and sharpen the research focus and create a framework for the thesis. This was followed by gathering of the necessary data and questioning it with an approach that was theoretically sensitive in developing a balance between being creative and keeping to the facts. It was important to step back and critically analyse the data, recognizing and avoiding bias.

Theoretical sensitivity refers to the personal qualities of the researcher. It requires the ability of insight into the sources of the literature. The author kept this in mind while familiarizing himself with the literature. As the study proceeded, the author had to
periodically step back and question the data (especially the facts put out by the Government of India), maintaining a reasonable scepticism in analysing the facts.

In attempting to establish the main thrust of this research, the author engaged in an analysis of the institutional dynamics of the current global system keeping in mind the economic history of North-South relations and the policy choices involved. By looking at the intimate and reciprocal connections between human beings and the political and economic world, the author has tried to present a qualitative analysis of North-South imbalances and the myth of prosperity in the Global South.

**Conceptual Framework**

The following is a summary of concepts that are frequently used to analyse the process of globalization. It serves to lay out the theoretical framework for globalization and seeks to highlight the major aspects of the phenomenon.

**Dependency/World Economy Theory**

There are three basic premises that inform all versions of the dependency theory.

1. The socio-economic structure and development of less developed nations is best understood by examining historical patterns of integration into and interaction with the capitalist world economy.

2. The theoretical framework (for the above premise) must extend beyond the societal level of analysis and consider the role of the broader world economic structure and forces shaping national development. Dependency/world economy theory emerged as a
response to and alternative for modernization and economic growth models that emphasized internal rather than external effects on national development.

3. The global system is characterized by an unequal distribution of power and influence. Some nations are more vulnerable, more dependent and subjected to greater exploitation than others. The unequal and asymmetric relations between rich and poor nations, is a central theme in this model (Jaffee, 2000).

International level models focus on the interaction between nation states and the political economic forces that regulate these interactions. Trade lies at the center of these models and positions on trade influence the rates of socio-economic development and growth.

In the late 1940s, standard models of international trade and economic development were beginning to come under attack from the United Nations Economic Commission for Latin America (ECLA), headed by Raul Prebisch (1950). Up to this point, David Ricardo’s (1933) “law of comparative advantage” influenced the theories of international trade heavily. The ECLA raised the question of the “terms of trade” and whether they were equitable for nations specializing in producing different commodities. The work of the ECLA laid the groundwork for a critical and global analysis of development problems. One conclusion was that the international trade structure contributed to the economic decline of underdeveloped nations. This shifted the level of analysis from the national to the international level.

The ECLA also claimed that the terms of trade worked to the advantage of the industrialized nations of the “center” at the expense of the “less developed” nations of
the “periphery”, suggesting exploitative and unequal relations between regions of the world. This became a basic tenet of dependence theory (Keohane and Nye, 1977).

Arguments were also raised to question the validity of imbalanced growth models where nations were encouraged to specialize in a single line of production. The ECLA then prescribed the policy of import substitution industrialization (ISI) that would facilitate the domestic production of previously imported domestic goods. Celso Furtado, a ECLA member involved in development policy in Brazil, emphasized the inherent limits of ISI and what he called “peripheral capitalism”. Furtado (1965) introduced the concept of peripheral capitalism to describe the unique pattern of Third World development, shaped by decisions of ISI based on Western consumption patterns and the inability to generate productive innovation. The vilification of the multinational corporation is another component of Furtado’s analysis that is echoed in versions of dependency theory.

Yet another influence comes from the writings of Paul Baran (The Politics of Economic Growth, 1957). He formulated a model of underdevelopment that pointed to the distinct developmental condition of less developed nations arising out of colonialism and imperialism. The concept of surplus plays a major role in his theory of economic growth. Baran pointed to the forces of colonialism and the extraction of surplus from less developed nations in the periphery. Baran believed that the global spread of capitalism was instigated by the needs and demands of monopoly capitalism in the advanced nations, for profit. Capitalism was thus imposed on the Third World in a form different to the monopoly style capitalism of the West (Baran, 1957).
Andre Gunder Frank’s writings in the 1960’s were a major contribution to the development of dependency theory. According to Frank:

1. The underdevelopment of third world countries is a product of external rather than internal structures and forces.
2. The legacy of colonialism is a qualitatively different position than was the case for pre-industrial North America and Europe.

Frank described the “satellite and metropolitan” notion as a central analytical focus of dependency theory. Frank argued that the development of Europe and North America was enhanced by the exploitation and underdevelopment of the world’s undeveloped hinterlands. He also rejected the “dual society” thesis arguing that the diffusion of world capitalism was responsible for the underdevelopment of Third World nations.

Frank’s second hypothesis asserted that “satellites experience their greatest economic growth and industrial development when their ties to the metropolis are weakest” (1969). His third hypothesis argued “regions that were the most underdeveloped were the ones with the closest ties to the metropolis in the past” (1969).

**Post-dependency:**

Many governments fail today to enable people to meet even their most basic needs. Over 1.3 billion lack access to safe drinking water; 880 million adults cannot read or write; 770 million have insufficient for an active working life; and 800 million live in absolute poverty, lacking even rudimentary necessities. Each year, 14 million children die of hunger. (Mc Neill et. al. 1995, cited by Stephen Gill in “International Political Economy: Understanding Global Disorder”, p.74).

Mainstream theory, in its various guises – conservative, liberal and radical – now takes for granted the very structures of global capitalism that dependency theory tried to criticize. Dependency theory brought into focus themes that still need to be adequately addressed by contemporary international relations: structures of power; systematic patterns of inequity; practices and ontologies of dependence. In the age of globalism, the concept of dependency deserves renewed attention.

Dependency theory began as a counter argument to the dominant Western paradigm of development - modernization theory. The strength of the theory was that it challenged prevailing mainstream assumptions about development; in particular, the neo-classical liberal view that capitalism and economic growth were inextricably linked. Writers as diverse as Gunder Frank, Fernando Cardoso, Theotonio Dos Santos, Colin Leys and Samir Amin were contributors to the dependency approach, and although they diverged in how they presented the common problems faced by the Third World, they were critics of the ethnocentric tendency of the West to assume that the Third World would simply follow the path taken by the West. Mainstream development theory of that time can be criticized for universalizing history as a process of evolution along a pathway already taken by the West. Change would come only from the outside through the diffusion of capital and technology (Rostow, 1962) through transforming cultural-psychological
values (McClelland, 1971), or instituting Western rational administrative practices and techniques (Huntington, 1985).

The classic definition of dependency is given by Theotonio Dos Santos:

“By dependency we mean a situation in which the economy of certain countries is conditioned by the development and expansion of another economy to which the former is subjected. The relation of interdependence between two or more economies, and between these and world trade, assumes the form of dependence when some countries (the dominant ones) can expand and be self-sustaining, while other countries (the dependent ones) can do this only as a reflection of that expansion, which can have either a positive or a negative effect on their immediate development” (Dos Santos, 1993).

Where the mainstream development theorists posited a linear notion of development from a primeval condition of predevelopment, the dependency theorists countered that underdevelopment was not an original condition but one that represented a condition beginning in the sixteenth century and culminating in the consolidation of twentieth-century capitalism. The postcolonial condition was not necessarily one of expanding economic possibilities. Rather, the legacy of nineteenth-century second expansion of Europe, coupled with the continuing penetration of Western capital into the Third World, served to bind those countries into a nexus of exploitation and underdevelopment or, at the very best dependent or distorted development. To use Samir Amin’s later term, some regions experienced “maldevelopment”.

“Development and Underdevelopment” (2003), a recent international relations reader, links the dependency approach to a more recent theoretical approach, world system theory. Global capitalism is the dominant condition of our time. If “structural dependency” is a relational term, defined as a condition of subjection, within a dominant pattern of social practices and institutional frameworks, then according to Giddens and
Hutton (2000), we are seeing an increasing dependency of locales, regions and states upon processes of global capitalism. Paradoxically, de-linking from the global economy and culture has become less possible at the very time when most people, including policymakers in the Third World, would have no way of thinking outside the terms of the global condition.

Thus, major discrepancies of power operate across the supposedly open flow of global exchange and interdependence. Global capitalism may have brought varying degrees of development to Third World countries, but it has brought a certain kind of development with enormous social costs. Sixty per cent of the people in Brazil for example, now live in harsh poverty, without the old means of agricultural subsistence. Countries that remained relatively independent during the colonial era (like Thailand) are now thoroughly bound into the global economy from their growing development-based debt to their increasing incidences of child indenture. In short, even in the “economic miracles” of the Third World development is associated with costs: being bound within the fluctuations of global capital, going through an uprooting of rural populations; and living with metropolitan overcrowding, ecological degradation and an increased domestic division between rich and poor.

**The Capitalist World Economy: Wallerstein**

Globalization is the process, realized in the twentieth century, by which the capitalist world system spreads across the globe. That world system has maintained its main features over several centuries and globalization has, in a sense, evolved from it. At the turn of the twenty-first century, the capitalist world economy is in a state of flux and according to the theory’s leading proponent, the current “ideological celebration of so-
called globalization is in reality the swan song of our historical system” (Wallerstein, 1998).

The world economy theory developed by Wallerstein is often associated with dependency theory. Both approaches reject the view that national development can be explained by examining the internal characteristics of nation states. Instead, nations are seen as open systems that are heavily influenced by economic forces and patterns of exchange at the international level. Wallerstein also dismisses the dual society thesis and attributes backwardness to lack of exposure to market forces. In his view, there is only one system – world development and a world system. Wallerstein works at a level of analysis where nation states are the interacting parts of a larger system. The parts carry out particular functions dictated by an international division of labor. The essence of this system is to maximize on “production for sale in a market in which the object is to realize maximum profit” (1974). All nations are under pressure to produce competitively for international trade and this influences the national organizational strategies of labor control. For Wallerstein’s model, these different modes of labor control are the effects of world market pressures. All these modes in Wallerstein’s model are considered parts of a larger capitalistic world system (Wallerstein, 1989).

Wallerstein (1989) also describes the system as a social-class system with “core”, “semi-peripheral” and “peripheral” relations. His position leads him to categorize socialist/communist states as capitalistic because they also are parts of a capitalistic whole that participates in world market production and trade.
In short, the imperative of economic accumulation may override political ideology. Gunder Frank (1980) described this arrangement as a “trans-ideological” enterprise that is akin to a “convergence theory”. The issue of structural convergence in world system theory has also become a major theme in the current literature on globalization. J. David Singer (1961) linked the different perspectives with the level of analysis in the study of international relations. According to Singer, the systemic level of analysis requires a high degree of uniformity to focus on the whole. Singer’s point is that “though the systemic model does not necessarily preclude comparison and contrast among national subsystems, it usually eventuates in rather gross comparisons, based on crude dimensions and characteristics” (1961). The broad division of nations into core, periphery and semi-periphery is indicative of this tendency that often obscures the significant variations among nations occupying common positions.

Variations on a Dependency Theme: Samir Amin

Amin’s work represents a systematic attempt to combine and integrate various insights of the dependency and world-theory system. A key issue for Amin (1976) is the way in which laws of the capitalist economic system contributes to the tendency toward worldwide expansion and imperialism. Amin differentiates between capitalism in the center states from capitalism in the periphery. He calls capitalism in the center states “autocentric capitalism”. In contrast, peripheral capitalism is characterized by “extraverted accumulation” or the outward looking nature of underdeveloped economies.

The concept of disarticulation plays a major role in Amin’s theory and it refers to the missing or nonexistent links between segments of the economy. The concept is useful in
understanding the relationship between the world economic and the political practices carried out in peripheral nations. Disarticulation leads to economic crises at the level of the balance of payments for underdeveloped nations.

**Investment Debt**

One form of dependence emphasized by dependency theorists and represented in cross-national studies is investment dependence. The international flow of capital is seen as the way in which advanced capitalist states dominate, exploit, and retard the development of underdeveloped nations.

Investment dependence stems from the role of multinational corporations in the periphery and dependency theorists regard their behavior as exploitative. The “surplus drainage thesis” relates to the net outflow of corporate profits from underdeveloped nations. In Frank’s words, “the satellites remain underdeveloped for lack of access to their own surplus” (1969). The resources possessed by multinationals permit them to dominate the economies and governments of underdeveloped nations and their interests may run counter to national goals. Support for the basic arguments of the dependent development position is provided by Evans (1979) and Bradshaw (1988), who feel that the net results of investment debt may be uneven growth, increasing income inequity and the balance of payments crisis.

**The Debt Crisis**

The debt crisis is a powerful example of the impact of international forces on the development of Southern nations in the 1970s and 80s. A political crisis emerges in underdeveloped nations when:
1. There is a balance of payments deficit that influences a nation’s world-economic position and foreign trade profile.

2. The nation looks for external debt capital and it often turns to the IMF and World Bank for assistance in closing the trade deficit gap.

3. IMF support rests on the implementation of a “stabilization” program that results in unrest and the government then responds with antidemocratic measures of social control.

Gaps in the Literature

Globalization has long been the subject of various political, sociological and even anthropological debates. Many researchers have confirmed the economist’s view that globalization – the increase of cross-border economic, social, technological and cultural exchange – is inherently good for the welfare of all nations. Meanwhile, others are more apt to view globalization negatively (Boyer, 1996). The phenomenon some claim has been linked to humankind for hundreds of years (Giddens, 2000). It is certainly at its peak today with the integration of financial services and economic activities through the use of information technology (Hurrell, 1999).

It is evident that the massive economic progress that has transpired since the dawn of the twentieth century is one of the major contributions of globalization. However, the worldwide increase in GDP is also coupled with the uneven distribution of economic development across nations. This condition further widens the gap between rich and poor countries. As globalization flourishes, rich nations continuously grow economically and socially while developing countries are still lagging behind. This is supported by recent findings on the disparities between the GDP increase of First World countries and
that of the Third World nations (Khor et.al. 1999). It has been revealed that the increase of GDP among rich countries averages to nearly a six-fold increase while poor countries have recorded less than a three fold increase in their GDP. This implies that income inequality has indeed amplified. Although there are developing countries in Asia that are slowly advancing in terms of their per capita income, a large proportion of developing countries in the region have maintained their position in the rear end of the global competition (Giddens, 2000). This is especially true for African nations where GDP declines at a staggering rate relative to that of most highly industrial societies.

Globalization has four dimensions – trade, movement of capital, movement of people and the spread of knowledge and technology. Only those developing nations that are able to keep up with the pace of global trade have benefited from globalization. In Asia, countries like Singapore, Japan and Taiwan are performing well in global trade while the entire African region has managed scantily. On the other hand, the rate of migration among developing countries has remained high between 1965 and 1990 further contributing to the GDPs of advanced nations (Maddison, 2000).

Throughout the years, inequities between rich and poor nations have increased at a rapid pace. According to a study done by the World Economic Outlook Forum which involved 42 countries (about 90% of the total world population), although output per capita has risen appreciably, the unequal spread of income across countries has become even worse than at the early part of the century (Fligstein, 2001).

Nonetheless, GDP only accounts for half of a country’s experience of globalization. It is equally important, that compared to the past, poor nations perform better in today’s
global trade. Thus, the claim that the disparities might have narrowed is open to further
debate.

Despite many important advances since the “Bretton Woods” agreement, the state of
Third World development remains extremely unsatisfactory. About a billion people live
in extreme poverty and more than 800 million do not get adequate nutrition (Dowlah
and Dowlah, 2004). Third World Debt looms large on the horizons of most
underdeveloped nations and development continues to benefit the Third World elites,
the developed nations, and their multinational corporations. The North-South divide
continues to widen with very little “tricking down” to the poor majority in many nations.
It is strongly believed that one-third of the world’s poor are getting poorer (Das, 1998).
Ultimately, the IMF-WTO corporate globalization model has failed to deliver for
developing countries, severely punishing those least capable of protecting themselves –
the billions living on $400 million annually. Defenders of the global economic status
quo often toss around the notion that the numbers of people living on $1 a day has
declined because of the IMF-WTO model. If one removes China, the world’s largest
economy, and one that has operated outside the WTO-IMF model, the numbers of
people living on $1 a day increased during the period of the WTO. The number of
people living outside China on less than $1 a day rose 2% from 916 million in 1990 to
936 million in 1999 (Yen, 2000; Tan, 2002). The number living outside China on less
than $2 a day, rose 16%, from 1.9 billion in 1990 to 2.2 billion in 1999. Despite the
global economic growth in the 1990s, population growth increased the number of people
living in abject poverty (Khor, 2002).
Demonstrating the failure of this model, developing nations who are strong participants in global trade suffer from higher rates of extreme poverty than the average. Between 1997 and 1999, 69% of the people living in nations specializing in commodity exports, lived in extreme poverty (significantly higher than the average extreme poverty rate (50%) in developing nations (Khor, 2000). Although extreme poverty increased across the board in developing countries during the 1990s, UNCTAD reported that the developing nations that reduced their trade barriers the most, had higher increases of extreme poverty than nations that opened their markets the least (Khor, 2000).

The siren song of the new market access could lure developing countries into a self-destructive mode. Market access is only useful to countries at a stage of development that allows for their engagement in world markets, in a manner that promotes improved standards of living for their populations. The promise of market access is a distraction at best, and a hoax in the worst-case scenario.

The “Bretton Woods” institutions have been advocating financial sector reform for advancing Third World economies for decades. The essential element of this policy is financial liberalization that consists of:

1. Opening up the economy to free flowing international finance.
2. Removing control and restrictions and control on domestic banks and other institutions to enable proper integration into the world’s financial networks.
3. Providing autonomy to the central bank to disassociate the financial sector from the political process of the country, and hence from any accountability to the people.(Dowlah and Dowlah, 2004).
These processes have increasingly been seen as necessary for Third World nations to globalize and participate in free trade.

Globalization, which can be defined as the “economic, social, political and environmental integration of nations” creates “winners and losers” in a world system increasingly based on liberal market economies. The conventional approach to development theory and practice, focusing on economic growth, investment, trade and free markets continues to benefit developed nations. Even in nations where free trade and markets have spurred growth, the net results of globalization are mixed at best.

In India for example, the post-independence regime visualised a subordination of the financial system to the perceived needs of economic development. The overall logic was to make development policy serve the needs of the national economy and to hold the government accountable to the people. The financial liberalization of the 90s detached the financial sector from the domestic economy, to make it a part of “globalized finance”. A major implication of exposing the economy to international finance is the undermining of democracy and sovereignty (Patnaik, 1999). This has proved to be very true for India and the recent overthrow of the BJP (strong implementers of liberalization policies) is a significant indicator of the worsening economic condition of India’s 700 million that live in poverty. Some Indian economists believe that by serving the needs of speculators and international financiers, Indian politics have seen an “inversion of democracy” (Patnaik, 1999).

In postcolonial economies like India, the results of globalization have been mixed at best. The indicators for the results are economic and trade related ones. The benefits of
India’s liberalization have been restricted to the 300 million that make up India’s middle class. The burdens of debt, and poverty remain an ongoing problem that is increasingly becoming disconnected from the globalization process. In other nations of the underdeveloped world like Nepal for example, globalization is a superficial phenomenon that brings a degree of materialism for the benefit of the ruling class. For the majority, globalization has translated into a failure in democracy, worsening economic conditions and an ongoing political insurgency.

The literature on globalization tends to hold a strong Western bias and the major issues of the Third World (debt, poverty and political uncertainty) are generally put on the backburner. If the issues of environmental degradation, cultural and political impacts are considered seriously, the problem becomes more complex. An irony of present day globalization is that even with privatization and liberalization being in effect for sometime, globalization has accentuated the problems of graft, abuse of political authority and corruption with an unprecedented vengeance in many parts of the Third World.

Despite the various debates and theories, it needs to be pointed out that what is absent in the academic literature is a holism through the conceptual integration of the social sciences. Thus, while the economist may wholeheartedly support globalization, the political scientist may ambivalently question it and the sociologist will probably attack globalization. This is perhaps due to the lack of universalism in the body of knowledge related to globalization. This dilemma has profound social, political and economic implications for the global South, especially in consideration of the growing levels of inequity between the North and the South.
Chapter Summaries

The chapters in this research are organized as follows: Chapter One is divided into two parts. Part One defines the goals for this research and lays out the framework for the globalization process pointing out the imbalances of the North-South definition. In Part Two, the author introduces the main players and actors and goes on to discuss the various processes and institution that facilitate the globalization process, pointing out the North – South disparities arising from the world trade system.

Chapter Two is a review of the literature; various definitions of globalization are introduces and the literature on numerous aspects of the globalization process is discussed.

Chapter Three outlines the manifestations of the globalization process in terms of the negative effects on the South. It looks into the issues of interdependence, inequity, markets, debt and the environment, employment and consumerism.

Chapter Four critiques the dependency paradigm and questions its relevance and application in the changing global atmosphere of free markets and trade.

Chapter Five and Chapter Six essentially are the case study on India. Chapter Six reviews India’s economic and political history since Independence and the subsequent opening up of markets in the early 1990s. It also outlines India’s infrastructural needs in terms of FDI and lays out the government’s best case scenario that attempts to make a case for the benefits of globalization. Chapter Six deals with the ground reality and is a
detailed look at the stark and growing differences between the small minority and the poor majority of India. The chapter looks at many aspects of what’s lacking in terms of agriculture, education, healthcare, worker protection, environmental neglect, population and employment.

Chapter Seven titled “The South’s Future” reviews some major issues for the South in terms of poverty, debt, dependency and the environment. It also questions the nature of the North’s help in alleviating these problems. The role of MNCs, the growing need for oil in Southern economies (to keep pace with technology) and the question of balancing opportunity and equity for the South is also discussed.

Chapter Eight, the final chapter seeks to look at a new direction for the South, exploring concepts like de-globalization. It calls for more inclusion in the world system and a need for good governance for Southern governments. It foresees an urgent need for global awareness and action for a sustainable and equitable future.

**Conclusions**

Global politics is critical to the development of many Southern nations, the battle against poverty and to a more “fair and just” global economy. With globalization being increasingly associated with market capitalism, the debate continues on its merits and demerits, especially for poorer nations. On one side of the debate are mainstream economists, the United Nations, the World Bank-IMF, most central banks of many nations, that argue for globalization. On the other side are social activists, members of not-for-profit groups, environmentalists, and many intellectuals for whom the issue seems self evident – globalization may be good for the rich, but it is bad news for the
poor in the developing world. In short, they believe that countries caught in an “institutional poverty trap” will not benefit from a global market.

The most important and most unique feature of the globalization process is the “globalization” of national policies and policy-making mechanisms. National policies (economic, social, cultural and technological) have increasingly come under the influence of international agencies and processes (including MNCs and financial players) that has narrowed the ability of governments and people to determine their national policies.

The fears in the developing South relate to worries over the threats of neo-colonization, migration, loss of sovereignty, worsening inequality, increasing poverty and the many setbacks to development. If democracy and markets are the twin pillars to world peace and prosperity, then it becomes absolutely essential to introduce a degree of universalism in assessing the imbalances of globalization.
PART TWO

The use of the term “third world” to refer to the largest portion of the globe’s people dates back to the 1950s in France. It is a pun, based on terms used to describe the three social classes that had political authority in the “ancien regime” of pre-revolutionary France. The first estate consisted of the Lords Spiritual (clergy), the second estate were the Lords Temporal (nobility) and the third estate the bourgeoisie (commercial class).

In 18th century France, the term third estate or “tiers etat” became a revolutionary slogan and the French Revolution resulted in the transfer of power from the oligarchy to the third estate.

Alfred Sauvy and other French intellectuals, in viewing the global forces emerging after World War Two, coined the term “tiers monde” or third world. It connoted the majority, the dispossessed, and the excluded. Revolutionary theorists like Jean Paul Satre and Frantz Fanon made the term a banner of the hungry and the oppressed. The pun is striking. The term represented opposition, struggle, tension – a world excluded, subject to the rule of foreign powers (Adams, 1993).

The term called for change, equality and liberty for all who did not have it. It set up an opposition between the rulers and the ruled. It drew attention to colonialism and its modern day counterpart in a world of oppression and inequality.

Over the years, the meaning of the term has softened and taken on the connotation of “non-alignment”. A conference of 29 non-aligned nations in Bandung, Indonesia, in
1955 used third world to mean the newly emergent nations of Asia, Africa and Latin America that were newly independent. They opted not to align with the first-Western-capitalistic world or the second- Eastern- communist world (Grugel; Hout, 1998).

In due course, the term lost its meaning of opposition and became more of a neutral term. The term however, cannot be completely neutral because its origins are revolutionary. It implies an opposition between rich and poor carrying with it a hope for change. For the most part, the hopes that are inherent in the term have not been fulfilled. At the dawn of the 21st century, the people of the Asia, the Middle East, Africa and Latin America have stayed way behind the people of the rich industrialized North in terms of standard of living and political power.

**The Global South:**

The use of the term “South” to refer to developing countries collectively has been part of the shorthand of international relations since the 1970s. It rests on the fact that all of the world’s industrially developed countries (with the exception of New Zealand and Australia) lie to the North of these developing countries. The term does not imply that all developing countries are similar but it does highlight the vulnerabilities and challenges that these countries share. The Global South consists of 148 nations; 50 nations in Africa, 6 nations in North Africa; 24 nations in Asia; 8 nations in Central Asia, 14 nations in West Asia, 11 nations in the Pacific Islands; 19 nations in Latin America and 16 nations in the Caribbean (Grugel; Hout, 1998).
The Extent of World Poverty:

The third world today covers an entire spectrum of cultures, religions and ways of life. In a more specific way, the North-South division of the world is a division based on power, wealth and technology. The global South, more or less, represents the third world as does the G-120. The most outstanding characteristic that distinguishes North from South is widespread poverty.

Poverty is multidimensional. It can be absolute or relative. Absolute poverty is a standard of living so pressing that it brings with it life threatening malnutrition and disease. The UNDP has estimated the absolute number of people living in poverty in several ways. The most obvious is simply the lack of any income. Using the $1 a day standard, the UNDP estimates that about 1.2 billion people (or one quarter of the population of the South) are poor. This figure has barely changed since 1990.

Other attributes of poverty include low life expectancy, adult illiteracy, underweight children, inadequate housing, child labour, food insecurity, lack of safe drinking water, health services and sanitation. There is a very thin line between the poor and the near-poor which makes most estimates inaccurate. The prevalence of poverty in the world is massive. More than 70% of the world’s poor are from Asia and most (almost three fourths) live in rural areas (UNDP, 2001).

Poverty however, is not restricted to the most desperate stratum of human beings – there is also relative poverty in the world. Relative poverty is found in every nation in the world including two of the most prosperous G-8 nations, the U.K. and the U.S. where
around 15% of the population lives on less than US $ 11 a day (UNDP, 2001). These are desperately poor people, even though their income is greater than that of the typical person in Asia or Africa.

The third world and poverty are both terms of relationship. The third world is the world excluded from power. The poor are the people on the bottom who are denied any benefits from society.

Not everyone in the third world is poor; there is a growing middle class strata and increasing pockets of luxury with all the trimmings and trappings of the first world. These benefits of globalization are restricted to a tiny minority. Nonetheless, this has helped create a wonderful myth – the myth of growing prosperity in the South.

The reality is staggering. In Switzerland, the average income per person is US $ 36, 970, in the States, it is US $ 34, 870 and in Britain, it is US $ 24, 230. In the South, the poorest 40 nations with half the world’s population has an average income of US $ 430 or about 1% of the income of the richest nations. Thus the one feature shared by all the world’s poor is insecurity (Dowlah, 2004).

**What is Economic Development?**

Economic development is a complex process. Part of economic development is simply economic growth, which can be measured by changes in gross domestic product. GDP is a measure of output and by conventional accounting standards is identical to income.
GDP per person is a measure of average income or average standard of living. Economic development includes more than just growth in output. The most serious deficiency in GDP as an index of development is the fact that almost nobody in any given country receives the average income. Some get less, some more. If the living standard of the majority of the people in a country is stagnating, it hardly matters if their country’s average income is growing (Hoekman and Kostecki, 2001).

There are numerous examples of economic changes that have increased the average GDP but at the same time have impoverished the majority of the people, and can hardly be classified as economic development.

So why is the income gap between North and South widening? Why does the international system fail to close the gap? Why is the South in political retreat? What is the future of the developing world? Today’s policy prescriptions have severe limitations and the widening North-South gap poses a menace to the stability of the world order.

In a world of revolutions in technology, transport and communication, the growing disparity between rich and poor countries is a striking feature of life in the present day. Earlier time had seen the emergence of great states and empires in Egypt, India, China, the Americas and the Mediterranean, among others. The wealth of these states was however, based on traditional production methods that did not plan for dynamic long-term growth.

The pre-industrial European expansion and accumulation of wealth came with the exploitation of the backward peoples of Asia, Africa and the Americas. It was with the
coming of the Industrial Revolution in 18th century England that modern economic
growth combining technological innovation, capital accumulation, economic
transformation and income growth became one dynamic process.

The end of World War Two saw the establishment of an array of institutions for
international trade and economic cooperation never before seen. However, these
institutions did not play their intended role and instead of providing a general framework
of conduct for relations among all nations, they were largely converted into instruments
for conducting North-South relations.

The issue on which the most sustained effort was to be expected and the fiercest battles
fought during the initial phase of North-South dialogue, concerned the question of
development financing. The newly independent states saw this issue on which they had
a strong case on moral and economic grounds as crucial and pushed hard for the UN to
approve a development financing ability to meet their needs (Raffer and Singer, 2002).

**The Main Issues of the Post World War Two Development Era:**

The focus was essentially on three issues: technical assistance, development finance and
commodity prices. Provision of technical assistance was one of the first issues to be
stressed and promoted in the UN as a means of promoting economic development in
underdeveloped nations. These objectives were particularly important to the US that had
largely been excluded from the European colonial territories in Africa, Asia and the
Middle East. The US took the lead in promoting the concept of technical assistance, first
as the Point Four Program by President Truman and later in promoting UN technical
assistance.
In development finance, the debates of the 1950s had two aspects: one was whether such finance was to be made available as grants or “soft loans” and the other concerned the institutional arrangements for administering such loans. US interests were met by pressure on the UN for a two-pronged approach: 1). The creation of a special fund for technical assistance 2). The development of a World Bank based financial institution (the IDA) to perform the soft loan function (Adams, 1993).

The lack of cohesion among advanced nations in responding to the demands of the underdeveloped world reflected some peculiarities of the period. The US emerged as the world’s dominant financial and economic power as the European nations were just emerging from financial dependence on the US and were seen as underdogs. These ex-colonial powers probably felt a responsibility for promoting economic development and welfare in the newly independent nations. However, the scene was set for confrontation and dialogue in the 1960s (Raffer and Singer, 2002).

A number of developments in the late 1950s and early 1960s contributed to a change in climate that nurtured a trend towards confrontation between North and South. The South was able to press for demands for policy changes in a manner that forced the North to engage in serious dialogue and make some serious concessions.

What was achieved in terms of North-South relations? For the developing world, the achievement was one of promise than of concrete results. In terms of concrete measures, the only real result achieved was a basic outline for their demands; very little substance was attained. Nonetheless, this was a step ahead for it reflected the willingness of the
North to look into the demands and attempts to make concessions, as long as they did not interfere with the vested interests of the North.

North-South confrontation and dialogue took centre stage in the 1970s when a series of phenomena shook the North out of its complacency, seriously shaking its confidence in its ability to master and control the international economy. These developments according to Raffer and Singer (2002) took place on three fronts:

1. Exchange rates (with the abandonment of the Bretton Woods system of fixed exchange rates).
2. Oil (with the skyrocketing of oil prices in late 1973).
3. Raw materials (with the increase in commodity prices and growing inflation in developed nations).

Notwithstanding the great fanfare, little had been achieved in terms of concessions to the South. In retrospect, it seems clear that the newfound strength of the South with the launching of the oil weapon and raw materials crisis was greatly exaggerated on all sides. These problems were seen as temporary setbacks by the US and its allies for they quickly took measures to rectify the situation. Their response was to distinguish between long and short term goals. Short term goals included the balancing of the growing deficit of payments and the long term goal was to economize the consumption of energy (mainly petroleum) and to find new sources of energy (Adams, 1993).

Given these circumstances, developing nations found it increasingly difficult to have their demands met and it became impossible for them to force any systemic changes on the unwilling North.
The 1980s experienced a different shift in the orientation of economic thinking as a result of the aftermath of the breakdown of the economic policy consensus after two decades of uninterrupted growth in the North.

The gradual build up of the 1950s was followed by the organized pressures of the 1960s that led to the dramatic confrontations of the 1970s. The big business, free market and free enterprise philosophy held sway with the coming of the ultra conservatives to power and this went against the grain of Southern demands.

Over the years, ever since its coming into existence in 1964 (against bitter opposition by the US and its allies), UNCTAD had been a symbol of the developing countries’ determination to press for change. The hard line market oriented North (especially Germany, US and Japan) barely tolerated UNCTAD (Adams, 1993).

The developed North led an aggressive campaign to rein back and neutralize UNCTAD. Thereafter, UNCTAD was forced to operate within the parameters laid down by the US and its allies. Confrontation from the South was not acceptable and rigid controls were placed on commodity programs, international monetary issues and debt. The locus of action was transferred to the more acceptable GATT.

Another indicator of the dramatic changes in North-South changes was the initiative by the North in the 1980s to define the international agenda. The Rio Summit was a clear example of the North on the defensive and dragging its feet on issues considered to be important by the South. There was for instance, the growing concern about problems of waste disposal from industry, petro and nuclear plants. Additionally, concern was
focused on degrading rivers, oceans and waterways. There was also the growing concern about the global environment with the expanding rate of fossil fuel use.

The North could not just ignore these issues and the Bruntland Commission resulted. The concept of sustainable development was introduced, whatever its exact meaning, it caught the fancy of policymakers in the North. The phrase evidently filled a useful role for policymakers to deflect the attention of environmentalists from the need for radical solutions they had in mind (Raffer and Singer, 2002).

By shifting the emphasis from growth to development, policymakers shifted the spotlight away from industrialized countries. Hence, with this slight change, the problem was redefined and the North no longer was the main culprit. Rather, the developing countries, for whom “development” was such an important issue, stood by as the co-accused.

The North in its path to over consumption, bearing the main responsibility for the bulk of industrial damage to the environment, shifted the focus to the question of poverty. Poverty was increasingly linked to environmental degradation through population growth, soil erosion, the clearing of forests, etc. It was along this line of reasoning that the environmental issue was globalized and the idea of a common heritage of mankind was formulated. Not surprisingly, the governments of developing countries were very wary of this new twist in the environmental debate and did not want to be seen as the co-accused.
The meaning of sustainable development had a sinister and troubling aspect lying just below the surface. This was clearly articulated by Gamani Corea, the former Secretary General of UNCTAD in a lecture delivered in Manila in April 1991. To pinpoint the idea behind sustainable development he cited examples of “unsustainable development” and asked whether the development models of France, Germany, US, UK, Japan, etc. were appropriate examples of sustainable development. The same model applied to the rest of the world, would prove to be disastrous because of the limited carrying capacity of the planet. If the 4 billion plus living in the South were to acquire the same living standards as the 800 million plus in the North, the planet would in all likelihood, collapse.

Thus, sustainable development applied only to the rich North and to keep the planet sustainable, the South would have to remain poor, to save the planet. This essential contradiction is hidden under the surface of the environmental debate (Winters, 2006).

All of these issues have come to gain an unprecedented amount of significance as the growth of world trade and the globalization process have forced southern nations to reassess their positioning in the international system (Winters, 2006).

**The Globalization Phenomenon**

Although “globalization” has been championed as the winning paradigm for the 21st century, it inevitably creates some major disadvantages for those unable to participate in the global economic system. Participation is largely defined by a nation’s capacity to engage in free trade. What are the consequences of such a system and moreover, how do nations respond to the notion of “free trade”? Given the inherent differences among
nations in the historical, economic and socio-political arenas, globalization influences
the development trajectory of nations in very specific ways. This is especially true for
the developing nations, where the notion of free trade has added a new dimension to
their generally chaotic economic structures (Debroy and Chakraborty, 2005).

Globalization presents new opportunities for developing countries but also cloaks new
risks for them. There is now a common consensus that globalization draws unhealthy
lines between governments, regions and social groups, creating winners and losers.
Since the WTO came into being in 1995, barriers to trade have been further reduced but
the benefits derived from international trade are not universal. This international
competition holds the gravest risks for the poorest developing countries (Agarwal,
1998).

A commonly held view is that Asia is winning and Africa is losing in the international
marketplace, although evidence suggests otherwise. For example, even in countries with
notable growth like India, the masses have hardly realized any advantages from
globalization. Most of India’s poor (between 200-400 million people) have remained
poor. Thus, there is a large degree of agreement on the direct impacts of globalization
and deep disagreement on its causes and objectives. In economic terms, countries that
are unable to “adjust” successfully become welfare states.

The WTO naturally becomes the point of departure for any serious consideration of the
kinds of interactions necessitated by free trade. A clear division that the WTO engenders
by its very structure is the North-South divide (Wilkinson, 2006) and the G-8 (coalition
of the richest industrialized nations) and the G-77 (a misnomer for the group of 120
nations that represent the developing world) are the main players. A better understanding of the WTO and its “modus operandi” would certainly be in order and it will also provide a point of reference for the sections that follow. However, before examining the workings of the WTO, I will seek to define the nature of the problem at hand.

The Problem With Free Trade

One of the processes that caused the surge of globalization was GATT’s Uruguay Round trade negotiations in 1986. Unlike the old GATT, the WTO is not just an agreement to liberalize trade by general reductions on tariffs and the dismantling of trade barriers. It goes beyond dealing with trade in manufactured goods, covering other sectors like patent and intellectual property rights (the TRIPS agreement), trade related investment measures (the TRIMS agreement) and the service sector.

The erosion of preferential tariffs sets back the least developed nations from their competitive position in the world market. This causes them to focus more on export goods suited to global competition. Nevertheless, the so-called “tariff escalation” (the increase in tariffs in line with the degree of a product’s processing) continues to exist. At the same time, important sectors such as agro-products, textiles and clothing are exempted from GPS (General Preference System) privileges. During the Uruguay Round, the developing countries led by the Group of 77 pointed out these disparities (Das, 1999; Chakravarthi, 1999).

In addition, the pressing problems of developing nations’ external debt, the continued deterioration of exchange terms and the resulting poverty were among the many issues
discussed at Marrakesh, Morocco, where the G-77’s 120 members gathered. The G-77 Declaration pleaded for the settlement of external debt that slows economic growth. The total debt amounts to 1.95 trillion dollars while the total development assistance is some 45 billion according to a Brussels based campaign for the cancellation of external debt. The G-77 has also called for international solidarity to eradicate poverty and prevent the further marginalization of women, children and above all, the environment. The Group has further stressed the need for a more coherent multilateral system by opening up the decision making process and the provision of new strategies to ensure better integration into the new economic order (Das, 1998).

According to UNCTAD, developing countries would have had to spend nearly 625 billion dollars between 1993 and 2000 to finance their transition to a sustainable development model. Of that amount, 500 billion was supposed to come from their own resources and the remaining 125 billion from multilateral financial groups. Obviously, this seems unfeasible and has not occurred. To better understand the above-discussed interactions, a look into the “dynamics” of the WTO seems absolutely necessary.

The WTO and Corporate Globalization

Established in Geneva in 1995, the WTO is a powerful global commerce agency, which transformed the General Agreement on Tariffs and Trade (GATT) into an enforceable global commercial code. The WTO is one of the main mechanisms of “corporate globalization”. Under the WTO’s system of corporate managed trade, economic efficiency, reflected in short-run corporate profits, dominates other values (“What is the WTO?” 1997, wto.org). Decisions affecting the economy are confined to the private sector, while social and environmental costs are borne by the public. This system
sidelines environmental rules, health safeguards and labor standards to provide TNCs with a cheap supply of labor and natural resources. The WTO also guarantees corporate access to foreign markets without requiring TNCs to respect domestic policies (“What is the WTO?” 1997, wto.org).

Currently there are 134 member countries in the WTO and 33 nations with observer status. Officially, decisions in the WTO are made by voting or by reaching a common consensus. However, the G-8, especially the so-called “Quad” countries (U.S., Canada, Japan and the EU) repeatedly make decisions in closed meetings, excluding others. This lack of a democratic process or accountable decision-making is epitomized by the WTO’s Dispute Settlement Process (Public Citizen’s Global Trade Watch, Washington D.C., 1999). The WTO allows countries to challenge each other’s laws and regulations as violations of WTO rules (barriers to free trade). Cases are decided by a panel of three trade bureaucrats who often have little appreciation of domestic law or of government responsibility to protect workers, the environment or human rights. Not surprisingly, every single environmental or public health law challenged at the WTO has been ruled illegal (Citizen’s Guide to WTO, July 1999).

WTO tribunals operate in secret and documents, briefs and hearings are confidential. Once a final ruling is issued, losing countries have a set time to implement one of three choices: 1) change their law to conform to WTO requirements 2) pay permanent compensation to the winning country 3) face non-negotiated trade sanctions. The U.S. official position is that laws must be changed to comply with WTO policy (Public Citizen’s Global Trade Watch, Washington D.C., 1999).
When the WTO was created, concerned citizens and public interest organizations warned that the combination of the WTO’s pro-industry policy and powerful enforcement would pose a threat to laws protecting workers, consumers and the environment. Ten years later, there is a clear record: the cases settled under WTO rules show the WTO’s bias against public interest (Jawara and Kwa, 2004). I will use the following two examples to better illustrate my point and the WTO’s record in terms of public policy.

1) The Clean Air Case:-

**Case:** On behalf of its oil industry, Venezuela challenged a U.S. Clean Air Act regulation that required oil refineries to produce cleaner gasoline. The rule used the 1990 actual performance data of oil refineries required to be filed with the EPA (for U.S. refineries) as the starting point for required improvements for refineries lacking reliable data (mostly non-U.S.). Venezuela claimed this rule was biased against foreign refiners and took the case to the WTO.

**Result:** A WTO panel ruled against the U.S. law and in 1997 the EPA changed the rules to give foreign refineries the choice of using an individual baseline. The EPA acknowledged that the change “creates a potential for adverse environmental impact”.

**Implication:** Refineries from Venezuela and elsewhere will use the individual baseline option if it gives them an “opening”, and will therefore sell “dirtier” gasoline, which deteriorates air quality (Das, 1999).

2) The Caribbean Banana Case:-

**Case:** The U.S. argued that European trade preferences for bananas from former colonies in the Caribbean unfairly discriminates against bananas grown by U.S. companies in Central America.
**Result:** In 1997, a WTO panel decided that European preferences for Caribbean bananas are “WTO-illegal”. The EU proposed a new policy that the U.S. claims still violated WTO rules. The U.S. was granted authority by the WTO to impose $200 million in trade sanctions against EU imports until the EU changed its policy to suit the WTO demands (Das, 1999).

**Implication:** The Caribbean’s tiny share of the EU market for bananas is the major source of revenue and jobs in some Caribbean nations where mountainous terrain rules out other crops. If the EU does not comply with the WTO, some 200,000 small farmers in some very poor countries could lose their livelihoods. Officials in small Caribbean nations worry that implementation of the WTO ruling will destabilize their economies and democracies. It was also noted that the policy change could make these nations more vulnerable to drug trafficking.

**The WTO Ministerial Meetings**

Rich and poor nations in the WTO are still at odds as the 147 member states are still trying to revive crucial talks on dismantling trade barriers. The slippery road to the recent (2004) talks in Geneva has seen several obstacles. In August 1986, at the inaugural meeting of trade ministers from agriculture exporting nations in Cairns, an agreement was reached to raise agricultural issues at multilateral trade negotiations. In September of the same year, the Uruguay round of talks was held in Montevideo. In 1994, the Uruguay round of talks ended with the agreement to establish the WTO. In December 1996 the WTO Ministers met in Singapore and agreed that future trade should include competition, government procurement, trade facilitation and investment. In December 1999, the trade talks in Seattle failed to reach agreement on a new round of talks due to a dispute between the US and the EU (on the scope of trade). In November
2001, the Ministerial meeting in Doha, Qatar, held in the shadow of the September 11th attacks, reached an agreement on a new round of talks. In September 2003, the meeting in Cancun, Mexico, collapsed on account of developing countries’ objections to issues from the Singapore round of talks. Finally, in July 2004, the General Council meeting in Geneva tried to agree on a framework with limited success.

At the conclusion of the Uruguay Round of talks in 1994, developing nations were promised they would experience major gains as industrialized nations lowered and eliminated tariffs on certain items and cut agricultural subsidies that enabled them to dominate world markets. Yet, contrary to this rosy scenario, the share of the pie for most of the developing world got smaller, their exports fell, deregulation (under the IMF’s policies) caused declines in growth rates and levels of inequity substantially increased. While the world’s largest corporations generated record earnings, income inequality between and within countries increased. Many accuse the Uruguay Round of promoting “economic re-colonization” of developing nations (Korten, 2001).

The Uruguay Round and the WTO have failed the most conservative of tests – to do no further damage. Instead, the key areas of public health, enforcement protection, economic development and food security conditions have seriously deteriorated as a result of WTO rules.

The WTO has had wide ranging impacts on jobs, wages, livelihoods and on international and domestic environmental, health and food safety protection, as well as human rights, global trade and investment. The WTO is not just about trade and economic trends.
Rather, it serves to comprehensively redesign international and local law, policies, culture and values (Jawara and Kwa, 2004).

**A Few Specifics From The WTO’s Agenda**

**The Agreement On Agriculture:**-

The Uruguay Round Agreement on Agriculture set rules in the international food trade and on domestic agricultural policy. These rules have accelerated the rapid concentration of agribusiness and undercut the ability of poorer countries to maintain food self-sufficiency through subsistence agriculture. The agreement assumes that rather than being self-sufficient in food, countries will buy food in international markets using money earned from exports (Rege, 1999). However, many LDCs face low commodity prices for their limited range of exports. During the WTO’s first four years, the prices of agricultural commodities fell to record lows, while food prices remained high. This system can hurt both farmers and consumers, paving the way for TNCs to dominate markets, especially in poor countries. A small handful of countries trade virtually all the world’s corn, wheat and soybeans holding a monopoly both in the farm supply industry and the food processing and distribution systems (Rege, 1999).

**MAI in the WTO:**-

The Multilateral Agreement on Investment (MAI) aimed to set strict global rules limiting governments’ ability to regulate currency speculation, investment in land, factories, services, stocks and more. It was negotiated in secret for two years in the OECD (Organization for Economic Cooperation and Development), a club of 29 of the world’s richest nations. Negotiations were pushed by TNCs and major business lobbies worldwide. In 1997, the deal started to unravel when activists exposed the potential corporate power grab. By December 1998, the OECD ceased negotiations but there is
currently a move led by the EU, towards incorporating the MAI in the WTO (Citizen’s Guide to WTO, 1999).

The MAI has the potential to:

1). Forbid the consideration of (country or company) human rights and labor and environmental requirements as investment criteria.

2). Prevent governments from promoting local economic development by granting TNCs absolute rights to enter markets.

3). Ban certain investment conditions such as hiring local workers.

4). Forbid regulation of “hot money” speculation – the cause of the Asian financial crisis.

The MAI even included provisions to empower foreign corporations to sue national governments in MAI tribunals for monetary compensation if government policies undercut their future profits (Das, 1999).

**The G-8 Position**

The G-8 represents the major force behind the liberalized trading regime and although there are differences in trade vision and policy among members there is also a common strategy in formulating priorities beneficial to the G-8. The common position calls for the following.

1). The momentum towards globalization of the world economy must be maintained.

2). International trade and investment rules must eliminate all barriers to trade.

3). The WTO must define trade in broad, rather than narrow, terms, so that it encompasses comprehensive economic issues of international transaction.

4). The WTO must stand as an adjudicating power on contested trade issues.

5). The WTO must respond to the concerns of a global civil society.
There are subtle differences within the G-8 and a few are worth noting. The U.S. and Japan do not, for example, agree on the definition of “monopoly” and “competitive markets”. The Japanese assert that “monopoly” is the domination of one firm in the market such that it runs counter to socially beneficial market interactions – which implies competitive prices. The U.S. defines monopoly as the simple lack of competition amongst firms in the marketplace. Thus, even though both nations call for global competition, the definition of the same differs remarkably (USTR, 1999).

There are some sticking points between the U.S. and the EU as well. For instance, the U.S. supports the adjudication of trade issues (especially in agriculture and pharmaceuticals) based on scientific standards. The EU calls for a body that can address trade issues for products on which there is insufficient scientific evidence. Likewise, while both trading powers support a comprehensive process of negotiation, the EU also calls for the inclusion of language that will preserve cultural heritage – an anathema to the U.S., which argues that the WTO should further trade in the service and entertainment sectors.

All of the G-8 nations propagate the notion that the WTO is the logical step towards the liberalization of the global economy for the benefit of all nations. They insinuate that opposition to this process will lead to protectionism that would stifle economic growth and prosperity (Hoekman and Kostecki, 2001).
The G-77 and the Debt Crisis

In addition to the long list of economic, social, cultural and geographical drawbacks, the biggest burden on the nations of the developing world has been the problem of external debt. The activities of the World Bank and IMF precede the WTO and free trade and are interwoven into the areas of dependency and international development. Any analysis of the G-77, free trade or globalization would be incomplete without including these institutions whose activities have generated much chaos and misery for the common masses of the developing world (Escobar, 1994).

The problem of external debt provides a good example of the impact of international forces on the development trajectory of LDCs (Hertz, 2006). One of the most significant problems that LDCs have faced is the balance of payments deficit, when the cost of imports exceeds the revenues earned from exports. A good part of that deficit is the result of the deteriorating terms of trade where the average price of a nation’s exports is less than the cost of its imports. A number of factors (in the 70s) contributed to this problem. Firstly, the rising oil prices resulting from the actions of OPEC put a huge strain on oil importing countries. Secondly, in the mid 70s the core of capitalist nations suffered from economic crises and recession which reduced the demand for exports from LDCs. Thirdly, as the economic conditions worsened in core nations and unemployment increased, various trade restrictions were placed on the import of goods from other countries, including LDCs. These factors were together responsible for rising import costs, declining exports and widespread balance of payments’ deficits. LDCs at this time also saw an increased state involvement in their economies and central planning became dominant. The absence of local capitalists and excessive reliance on
foreign investments caused an increase in public sector projects. These were supported by borrowed funds from commercial banks as well as from private banks. The increased flow of OPEC “petrodollars” caused commercial banks to find more borrowers and shift to an emphasis on the money market. For LDCs, the balance of payments created a severe “Catch-22” with a combination of debt obligations and minimal export revenues.

**Structural Adjustment Programs And Their Impacts**

As the threat of default increased for countries, many turned to the World Bank and IMF for credit and loans. The IMF obliged but also imposed “stabilization” or “austerity” measures in exchange for their loans. These measures caused the borrowing nations to adopt Structural Adjustment Programs (SAPs) and this remains the most controversial aspect of the IMF’s role. SAPs required the following.

1) **Currency De-valuations:** to make exports cheaper and imports more expensive.

2) **General Reduction In Government Spending & Intervention:** to favor “laissez faire” market conditions.

3) **Anti-Inflationary Policies:** that tend to bring on recessionary economic conditions.

4) **Privatization of Public Enterprises:** to generate revenue.

5) **Elimination of Barriers to the Free Flow of Goods and Foreign Investment:** to allow greater investment opportunities for MNCs.

6) **Implement Wage Controls and Restraints.**

7) **Elimination of Subsidies on Food, Transportation and Housing:** to reduce the role of government and government spending. (Jaffee, 1998).

Under these conditions, the urban poor and working classes have paid the highest price while business oriented for export, foreign investors, MNCs and the agricultural sector
for cash crops have been the greatest maximizers (Jaffee, 1998). The impacts of these policies on LDCs’ economies have had adverse political consequences with governments resorting to authoritarianism to handle the resistance generated by these harsh policies.

The IMF stabilization programs rest on the assumption that LDCs’ economic difficulties result from inadequate domestic economic policies (Jaffee, 1998). This assumption largely ignores the impact of international level dynamics beyond the control of national governments. Therefore, the G-77 Debt Crisis cannot be viewed as a “solely” national problem but rather as a crisis involving several actors and factors. While inflicting terrible hardships on the majority, the debt crisis does not really affect the “elites” of the developing world. Ironically, the masses in the South, that sacrifice the most, remain largely ignorant of these reasons for their plight. In the North, knowledge of the debt crisis is on the rise, triggered in part by the efforts of environmental and human rights groups and also by a growing awareness about the negative impacts of free trade on the global environment.

Third World Debt

In the 60s and 70s, third world debt was largely incurred by corrupt unaccountable regimes. Many loans were officially targeted towards large, wasteful infrastructure projects, but the money often went into the pockets of the people surrounding the regime leaders, eventually ending up in Swiss Bank accounts. Third World Debt is administered by the IMF and World Bank which are largely controlled by the G-8 governments. Since the liberalization of these institutions during the Reagan-Thatcher era, the role of the
state in third world nations was reduced and the role of private sector investment increased.

By the early 1990s, while the IMF and World Bank claimed to help third world nations develop and get out of debt most of their clients remained underdeveloped and fell into deeper debt. By the mid 1990s the gap between rich and poor nations had almost doubled (from the 1960s). Today, the top 20% of the world’s population controls more than 80% of the world’s wealth, while the bottom 20% controls only about 1% (Peet, Born, Feher and Feinstein, 2003). Debt payments usually amount to far more than new aid or foreign investment from rich to poor nations. A study conducted by the Center for Economic and Policy Research suggests that the SAPs have actually impaired economic growth rates.

In its 2001 annual edition of Global Economic Perspectives and the Developing Countries, the World Bank has pointed out one of the largest hypocrisies of global trading. The rich countries maintain high levels of trade barriers and subsidies for their own protection but force Third World governments to remove barriers and subsidies that support their industries. The effects of this hypocrisy have been disastrous.

Criticism of the IMF and World Bank gained political momentum in the late 1990s when groups such as the Jubilee USA Network, Oxfam International, and the 50 Years Is Enough Network successfully campaigned to put debt relief on the public agenda.

A possible solution was suggested by the UNDP 1992 Report that proposed control of the World Bank-IMF through a special UN agency. The power of the G-8 undermines
the strength of this strategy. Another avenue is for people and countries to force change on these institutions by confronting them with evidence of gross injustice, inequities and contradictions. This seems the most possible strategy and its relative success has been proved by the not so distant events in Seattle, and more recently at the World Bank-IMF talks in Washington D.C.

Other suggestions include implementing the various Articles of Agreement in the constitutions of the World Bank and IMF that would improve the conditions of LDCs. The creation of a People’s Parliament within the IMF structure could help democratize the IMF. (Davison, Budhoo in Danaher, K 1994). Above all, since free trade has become the net focus of global economic restructuring and since LDCs have to try and compete in the international marketplace to survive, the WTO would be the most obvious area of major reform and policy intervention. The need to level the playing field for LDCs to benefit from free trade is the first step. The G-8 needs to seriously consider the impacts of debt servicing and SAPs on the masses of the Third World, from a humanitarian point of view. Persistently marginalizing the poor can eventually have disastrous effects on the entire world community. This has been pointed out by Susan George (1994) in what she calls “the six boomerangs” (the environment, drugs, taxes, unemployment, immigration and conflict).

Proposed Solutions for the G-77’s Problems With Free Trade

Since developing countries account for three-fourths of the WTO membership, it is essential that they derive concrete benefits from WTO negotiations. If the credibility of the WTO as a multilateral institution is to be maintained, the solutions to trading problems would require a comprehensive strategy that would incorporate the following.
(1) Upfront Commitments to Level the Playing Field:-- Developed countries will have to demonstrate their political will to pursue a more equitable distribution of the benefits of International Trade. Some applicable strategies would need to consider -
1). Impact Assessments:- Resources must be committed to lessening inequalities in relation to poorer communities and their environments.

2). Increased Market Access For the Poorest Countries:- In line with the EU’s proposals, all industrialized nations should make binding commitments to provide zero-tariff access to exports for the 48 poorest nations by 2003. This would also include reducing non-tariff barriers. The costs of these concessions would be minimal for developed nations.

(2) Revision of the Existing Agreements to Promote Poverty Reduction:-- WTO members have a prior commitment to review existing agreements on agriculture, services, intellectual property and trade related investment measures. In addition, certain areas like textiles, “special and differential treatment” for LDCs and overall market access should be reformed as well. (Oxfam Policy Paper, August,1999).

These measures can be summarized as follows –
1). Developed countries should make commitments to assess the impact of trade liberalization on poverty to improve market access for poor nations.

2). Existing WTO Agreements need revision to increase market access for LDCs.

3). WTO Agreements should allow LDC governments greater freedom to pursue policies consistent with national development strategies and poverty reduction goals.

4). WTO members should have a development-focussed agenda for negotiations that does not include international investment rules, government purchasing or competition.

5). WTO reforms should enhance participation by LDC members and accountability to the general public.
Analysis

For the G-77 or developing nations to realize the benefits of free trade, a reinvention of their “modus operandi” seems imminent. Long term planning strategies that maintain the balance between exports, sustainable development and external debt seem to be necessary. Despite the strategies outlined above, it is vital that the major initiatives come from developing countries themselves and that external aid is channeled towards an equitable mode of development. Developing countries also need to tend to their own back yards with a greater sense of purpose, keeping in mind the need for equity, efficiency, and consensus. A starting point in better realizing these objectives would certainly entail better governance and political stability. In the past, regional initiatives among G-77 members have had mixed results and the lack of political stability has grossly undermined such efforts. In the long run, the poorest LDCs seem to be the most “at risk”, verging on being categorized as the “fourth world”.

Trade is an increasingly powerful engine of economic growth, which under the right conditions can make an important contribution to poverty eradication and sustainable development. The challenge of identifying the conditions for positive effects on LDCs will require major reforms in WTO Agreements in the areas of international trade and equitable distribution.

Ironically, the gains of the free market, (for North or South) marginalizes many and, in addition, severely endangers the Earth’s environment. Along with participation, transparency and fair trade, sustainable development has emerged as a “catch all” phrase in the globalization process. What are the dynamics behind sustainable models and how
applicable are they, worldwide? In the frenzy created by free trade, what’s often forgotten is the fragility and decline of the global environment and the unprecedented changes the last 50-70 years have brought. With an increasing world population, depleting resources and a very damaged environment, the idea of sustainable development seems ridiculous given the overwhelming capacity and expansion of free trade. Yet, sustainable development has emerged as the panacea for the world’s developmental, environmental and trading woes. Southern governments often champion sustainable development (prompted by AID agencies) without any understanding of the phenomenon. A closer study reveals that the applicability of a truly sustainable model requires pre-conditions that require high levels of efficiency, resource management, and economic performance. Ironically, the most sustainable communities are often the centers of free trade, with enormous economic returns. At this juncture, it would be appropriate to explore the whole notion of sustainable development.

Sustainable Development as the Solution:  
Is it a Northern Phenomenon?

“Building a sustainable society does not mean reverting to a primitive existence” wrote Daniel D. Chiras, author of the 1992 book “Lessons From Nature”. “The challenge is to find a new synthesis that melds the wisdom of nature with human institutions and technologies and lifestyles”.

Despite the calls for a sustainable future, the workings of the WTO along with globalization, have ignored the need to addresses environmental abuse. For example, a community sustainability-monitoring group in the state of Washington reported – “We find that familiar measurements like GNP and unemployment, prime lending rate and
number of housing starts, give only a limited and distorted view that often does not reflect our experience of how the world really is. The Valdez oil spill, for example, resulted in an increase in GNP despite the devastation wrought upon the regional economy and ecology”. - The Olympia (Wash.) Report.

Ironically, the greatest movements for sustainability have formed in the very heart of an area that epitomizes the notion of free trade; Seattle, Washington. The now famous Sustainable Seattle study used 40 or so indicators to determine levels of sustainability. The following community sustainable principles were found to be necessary for a sustainable future.

1) Community sustainability requires social equity and community empowerment.
2) Community sustainability requires integrated land use designs and transportation systems.
3) Community sustainability requires a literate, well-trained workforce and a vibrant economy.
4) Community sustainability requires environmentally sound technologies.

(Izaak Walton League of America, 1998).

Even with these preconditions in place, the Sustainable Seattle indicators have shown little improvement in crucial areas like carbon emissions, consumption patterns (e.g. water and electricity), recycling of solid wastes, to name a few. Under these circumstances, LDCs, without the above prerequisites, hold absolutely no chance of adopting sustainable models in the near future (Rao, 2000).
A new UN Report (State of the Planet, 2000) examines five major categories of ecosystems, scoring them in terms of their sustainability and robustness. The results are far from encouraging for all five categories – Coastal/Marine Systems, Freshwater, Agricultural Lands, Grasslands and Forests. The implications for the environment’s well being are unsettling and the effects global.

Coastal/Marine Systems are currently rated as being average with the worst effects for the future anticipated in Southeast Asia. Water scarcity is becoming a worldwide phenomenon and countries like China and India are at greatest risk. More than 40% of the world’s agricultural land has been badly degraded and nutrient depletion and erosion spell disaster for areas like Latin America in the near future. The U.S. has lost almost all of its original grassland and elsewhere erosion and desertification are reducing what is left. Except for Russia and Canada, G-8 nations have cleared almost all of their original forest cover and the Pacific Rim is at greatest risk in this respect. (State of the Planet 2000 – UN Report).

Human progress has therefore occurred against a backdrop of transformed landscapes suited to the needs of agriculture and industry only. Halting the decline of the planet’s life support systems may be the most difficult challenge humanity has ever faced.

The “Earth Summit” in 1992 established sustainable development as the guiding vision for the development efforts of all countries. Governments agreed to formulate and implement national sustainable strategies that were expected to be highly participatory instruments intended “to ensure socially responsible economic development while protecting the resource base and the environment for the benefit of all generations”. The
Rio commitments were reaffirmed most recently in the United Nations Millennium Declaration.

Do countries agree on what is sustainable? The common consensus seems to be that there is no “one size fits all” approach to sustainable development. Each country must chart its own course, in line with its culture, history, social and economic priorities and prevailing institutions and political structures. The environmental challenges faced by different countries, which reflect geographical, climatic and ecological factors, are also very diverse and translate into differentiated constraints, opportunities and priorities. That is why there are so many interpretations of sustainable development. However, in the age of globalization, some critical sustainable development challenges are global. Preserving the global climate or ozone layer for example, requires local, national and international level cooperation among nations. Southern nations are especially at risk and the challenges to sustainable development in developing countries are numerous.

- Extreme poverty affects the lives of one out of five persons in the developing world.
- Political instability leading to violent conflict that hinders development and widens income inequalities.
- Environmental disasters continue to increase on account of the abuse of the resource base.
- The threat of climate change looms over Southern nations with the least developed nations at the most risk (although their current contribution to the problem is very small).
- Population growth is expected to exacerbate these pressures.
- HIV-AIDS and malaria are particularly serious diseases that erode the productive capacity and social fabric of nations.
Marginalization under the combined impact of slow economic growth, heavy external debt burdens, corruption and food insecurity increasingly remove poorer nations from the global economy (Winters, 2006).

What benefits will sustainable strategies bring for Southern nations? Many of the strategies entail additional cost and also the engagement of civil society and private sector stakeholders in planning and decision-making. These conditions are often financially unfeasible for most developing nations and the long term benefits are not easily anticipated. The development experiences of many Southern nations, over the years, have resulted in failures.

In countries with rapid economic growth, like China for example, the cost of globalizing has taken a substantial toll. Although China has witnessed the most dramatic burst of wealth in current human history, there has been a price to pay. Pollution is an inevitable consequence of development but in China’s case, it is reaching disastrous proportions. The World Bank estimates that China is home to 16 of the world’s 20 most polluted cities and calculates that pollution and environmental degradation together will cost China as much as $170 billion annually (The Economist, August 2004). Water and waste pollution are the most serious issues for China. China’s water resources (per head) are among the lowest in the world and around half the population (600 million people) have water supplies that are contaminated by animal and human waste. For used water, with a daily sewage rate of 3.7 billion tones, China would need 10,000 waste water treatment plants costing some $40 billion, just to achieve a 50% treatment rate (The Economist, August 2004).
Further, over 70% of the water in China’s five major river systems is unsuitable for human contact. As movement to the cities increases, household waste is becoming a major problem with only 20% of China’s 168 million tones of solid waste a year being properly disposed of (The Economist, August 2004).

As for air quality, estimates suggest that around 300,000 people a year die prematurely from respiratory diseases. Adding it all up, the World Bank estimates that pollution is costing China an annual 8-12% of its $4 trillion GDP in direct damage (The Economist, August 2004).

In India’s case, for example, one may ask, what does water have to do with politics? The answer is “everything”. India’s recent general elections in May (2004), the ruling nationalist coalition was voted out in the midst of the most rapid economic expansion in years. The elections took place in the aftermath of the generous monsoons that boosted spending in much of rural India. But the voters got restless and showed a sharp awareness of their political clout (that runs counter to traditional rural passivity). Despite the good rains, much of the restlessness stemmed from the continuing lack of electricity, water and roads for most of the 700 million still living in rural India and the 200 million that that constitute the urban poor (from a total of 1.03 billion, according to the 2001 census).

India’s intellectual elite periodically pays attention to these deficiencies but the middle classes were too much in thrall to the ruling party’s mantra of “India Shining” to anticipate the recent electoral shock. In its wake, the masses’ growing urgency for basic
needs has come to the forefront again. The Indian Nobel Prize winning economist Amartya Sen famously observed that famines do not happen in democracies. The theory, tested by widespread hunger in Rajasthan for the past four years, is upheld by India’s democratic record since 1947. Yet, India shows that democracy’s record of providing the most basic social services (like water) cannot be taken for granted.

India’s problems, by and large, are man made and a former cabinet secretary of India wrote, “the administration takes decisions that benefit administrators”. This would probably explain why about 85% of development spending does not reach the poor. It is either absorbed by the “delivery mechanism” or “pocketed”. There seems to be a substantial link between corruption and mal-administration. India can build dams but cannot maintain rural irrigation systems. It can launch satellites but cannot or will not build public toilets. India’s political elite has taken a long time to grasp the message from India’s poor and the “feel good” liberalized economy has yet to provide the right balance for India’s poor majority.

The Anti-Globalization Movement

Despite the hot rhetoric, the anti-globalization movement also holds some disturbing truths. The economic policies imposed on developing nations by the IMF-World Bank have marginalized the poor. Using loans and the threat of default as levers, these institutions have pushed more than 90 countries to accept their free trade, market remedies; lowering trade barriers, increasing interest rates, devaluing currencies, cutting health, education and welfare spending. These (SAP) programs drive up the cost of living, ruin small businesses and induce privatization by inviting foreign investment.
For instance, after Haiti lifted its trade barriers in 1986, an overflow of imported cheap American rice (subsidized by the U.S. Govt.) buried the island’s rice industry.

While admitting their mistakes, the IMF-World Bank insist that these policies will boost living standards in the long run. For the Global South, this is far from the truth; an impossibility. Even cases that the World Bank-IMF call successes like Tanzania, show grim realities. Before it was structurally adjusted and soon after its independence in 1961, Tanzania was a self reliant, socialist state with among the highest literacy rates in Africa. By the mid 80s the economy was hyper-inflated, with huge budget and trade deficits and absolutely dependent on aid. Despite taking a turn for the better in 1995, more than half its population lives in dire poverty. The biggest “winners” or beneficiaries of free trade and globalization are a tiny elite, while the effects of the $ 6.4 billion in external debt are borne by the poor masses.

In dealing with such a variety of actors and circumstances, it certainly becomes quite difficult to precisely pin point the questions of agency and causality. The negative outcomes of the various phenomena discussed in this section, namely, the state of poorer nations, the problem of external debt and the effects on the environment can be ascribed to a combination of actors and factors. The crucial mechanisms among them are technical determinism, global control by TNCs, actions of international bureaucrats and agencies, to name a few. In combination, these factors fuel the processes of the modern system of industrial capitalism that is ultimately responsible for the negative outcomes for developing and underdeveloped nations.
Jagdish Bhagwati notes that the central theme to many of the protests against globalization is a “trilogy of discontents” about the idea of capitalism, the process of globalization and the behavior of corporations (Bhagwati, 2000). These discontents have been linked in the minds of many protesters who see globalization as a worldwide extension of capitalism.

Globalization has also been severely criticized by a younger group of critics who see capitalism as a system that cannot really address the questions of social justice. Anti-capitalism has turned into anti-globalization for many students who see capitalism as the exploitation of weak nations. This notion is supported by the idea that “monopolies” (MNCs) are at the heart of the problem (Bhagwati, 2000).

Multinationals, according to the above logic, seek profits by searching for the most vulnerable locations to exploit workers and resources, thereby putting pressure on smaller nations. The “race to the bottom” argument is borne out of this logic (Korten, 2001).

The recent alliances between young agitators, conventional lobbies, environmental and labor, and human rights groups have been successful in anti-globalization protests. Groups such as the “Teamsters and Turtles” emerged in Seattle along with the “green and blue” alliance between labor and environmentalists.

Globalization as a set of forces and an economic logic that operates at a supranational level subsuming all national units and levels of analysis within its domain, obviously has major implications for nation states, especially in the South. Many theorists speak of a
new phase of capitalism that entails the demise of state and national autonomy. Overall, the vast literature, both academic and popular on the globalization phenomenon suggests the decreasing importance of national institutional structures in determining economic activity and outcomes as nation states are subjected to common global forces. The scenario of the dawning of a new global age, (that will render national political and economic institutions impotent) is not shared by all theorists. In fact, there is a lot of literature that challenges and rejects some of the more extreme versions of the globalization thesis.
A Review of the Literature

The Theoretical Basis for Globalization

For Adam Smith (1776) wealth consisted of real goods and services and a nation was rich or poor according to its annual production in proportion to its population. The wealth of a nation was different from what mercantilists considered to be wealth. For Smith, the nation was co-extensive with all its’ people, not just the upper classes. The mercantilists concentrated on the transfer of wealth from the nation to the rulers in order to wage wars against enemies. Smith and classical economists after him, concentrated on the production of wealth, and in Smith’s work, economics became the science of statecraft. Adam Smith also became the founder of liberal economics, the view that preferred markets to politics, and encouraged the “invisible hand of the market as the best regulator of the economy”. The subsequent development of liberal economics or neo-classical economics had a marked emphasis on the scientific method. The global convergence of technology and markets is certainly a divergence from Smith’s notions on a nation’s wealth. Globalization, in its sweep, has accentuated the hierarchy of nations based on economic might, contributing to a growing level of inequity between and among nations.
At the beginning of the 21st century, we are constantly reminded of the evolving phenomenon of globalization, which has generally been accepted as a techno-economic process. Yet, globalization is by no means beyond controversy. Disputes often rage over its meaning and significance as well as the deeper political and cultural implications.

The communications analyst Marshall McLuhan first coined the phrase “the global village” and many scholars have sought to understand the process underlying McLuhan’s phrase. In following this line of thought, sociologist Ronald Robertson (1987) argues that globalization can best be understood as “the crystallization of the entire world in a single place”. In his book “Globalization: Social Theory and Global Culture” (1992), Robertson distinguishes between the objective and the subjective dimensions of globalization. “Globalization refers to both the compression of the world and the intensification of consciousness of the world as a whole”. Robertson also brings up the issue of post-modernization linked to the global era. Political economists, on the other hand, view globalization not so much as a continuous and growing linear process but, rather, as a process punctuated by upward and downward movements – periods of expansion, decline and stagnation. Most political economists place the “take off” phase of globalization in the 19th century, an era marked by the stability of the gold standard and international finance. Many political economists agree with Robertson regarding the linkages between globalization and modernization. This linkage seems to be shared by social scientists across disciplinary boundaries. Among social theorists, Anthony Giddens views globalization as an intrinsic “consequence of modernity”. Giddens defines globalization as “interaction across distance”. This account is not far removed from the argument of James Rosenau who presents globalization as a “boundary-eroding process and a movement jeopardizing the “domestic-foreign” frontier.
Lucian Pye, a spokesman of mainstream American political science, and an expert on “development”, writing in his book “Aspects of Political Development” (1966), noted that the process of development and modernization may also be called “Westernization”. Both during the Cold War and in more recent years, a number of intellectuals have been troubled by and openly critical of the asymmetry of global relations and the reality of Western hegemony in the postcolonial world. Immanuel Wallerstein’s “world-system theory” has, for several decades, exposed and criticized the inequities in global economic and cultural relations. The persistence of postcolonial Western hegemony is also a central theme of Edward Said’s “Culture and Imperialism”, published in the aftermath of the Cold War.

Strategic global theorists like Samuel Huntington have also written widely on postcolonial hegemony. Huntington’s work is often attacked for his provocative thesis of an impending “clash of civilizations”, first formulated in essay form in 1993. His thesis transfers the traditional enmity of states into the arena of cross-cultural relations.

There is also a neo-liberal focus on globalization that champions the “one world” scenario, civilizational advancement, world-wide enlightenment and the progress of science and technology. Kenichi Ohmae, for example, celebrates in his writing, the emergence of a “borderless world”, more specifically a borderless world economy transcending and even erasing traditional political boundaries. In a similar fashion, Lowell Bryan and Diana Farrell speak explicitly of the “unleashing of global capitalism where market forces are finally unbound”. In their account, economic globalization is closely linked with cultural transformation, in the sense that global capitalism is
paralleled by the rise of transnational media and communications networks effectively bent on standardizing global consumer tastes.

However, neo-liberal euphoria has not gone unchallenged. Andrew Hurrell and Ngaire Woods have critiqued the persistent and deepening strains of inequality fostered and covered up by the globalization process. Raimo Vayrynen’s study of “Global Transformation” (1997), is very explicit about global disparities. He exposes the emergence of an international class structure – the division between middle-class and underclass societies that is paralleled by a cultural divide – between hegemonic and non-hegemonic cultural frameworks and traditions. Vayrynen believes that while the former are largely compatible with globalization, the latter undergo a process of dislocation and marginalization.

Although most open minded and fair intellectuals in non-Western countries are often ready to grant the benefits of modernization, they do not completely agree with the pro-globalization logic. They continue to point out that globalizing modernity has come to non-Western societies through the vehicle of colonial or post-colonial forms of Western hegemony. Thus, globalization they believe, is liable to be experienced as a kind of foreign intervention or “globalization from above”.

Guillen’s (2001) remarks on globalization, express the confusion and complexity of the phenomenon.

“Definitions and timing aside, one of the persistent problems afflicting the study of globalization is that it is far from being a uniform, irreversible, and inexorable trend. Rather, globalization is a fragmented, discontinuous, contingent, and in many ways contradictory and puzzling process”.

To resolve this “contradictory and puzzling” process, one needs to ask if globalization is a unique occurrence in history or an ongoing process? In keeping with Modelski’s
view, globalization comprises a set of evolving processes: global *economic* evolution (of trading systems and world markets); global *political* evolution (of nation-state systems, world power competitions, and international organizations); *democratization* (the formation of potential democratic states); and the creation of a *world opinion* (through the media and learning processes). The ultimate agents of these processes are individuals and organizations sponsoring and advancing innovation that results in strengthening the global layers of interaction.

The current stage of the global system process is indeed unique and unprecedented in many ways (for example: its geographic reach, its complexity and level of interconnectedness).

Over the course of time, the world and its many nations have gone through profound changes and developmental processes. From simple ways of living to highly technological lifestyles and environments, people have learned to continuously adapt to significant changes and shifts, and in the current era are still adapting to changes primarily brought about by globalization. Indeed, several bodies of literature have been written and published about these phenomena. Through these, people have become more aware of what globalization is and what its implications are. However, despite this awareness, the nature and meaning of the changes arising from globalization remains in question, and hence, the many debates.

Globalization has had several significant and beneficial effects on many economies. However, the anti-globalization movements claim otherwise. While globalization may provide several advantages, these appear to be limited to only a few, particularly to
developed countries. Countries that are still developing, on the other hand, are suffering from even greater heights of poverty and inequality due to globalization. Several other issues have also emerged out of the globalization process. Countries of the South in particular have been critically affected by these changes. In this literature review, the impact of globalization on the nations of the South will be the main topic of discussion. Various conclusions through previous studies and related research will be included so as to illustrate the political, economic and environmental effects of globalization on Southern nations.

The Globalization Debates

Globalization is a contentious process. Ever since the term was first used to make sense of large-scale changes, scholars have debated its meaning and use. As the term became globally popular, it served to crystallize disagreements about the direction of change in the world at large. By the end of the 20th century, the meaning and merits of globalization were contested in the media and in the streets. Intellectual debate blended with political conflict. In the years to come, debates and conflicts surrounding globalization will increasingly affect the processes captured by the term.

Meaning: Process vs. Project

According to one popular view, globalization is the “inexorable” integration of markets, nation states and technologies to a degree never witnessed before; in a way that is enabling individuals, corporations and nation-states to reach round the world faster, farther, deeper and cheaper than ever before (Friedman, 1999). By contrast, some groups of scholars and activists view globalization not only as an inexorable process but as a deliberate, ideological project of economic liberalization that subject
states and individuals to more intense market forces (McMichael, 2000; Hirst, and Thompson, 1996).

**Interpretation: New Era vs. Nothing New**

Discussions of globalization often convey a sense that something new is happening to the world: it is becoming a “single place” and experienced as such (Robertson, 1992), global practices, values, and technologies now shape people's lives to the point that we are entering a “global age” (Albrow, 1997), or global integration spells the end of the nation state (Ohmae, 1995). A new world order is emerging, according to hyperglobal accounts (Held et al., 1999). Skeptics counter that there is nothing new since globalization is age-old capitalism writ large across the globe (Wallerstein, 1999), or that governments and regions retain distinct strengths in a supposedly integrated world (Hirst and Thompson, 1996), or that the world is actually fragmenting into civilization blocs (Huntington, 1996).

**Evaluation: Good vs. Bad**

Globalization used to be widely celebrated as a new birth of freedom: better connections in a more open world will improve people’s lives by making new products and ideas universally available, breaking down barriers to trade and democratic institutions, resolve tensions between old adversaries, and empower more and more people (Friedman, 1999, Mickelthwait and Wooldridge, 2000). Many leaders in the West supported the advent of a new world order through free trade and political cooperation. By the late 1990’s, the term globalization was increasingly used to express concern about the consequences of global change for the well being of various groups, the sovereignty and identity of countries, the disparities among people, and the
health of the environment (Hirst and Thompson, 1996; Mittelman, 1996). Politicians opposed to America’s global influence and activists opposed to the inequities of oppressive global capitalism now portray globalization as dangerous. Globalization has thus become an issue in a wide-ranging global debate.

**Explanation: Hard vs. Soft**

Some authors attribute the dynamics of globalization to the pursuit of material interests by dominant states and multinational companies that exploit new technologies to shape the world in which they can flourish according to rules they set (Wallerstein, 1974). An alternative view suggests that globalization is rooted in an expanding consciousness of living together on one planet, a consciousness that takes the concrete form of models for global interaction and institutional development that constrain the interests of even powerful players and relate any place to a larger global whole (Robertson, 1992; Meyer et al, 1997).

**Political: End vs. Revival of Nation State**

According to one line of argument, globalization constrains states’ free trade, limits the ability of states to set policy and protect domestic companies (Hirst and Thompson, 1996). Capital mobility makes generous welfare states less competitive. Global problems exceed the grasp of any individual state, making global norms and institutions more powerful. Others (McMichael, 2000) suggest that in a more integrated world, nation-states may even become more important for they have a special role in creating conditions for growth and compensating for the effects of economic competition. They are key players in organizations and treaties that address global problems and they themselves are global models charged with great authority by global norms.
Cultural: Sameness vs. Difference

A standard complaint about globalization is that it leads to cultural homogeneity. Interaction and integration diminish difference; global norms, ideas or practices overtake local mores. Many cultural flows, such as the provision of news, reflect exclusively Western interests and control and the cultural imperialism of the United States leads to the global spread of American symbols and popular culture (Schiller, 1969; Hamelink, 1994). A counter argument stresses that the new heterogeneity that results from globalization, is likely to lead to new mixtures of cultures and integration is likely to provoke a defence of tradition.

Globalization

By definition, globalization is the process of increasing inter-connectedness among neighboring nations. It is a course of action stimulated by, and resulting in, escalating cross-border flows of goods, services, money, people, information, and culture (Held et al, 1999). The process, momentum and power of the process, are drawn from the growth of market capitalism and technological developments in information and communication (RAWOO, 2000). It is also understood as the unfolding resolution of the disagreement between expanding capital and its national, political and social formations. Until the 1970s, capital expansion was always as national capital; capital with a certain historical and territorial character and roots. Eventually, the scope for capital expansion significantly increased. In addition, ownership began to correspond less with national geographies. Just as capital once had to create a national state and a defined territory, in the form of the transnational corporation (TNC), it has also had to remove or transform this shell to create institutions to ensure and facilitate accumulation at the global level. Globalization is the close of the national history of
capital and the beginning of the history of the expansion of capital without nationality (Fraser, McBride and Wiseman, 2000).

Another representation of globalization is the transition of the primary venue of capital accumulation from the national to the global or supranational level. This has been evident through the large number of TNCs that dominate world production and distribution, the preponderance of foreign direct investment (FDI) over other forms of investment, the pervasive trans-border operations of these corporations as well as the extensive numbers of transnational corporate mergers and takeovers, joint-ventures, share agreements, cartels and oligopolies. This change, that signals the end of political geography, has called for the development of administrative bodies at the international level as well as the harmonization and transformation of national modes of production that are barriers to the global accumulation of capital.

Globalization may also be defined as the triumph of capitalism as it stands for the ascendancy of economics over politics, of the private over the public interest, of corporate demands over public policy, and of the TNC over the nation state (Fraser, McBride and Wiseman, 2000). Globalization is the final stage of the capitalization of the world. This triumph is materialized in global agencies functioning to facilitate global conditions for capital accumulation. These agencies possess global powers and are established in the interest of corporate private property. They are neither democratic nor representative of other interests. National and general interests become subordinated to those of the corporation.
The entrance of self-generating capital at the global level may also be used to define globalization; that is, capital as capital, capital in the form of the TNC, free of national loyalties, controls, and interests. This is not similar to the mere internationalization of capital that assumes a world of national capital and nation states. Rather, it is the suppression by capital, of the nation state. All the circuits of capital become global in nature and so begin to render the national economy and its associated borders, policies and programs more or less meaningless, while at the same time giving coherency to a global system as such (Fraser, McBride and Wiseman, 2000).

These definitions emphasize different aspects of the same phenomenon, one that is proceeding but not yet complete. The present era is a transitional one in which the world of nation states and national markets is being transformed into a single world market, with sizeable and growing percentages of all economic activity accounted for by a few hundred corporations, and world trade that is increasingly “intra-corporate” rather than international.

From the people’s point of view, globalization stands for the term that explains or describes the variety of changes the world is currently encountering. Most people tend to associate the good or bad experiences of life or its facets to globalization. Hence, the term globalization is almost synonymous with a global concept that provides an explanation for everything. It is a terminology that is subject to various interpretations and involves several myths derived from unproven clichés (NAM Ad Hoc Panel of Economists, 1998).
To some points of view, globalization is the purpose of the new world that is promoted through an imperial, geo-political strategy that represents an international system designed to strengthen the status of dominant countries and to increase the wealth and interests of the world’s privileged minority. For others, globalization is a natural historical development which involves the removal of barriers to international investment and commerce. Through globalization, unlimited and new opportunities are opened, which in turn can help resolve current challenges presently faced by the world (NAM Ad Hoc Panel of Economists, 1998). In spite of the many definitions given to describe globalization, the term generally refers to the major implications that are directed to society and economy worldwide.

**Advantages of Globalization**

The introduction of globalization to the world has brought about many changes and developments, some of which are beneficial and advantageous. On the global level, globalization has paved the way for the growth and progress of foreign trade. Capital, goods and services, labor and technology are enabled to move more freely across national borders through globalization. As a result, growth and higher standards of living have been adopted by participating economies (RAWOO, 2000).

The benefits of globalization have been highly evident in the last two decades. During this time, goods and services that are traded internationally have tripled in volume. Similarly, the amount of imports and exports has grown at an equal rate. Simultaneously, foreign investments have been augmented and media has expanded. In addition, communication through the internet has been introduced and has become highly accessible for people worldwide, which in turn facilitates the transmission of
technology and the provision of opportunities for the reduction of productivity
differences. During the years 1990 to 1997, the overall volume of foreign direct
investment has doubled as well (RAWOO, 2000).

Aside from economic benefits, globalization has also provided significant advantages
in many aspects of governance and culture. Public awareness on issues like
democracy, gender inequality and human rights has been augmented due to the
increased accessibility of people to various media forms such as the radio, newspaper,
telephone, television, and computers via the internet. Monopoly on access to foreign
news is no longer practiced. Countries benefit from globalization when their people are
able to make use of the accessibility to capital markets and information technology. In
addition, countries benefit from globalization when they are able to take on the highly
competitive market, which in turn releases their relative strengths. This tendency leads
to enhanced efficiency for the purposes of human development, progress and poverty
reduction (RAWOO, 2000).

The Negative Effects of Globalization

Globalization may bring about various advantages; however, negative effects are also a
major part of the process. Thus, globalization is a game of winners and losers. For
losers, the negative effects are as tremendous as the benefits winners obtain, and
perhaps the impact is even greater. In general, one of the notable downsides of
globalization is the resulting increased gaps between poor and rich nations observed
over the past fifty years. In 1960, the difference in income between the twenty percent
of the global population that lived within developed nations in comparison to an equal
percentage of population within the poorest countries, showed a factor of 30 to 1. More
specifically, the UNDP Human Development Report for 1992 had shown that about 20% of the population from developed countries obtained 82.7% of the total income of the world. On the other hand, 20% of the population from developing countries obtained only 1.4% of the world income (UNDP, 1992). From the data gathered in 1989, 20% of the population from developed countries earned an average income that was 60 times greater than those from the developing countries. Since 1950, this ratio had doubled by 30 times (Khor, 2000) and in 1990, the ratio was 60 to 1. By 1997, the ratio had changed to 74 to 1. Considering the rapid influx of capital, skilled labor, new technologies and information, the gap between developed and developing countries will continue to grow at an even faster pace (RAWOO, 2000).

Another disadvantage of globalization among developing countries is the increasing differences in income levels. Globalization favors the activities conducted within modern sectors usually found in large-scale and capital intensive economies. Since the connection between the informal and modern sectors is weak in most developing nations, the transfer of knowledge between these sectors is unequal, and hence the differences in productivity rates persist. This trend then results in the perpetuation of inequality of income among different economic groups in developing countries. Moreover, globalization tends to favor sectors that are market-oriented and completely ignores sectors that are more production-oriented (RAWOO, 2000).

Aside from economic concerns, rapid depletion of environmental resources appears to be highly evident among poor countries as compared to most developed nations. For instance, between the years 1990 and 1995, deforestation worldwide is estimated to have occurred at an average yearly rate of about twenty square kilometers for every 1
million inhabitants. In sub-Saharan Africa, this figure was fifty-eight. Through globalization, foreign companies working in association with unprincipled locals were given easier access to take advantage of natural resources in violation of the law (RAWOO, 2000).

Another general negative effect of globalization is the loss of national control over culture and governance. Although the positive effects of globalization on these factors have been recognized, distinct disadvantages have also transpired. In developing countries for example, globalization has removed the ability of these nations to establish and implement their own policies (Onis, 1997). Countries that object to restructuring the economy through liberalization have significantly reduced governmental means of carrying out individual programs of law enforcement and development. In addition to these negative effects, crime and corruption, primarily in the form of illegal trading of weapons, drugs and women have significantly increased. This in turn results in the deterioration of living standards that makes people feel less secure. Widespread fundamentalism is also promoted by this trend, which increases insecurity and social tension. Moreover, this causes negative economic effects as solutions to economic and social problems are sought to be resolved through religion instead of work. These negative effects put much strain on families through poverty and inequality (RAWOO, 2000).

From the discussion of both the advantages and disadvantages of globalization, it becomes apparent that globalization tends to be a winner for developed countries while the losers are the developing nations. While developed economies enjoy the benefits of
globalization, developing nations suffer from the lack of basic necessities. Such a scenario is encountered by many nations and peoples of the South.

The North and the South

For developing countries, the new and more open economic world order has clearly paved the way for new possibilities and more opportunities. For almost two hundred years, up to 1975, the economic relations between the North and the South were highly asymmetrical in general. While nations in the North were mainly exporters, producers, and manufacturers, the South was the exporter of raw materials as well as agricultural goods. Irregularities between the North and South arose due to the upper hand the North had over technology, capital and foreign exchange (NAM Ad Hoc Panel of Economists, 1998). These significant resources were monopolized by the North while the South depended greatly on them. Moreover, the North provided the largest markets.

The coming of the industrial revolution enabled several countries from the South to undergo major structural developments which led to the birth of major exporters of manufactured goods from the South. As a result, competition between the North and South ensued involving a wide range of goods, including a number of capital products. To a certain degree, the industrial revolution reduced the inequality between the North and the South, mainly for the benefit of colonists. However, as opportunities were created and offered, globalization and liberalization gave rise to numerous obstacles that reinforced the asymmetry between the North and South. Globalization may have benefited financial markets, but this involved certain systemic problems for the South. The developing countries of the South then suffered not only from the instability of
their financial markets but also from other negative effects brought about by globalization.

From this perspective, the unevenness of globalization between the North and South is quite apparent for the benefits and losses are unevenly distributed. The imbalances of globalization tend to increase the gaps between countries, leading to the marginalization of most developing countries. Thus, in the process of globalization, the elements of wealth concentration, polarization and marginalization are interlinked. This process is in fact very evident as modern technology, growth and investment are concentrated to a few countries in the North America, Europe, East Asia and Japan, while the majority of the developing nations are barred from the process. Even when developing countries participate in the process, it is in insignificant ways that are usually disadvantageous to their interests. For instance, the adoption of import liberalization negatively affects their local producers while financial liberalization leads to instability (Khor, 2000).

The effects of globalization on the North and South tend to vary, based on certain categories. In general, globalization promotes expansion and growth in the few major or fully participating nations; causes moderate and fluctuating development in some nations attempting to adapt the liberalization framework; or results in deterioration or marginalization of many countries unable to handle acute problems of liberalization, debt, low commodity prices and export opportunities. The increasing inequalities of globalization are currently manifested by the growing gaps between northern and southern nations; rich and poor, developed and developing.
The Impacts of Globalization on the South

Despite the volume of literature related to these issues, several significant researches have been able to point out how globalization specifically affects the developing nations. In this part of the discussion, the effects of globalization on the South including the increased pressure on wages and labor costs will be discussed. Additionally, the impacts on poverty, inequality, political and economic insecurity, and various social factors will be explained.

On Wages and Employment

The impacts and effects of globalization on wages and employment are still surrounded by substantial controversy. One of the notable studies on this issue was done by Greenway and Nelson (2001) wherein the researchers reviewed the various contributions globalization has provided to labor markets. Some of the cited correlations include trade and wages; trade and employment; labor market adjustment and microstructure; FDI and labor markets; and labor market adjustments and migration. These contributions were derived from records and observations gathered over the past 20 years. The data were basically concerned with and favorable to the experiences of industrialized countries. Rama (2003) on the other hand, studied the association of globalization with job creation and patterns of wage disruption among workers of developing countries, using similar indicators that showed unfavorable results.

According to Stiglitz (2003), in Europe the move to cut down wages led to increased unemployment; however, this act made no significant changes on the distribution of income. In the United States on the other hand, lower industrial wages were also the
outcome of similar competitive pressures, although the nation was able to implement precautionary measures as protection against negative effects.

Increased competition was then observed between developing countries of the South as they got into manufacturing. Almost all of the developing countries have attempted to increase global production through the creation of some form of concession to multinational corporations and by means of the establishment of export processing zones. This in turn led to the extreme structural changes among developing countries, resulting in substantial structural unemployment. While some countries were able to compensate the costs through multinational investment, the traditional workforce went through extensive reductions in jobs and wages. Freeman (2003) has noted that global standards on labor do not necessarily put the comparative advantages of developing nations at risk and poor labor standards do not always generate a race to the bottom. Although the race to the bottom within the South is possible; however, it does not necessarily mean that it is inevitable (Chau and Kanbur, 2001).

There is no solid evidence suggesting that the competitive dilution of labor standards in the North or South is primarily brought about by the increasing North-South manufacturing trade (Ghose, 2003, p. 111). However, there are some developments that generate great concern in regard to this issue. One of these is the process of global exclusion where a great number of the Southern nations have become insignificant in the global economy. In turn, labor and employment standards have been declining. Trade liberalization that has promoted global economy integration has not for example generated any benefits among Latin American economies. In addition, globalization has not stimulated the expected economic growth among these developing countries.
On Poverty

Considerable literature can be found relating globalization to poverty. Among the many research findings on this issue, the most controversial perhaps would have to be the conclusion that globalization helps in reducing poverty. Nevertheless, several researchers have concluded otherwise; most have pointed out that such a conclusion contains various conceptual flaws. Oxfam International (2002) for example, conducted a comprehensive study that popularized the view that globalization can provide positive and negative effects on poverty and that the present institutions and rules on global trade are in favor of the developed nations. In a study that analyzed the relation of poverty to private international finance, the researchers found out that the current international financial systems negatively affect the poor (Oxfam America, 2002).

In relation to the issue of poverty, the effect of global finance may be analyzed by evaluating the effect of portfolio investments and FDI. It has been emphasized that the abrupt increase in flows of short term capital has been responsible for the assorted financial crises encountered during the 1990s. Moreover, the succeeding social crises disrupted much of the development that had been previously achieved. Thus, the International Monetary Fund, as the conventional advocate of market liberalization and capital flows, suggested that precaution should be taken in approaching financial integration with much consideration given to the presence of macroeconomic frameworks and good institutions (Prasad et al., 2002).

In a study conducted by Agenor (2002), the researcher analyzed the degree to which liberalization impacts the poor among low and middle income nations. In this research, the researcher utilized the individual indicators of financial and trade openness as well as the globalization index that is founded on the “principal components” analysis so as
to examine the relation between poverty and globalization. Based on the findings, the researcher concluded that “non-monotonic”, “Laffer-type” relation was evident between poverty and globalization. Cross-country findings have been consistent with the empirical information, showing that most countries generating low incomes have been insignificant to the globalization process for the past 15 years. In addition, the research also showed some consistency with the general view on the relation between globalization and inequality (Agenor, 2002).

**On Inequality**

Due to the increasing amount of literature, people have become aware of the fact that the advantages of growth critically depend on income distribution produced by economic progress. During the middle part of the 1950s, Nobel Prize winner and economist Simon Kuznets introduced the hypothesis that as per capita GNP increases, income inequality worsens. This theoretical statement was based on the intermediate income levels of industrial countries. Within economic theory, the hypothesis of Kuznets has been both recognized and controversial. The debate over this issue continued on in the 1990s. Many studies have been conducted in reference to Kuznets theory since. At present, there is a general consensus that equity and growth need not be conflicting goals. Also, several economists agree that the automatic connection between equitable human development and economic growth is nonexistent. Nonetheless, forging the connection with determination and policy can possibly reinforce economic growth and the two goals can lead to the improvement of human development and the reduction of poverty (Van der Hoeven, 2004).
In relation to income inequality, a large amount of literature supports the conclusion that globalization has augmented income inequality within and between countries. It has been argued that the introduction of globalization tends to make poor countries and societies more instead of less unequal (Stiglitz, 2003). However, some researchers question this finding claiming that although increased economic growth has intensified inequality, poverty on the other hand has decreased.

A number of previous studies have related increased inequality to globalization, with most researches concluding that the deterioration of income inequality is brought about by technological changes instead of globalization. Studies by Cornia and Kiiski (2001) and Cornia and Court (2001) claim that the increased inequality is related to the extensive liberal economic policy systems as well as to the manner in which these policies are implemented.

In the study done by Cornia and Kiiski (2001), within-country inequality changes for the past 20 years were reviewed using 73 nations, which accounted for more than four-fifths of the population and GDP of the world. The researchers concluded that within the span of 20 years, inequality increased within two-thirds of the 73 countries involved. It also suggested that the conventional causes of inequality like urban bias and land concentration were not the main reasons for the increasing income inequality. These findings implied relationships between income inequality, skill-intensive technologies, domestic deregulation and external liberalization. Of the six examined factors that caused inequality, capital deregulation appeared to be the major contributory factor. This was followed by financial liberalization in the domestic sector, deregulation of the labor market and tax reforms. Privatization was also
identified as a main cause of the increasing inequality in certain regions. Alternatively, trade liberalization was found to be an insignificant or minor contributor of inequality.

Similarly, with respect to developing nations, Singh and Dhumale (2000) indicated that technology and trade were not the most significant causative factors of income inequality. However, both researchers agreed that financial liberalization and technology were possibly significant factors accountable for the increased income inequality in Southern nations for the past 20 years. In conclusion, the researchers stated that the most significant factors causing income inequality among developing nations included social norms, labor market institutions and macroeconomic conditions.

Some studies have concluded that inequality as an effect of globalization cannot be best indicated through income analysis. Burtless (2002) for instance, noted that life expectancy as an indicator may show that liberalization has an equalizing effect. However, this claim has been questioned by other researchers. For one thing, medical advances may have improved the levels of life expectancy, hence resulting in inaccurate findings. Moreover, qualitative aspects of living are not covered when life expectancy is used as the sole income inequality indicator.

**On Insecurity**

Various definitions may be used to understand what insecurity is. In the literature, the term is commonly used to describe the insufficiency of social protection, job insecurity, fear of terrorism and food insecurity. In spite of the many definitions of
insecurity, it is a general consensus that globalization has contributed to the increase of social, political and economic insecurity in both developed and developing countries. Indeed, a lot of related literature has been published on globalization and insecurity. Torres (2001) has conducted an extensive review on the issues relevant to job insecurity as well as the pattern changes in employment. Scheve and Slaughter (2002) and Debra and Smith (2002) have focused on the issues relevant to workers’ economic insecurity. Davis, Thomas and Amponsah (2001) have addressed the issues of food insecurity and globalization. The World Bank (2002) on the other hand, stressed the link between terrorism and globalization.

While it has been recognized that globalization in the form of capital flows, trade and production has resulted in the increase of insecurity, several researchers point out that the absence or lack of political action to prevent the risk and related problems has significantly contributed to the worsening status of global insecurity (Nayyar, 2002; Deacon, 2002; Ocampo and Martin, 2003). In line with this generalization, several inquiries have been raised pertaining to whether insecurity costs have been compensated in return for the benefits of globalization. This question would likely receive positive responses from families who have lifted their lives out of poverty due to globalization. However, millions of poor and disadvantaged people would contradict this notion. As concluded by various literary contributors, globalization appears to worsen the insecurity among poor families in developing countries of the South due to market failures. These economic situations prevent families from balancing income with consumption (Van der Hoeven, 2004).
Based on these studies, globalization seems to have indeed caused increased insecurity among Southern nations, which in turn aggravates the negative effects of increased inequality. As noted by Kaplinsky (2001), the combined forces of increased insecurity and inequality have reached great heights, thereby causing threat in the sustainability of the present globalization process.

**On Migration**

In analyzing the impact of globalization on migration, it is clear that compared to other periods in history, the current globalization process has led to a decline in international migration. This situation is mainly due to the constraints and immigration laws being implemented by industrialized nations. Thus, emigration and immigration now have become highly selective. Stalker (2000) in his comprehensive analysis concluded that certain conventional migration channels, mainly those from Europe, have substantially decreased. New ones, on the other hand, are being created, primarily in South East Asia. At present, an increasing number of migrants come from the poor countries of the South (World Bank, 1995).

One of the effects of globalization in the international migration process has been pointed out by Solimano (2001). According to the researcher, unskilled people have been directly affected by the new regulations for migration. In some developing countries of the South, emigration has negatively affected their labor supply as most emigrants come from the most educated and productive sectors of the labor force. For example, in five Latin American countries including El Salvador, Jamaica, Dominican Republic, Guatemala and Mexico, a large portion of these countries’ populations provide the best educated emigrants to the US (Adams, 2003).
In spite of the problem of labor supply, sending countries receive benefits from migrants sending remittances to their homelands. In 2001, remittance records showed that within the top 20 developing countries, remittances from workers abroad provided varying contributions to their countries’ GDPs, from 7% in Sri Lanka to 37.4% in Tonga (World Bank, 2003). However, while these remittances had benefited the receiving families, the contribution to the development of these countries was only minimal. Hence, the problem of labor supply among developing countries remains a problem in the South.

**On Social Factors**

Globalization appears to have significant social effects particularly on child and women labor. While the increased participation of women may have benefited nations through the reduction of gender imbalances and optimization of skills utilization, the literature claims that in spite of this development, discrimination still continues. In general, the globalization effect of increased women participation in the working world has been beneficial. For children, on the other hand, their increased participation in the working world is considered detrimental.

According to Chambers (2000), despite the benefits of the increasing participation of women in export processing zones and manufacturing, the problem of the economic disempowerment of women still persists. Indeed, one of the major reasons why the number of working women has increased is because of their tendency to accept lower wages. Moreover, the issue of the lack of spending control women workers have over their salaries has been raised. In addition, female victims of violence have also increased on account of the new social status of women.
In a way, the increased competition brought about by global trade has provided relative improvement to the wages women receive as the ability of competitive firms to discriminate has apparently been reduced (Black and Brainerd, 2002). Balakrishnan (2002), on the other hand, concludes that globalization has led to increased work flexibility, enabling women to accept vulnerable and unstable work opportunities. Likewise, Moghadam (1999) concluded that globalization is causing negative economic effects on the female population though the process has established a new group of organized working women that may signal an effective anti-systemic movement.

Generally, economic restructuring and trade liberalization directly affect the nations with large female workforces (Miller and Vivian, 2002). To counter the negative impacts, a country must consider that the effect of globalization on gender is subject to various factors including trade policies, location and resource utilization (Cagatay, 2001). Hence, the resolution of this social issue is dependent on the cultural and social backgrounds of these countries.

In terms of child labor, globalization has caused various turns of events. For instance, though it is claimed that globalization increases the cases of child labor, this may also be attributable to the increased number of visible enterprises offering formal wage employment. It is likely that children were already into labor participation long before the introduction of globalization; the only difference is that children used to work in secluded informal homes; hence, they were less visible. While there have been the issues of child abuse, formal child labor appears to provide short term benefits particularly among the poor families of developing nations. Legislation restricting
child labor has been adopted by several developing countries for fear that goods made using child labor might be boycotted by industrialized nations. In certain multinational corporations, child labor has been totally eliminated due to the pressure of developed countries. Although problems of implementing related legislation on child labor are still present, globalization appears to have reduced the number of cases, at least at the formal level (Cigno, Rosati and Guarcello, 2002; Edmonds and Pavcnik, 2002). The benefit however, of this reduction remains indefinite. Based on some critical reviews, it has been concluded that instead of taking the children out of the labor market, more concentration must be given to preventing their exploitation (White, 1996). This view however has been opposed by trade unions and child labor activists.

**The Weaknesses of the South**

Most of the nations of the South are largely unable to acquire real benefits from liberalization primarily because of their innate weaknesses. In a study by Nayyar (1997), the researcher illustrated the “uneven development” phenomenon of globalization, showing how developed nations were able benefit from liberalization while only a small number of developing countries were able to do so. The study showed that during the late twentieth century, only eleven developing countries have been a vital part of globalization. In 1992, a total of 66% of overall exports were accountable from these developing countries. From 1970 to 1980, this percentage was 30%, hence resulting in a marked increased by more than half. About 66% of yearly FDI flows were directed to these developing nations from 1981 to 1991. Moreover, most of the portfolio investments arose from these developing countries. However, nearly all of the eleven developing nations have been greatly affected by financial
challenges and crises, economic slowdowns and debt. This in turn diluted the pace of world economic integration for the South.

Nayyar (1997) stated that the weaknesses of the South are brought about by several causative factors. For instance, developing nations are economically weak to begin with. This is due to their lack of local economic capacity as well as their unstable social infrastructure after their colonial experiences. Countries of the South are also economically weak due to low export prices, significant decline in the terms of trade, debt crisis and debt servicing burdens. In addition, policy conditions attached to packages for loan scheduling hinder the recovery of several southern nations, leading to further degradation in social services. Considering the gaps in economic capabilities between the North and South, technological development, particularly in terms of communication and information technologies, has worsened the growing inequalities between the developed and the developing world.

Political background also plays a significant role in explaining the weaknesses of Southern countries. For instance, several developing nations are characterized by dictatorships, political power abuse and mismanagement of their economies, which naturally deprives these countries of meaningful development and global success. As the necessary factors for globalization were not available to the developing countries of the South, liberalization resulted in greater harm than benefit. Thus, while it is possible for globalization to be part of the worsening situation of Southern economies, it should be noted that the developing nations are also in a weak position to take on these globalization challenges (Nayyar, 1997).
Another factor for the weaknesses in the South is the lack of negotiating and bargaining strength in global relations. As developing countries are largely dependent on and indebted to multilateral loan organizations and bilateral aid donors, these nations have greatly exhausted their capability to negotiate. The authority of the United Nations has also significantly diminished, putting the Southern nations in a less favorable position. On the other hand, the power and mandate of certain institutions like the World Bank, WTO and IMF, have tremendously increased. The Bretton Woods institutions as well as the WTO have given the Northern nations considerable leverage to obtain the necessary elements of globalization to provide for their own needs and to establish policies that developing nations must adopt. While the Northern countries have the dominant position and have the required elements for controlling the global economy, the South is not totally powerless if it can organize its resources and strategy better. The problem is that the South as a whole is not able to organize itself so as to establish negotiating positions and sufficient policy or strategies relevant to the negotiations and discussions in the IMF, WTO and other forums.

The developed countries are in a good position to set the globalization agenda (Khor, 2000). Within their respective countries, there is evident organization and well staffed departments responsible for handling international finance and trade. Quasi-government and university academics also facilitate the formulation of policies, information and strategies. Lobbies and associations associated with financial institutions and corporations are well-organized, with significant influence on various government departments. Developed nations have the upper hand on globalization as they have the mechanisms and institutions that help in coordinating their respective positions and policies. Examples of these are the OECD, the Group of Seven, the
European Commission as well as their supplementary agencies and bodies (Nayyar, 1997).

On the contrary, developing nations lack organization within their respective countries. Understaffing is evident among Southern government departments in charge of interfacing with the international economy, particularly in global negotiations and rapid progression to integrate with the global economy. The academic institutions of developing countries also have insufficient skills to evaluate and acquire information related to globalization trends. In addition, the academic sector also lacks the necessary skills to create policy proposals which their governments can utilize and benefit from. The expected strong connections among the NGOs, governments and intellectual sectors are significantly weak among the countries of the South. Financial and business communities of developing nations are not organized enough to monitor the latest global trends or to inform their governments on globalization issues (Khor, 2000).

Collaboration at the regional level of the southern nations has been increasing by means of regional cooperation. Nonetheless, the level of sophistication of the southern collaboration is still not at par with the developed world. Internationally, institutions like the Non-Aligned Movement and the Group of 77 help in organizing the nations of the South. Often, these groups perform with relative efficacy at the United Nations meetings and convention as well as within their own frameworks. Even so, the inadequacy of staff and resources still pose a major obstacle. As a result, developing countries are not able to monitor the events and developments adequately. Furthermore, this problem renders them unable to establish long term strategies and policies (Nayyar, 1997).
Conclusion
The effects of globalization on the South and developing countries are immense. While the North is able to gain the advantages of globalization, most nations of the South face the downside. However, from the many scenarios provided by the researched literature, it becomes clear that globalization alone cannot cause all the negative effects encountered in the South. Apparently, globalization may just be the most crucial factor for heightening these impacts. It should however be noted that certain necessary or lacking factors for globalization are very prevalent among these developing nations.
Thus, even though globalization and its expected results have not been achieved in many developing countries of the South, the focus should still be on how to effectively apply the strategies of globalization to these countries. In general, the process of globalization is a coordinated effort; hence globalization alone cannot result in immediate development. Something more has to be done. For instance, individual governments should invest in training and education, establish beneficial labor standards, address the increasing inequality, provide for social protection and identify the opportunities globalization has to offer (Storm and Naastepad, 2001). For globalization, economic restructuring, trade investments or capital flows are not the sole elements that make the process work. Values such as perseverance, organization, discipline, confidence, coordination and consistency are also significant.

Trends in the Literature
Starting mainly in sociology journals in the mid 1970s, but also in economic and political literature, the number of works on globalization has seen a dramatic increase, especially after the mid 1980s. As Guillen (2001) points out, what is more surprising is the remarkable diversity of authors that have contributed to the globalization literature,
ranging from social theorists and post-modernists on one end to management
consultants, economists and even the occasional politician, waging into the debate.

The definitional problems are reflected in a large number of sociological, economic,
and political definitions of the term “globalization”.

Existing contributions to the debate surrounding globalization differ the most in
respect to 1. the conceptualization of globalization; 2. its causation; 3. its
periodization; 4. the impact of globalization on various levels of human interaction; 5.
the trajectories of globalization. All factions of the debate tend to conceptualize
globalization mostly as a fully integrated global market, with convergence in social,
cultural and political spheres, as a measure for the degree of globalization.

Lately, there seems to be a growing consensus in the more analytical literature that
globalization is not a single phenomenon, but rather a process, neither novel nor solely
tied to contemporary developments in transport and communication technology. Few
studies analyze globalization from a broader, holistic, and historical perspective. One
such attempt is a study by Held et. al. (1999) that emphasizes the need to distinguish
between “transitory or immediate events” and “those developments that signal the
emergence of a new conjecture; that is, a transformation of the nature, form and
prospects of human activities” (Held et. al., 1999).
Chapter Three

Manifestations of the Globalization Process

Globalization has emerged as one of the most important processes of social and political change in our time. In its wake, globalization has further complicated the nature of international relations, and information and communication technologies complicate the idea of a definite polity, thereby questioning the “Westphalian” notion of sovereignty and the very foundation of international politics based on the nation state. The economic engine of the globalization process is pre-eminent in organizing the international system of trade and advanced industrialized societies are perceived to be the major beneficiaries of the globalization process.

The negative impacts of globalization that are certainly less glamorous are frequently put on the “backburner” and most discussions and forums on these issues (the environment, debt and dependency, poverty, over population and urbanization, immigration and conflict) express a nonchalant commitment at best. As social and political scientists, we need to commit ourselves to these issues and find ways of generating awareness and participation to bring these issues to the forefront. The future of global interdependence may well depend on it.

The complexities of the international system are enhanced by the priorities of free trade and free markets and this often marginalizes many a poor nation. In view of these circumstances, it becomes crucial to conceptualize and define the issues relating to globalization, especially for the South. The material aspects of globalization that are all-pervasive certainly look glamorous, and seem to create a myth of prosperity for
the global South. The realities are quite different and extremely concerning. The following section discusses some of the worrisome manifestations of globalization that generate some furious debates.

From the Old Internationalization to the New

A century ago, controversies over the impact of transnational corporations in Third World countries were central to scholarly debates on development. Articulate defenders of TNC’s as effective instruments for spreading prosperity to poor countries (like Raymond Vernon, 1968) clashed with theorists of imperialism and dependency (like Andre Gunder Frank, 1967) who saw foreign investors as bearing prime responsibility for lags and distortions in the progress of Third World countries. Now the controversy has died. Whether or not TNCs are optimal instruments of development is not important since no Third World nation considers excluding them. Recent work on TNCs (Rowthorn, 1992; Graham and Krugman, 1993) focuses on cross investment among advanced industrialized countries. Relations with TNCs take a back seat in discussions of the Third World state, which now focuses on states’ ability to implement structural adjustment policies or on their unfortunate propensity to encourage “rent seeking” behavior. This change makes sense as most FDI flows between developed countries.

However, something is lost in the silence. The impact of TNCs on the course of Third World development is significantly greater than it was during the days of controversy, as are the asymmetries of political and economic power. Despite the near ubiquity of Third World reliance on FDI, patterns of TNC involvement and its consequences have been very different across countries and regions.
For analytical purposes, it makes sense to split the post World War Two period into two, dividing the “golden age of capitalism” (1950-1973) from the last 20 years of globalization. The relations between TNCs and the Third World states during the “golden age” can also be called the “old internationalization”, where US investment in larger countries of Latin America provided manufactured goods for domestic markets. This was central to ISI (import substituting industrialization) as characterized by Cardoso and Faletto (1979) as the “internationalization of the domestic market”.

The “new internationalization” which has taken shape since 1973 represents a different paradigm where production strategies are defined by global markets, rather than local ones (although this leaves Third World domestic markets even more internationalized). Strategic alliances among TNCs that enable manufactured goods to be exported from the Third World back to rich country markets while flows from advanced countries to the Third World increasingly take the form of services and intangibles. This new internationalization pervades all regions of the Third World, but East Asia, is the archetypal site.

**The Issues for Third World States**

For many state officials, the issue involved in foreign investment is how to extract the greatest personal share from whatever wealth or income that might be generated by private actors. Thus, the interaction of these officials with TNCs can be best described in terms of bargaining models among sets of individual maximizers (Evans, 1998).

While capital is the state’s natural ally in a joint project of economic transformation, the relationship between profit-seeking and productivity enhancing long term investment is not as straightforward as simplistic theories of business might suggest.
The quest for profit can take a variety of forms, including unproductive speculation. Once increasing returns, path dependence and multiple equilibria have been admitted into economic theory (Arthur, 1990; Krugman, 1987; Romer, 1994), the equation of profit-seeking and productivity enhancement can no longer be taken for granted. Keeping the profit-seeking face of capital united with its transformative potential is a big problem for Third World states.

The logic of the relationship between the state and transnational capital is different. Since most TNCs can safely assume that even major blunders are unlikely to threaten their long term survival, they are free to take risks. In this sense, they are agents of economic transformation, but the scope and scale of power they possess, makes them unreliable allies. They rarely take risks that would ensure long term productivity, enhancing investments inside the boundaries of a poor nation.

In order to really understand these relationships local trajectories must be set in the context of the global economy. The international division of labor sets the parameters for success and failure. Some niches in the division of labor are more rewarding than others, not just because of higher profit, but because they constitute what Hirschman (1977) calls “multidimensional conspiracies in favor of development”. For example, producing textiles turned out to be a multidimensional conspiracy in favor of development for England in the 18th century.

In many ways, the difficulty of predicting the long term productive potential of any given set of territorial resources lies at the heart of the tension between Third World nations and TNCs. Reliance on TNCs, although risky, seems to be unavoidable in the
current era of globalization. No Third World state can afford to exclude TNCs or even allow government policies to fall outside the limits of what is considered reasonable by TNCs. The Third World, under these conditions, has very little maneuvering room to pursue productivity enhancing economic transformation.

Foreign investors have always loomed large in the political economy of Southern nations. Early investors were politically inseparable from colonialism, but comparative advantage was their economic paradigm. Investments that exploited the natural resource base of the Third World were the only kind that made sense.

At the end of the 19th century, there was some FDI in manufacturing, but the basic thrust of North-South relations, remained the exploitation of comparative advantage. Bairoch and Kozul – Wright point out that this early model of globalization did little to close the gap between the North and South, and in most cases laid the foundations for widening it.

After World War Two, a new model emerged where primary goods continued to dominate Third World exports, but in some nations, trans-national investments aimed at satisfying growing local demand for manufactured consumer goods. Although production and consumption within Third World economies became internationalized, the ties binding Third World assets to their owners in advanced economies became much more sophisticated. Third World operations were now integrated into First World corporate organizations by more than just a legal definition. The dominance of import substituting FDI turned out to be brief.
By the end of the 1970s, manufacturing investment aimed at Third World domestic markets was already the “old internationalization”. A “new internationalization” had begun to emerge, built around global production networks and complex forms of alliance among TNCs and between them and local capital. Production and consumption of manufactured products in the Third World was more thoroughly dominated than ever by transnational capital, but TNCs also added manufacturing exports for advanced country markets to their production.

As TNCs grew organizationally more sophisticated, and the ease of communication and travel around the globe continued to increase, replicating domestic operations in the Third World no longer seemed efficient. As GATT reduced tariffs and removed non-tariff barriers, TNCs moved to a more differentiated form of global organization. The goal was to organize production globally without considering geography and national boundaries to be overriding constraints.

Although the promise of these new arrangements looked attractive for Third World nations, in practice, Third World states had gotten more than they bargained for. Exports through global, TNC controlled marketing networks implied even tighter subordination to global TNC strategies. Now Third World hosts were dependent on TNCs for markets as well as capital and technology.

This new internationalization threatened to increase the disparities between rich and poor countries and an increasing concentration of international investment flows within the so-called “triad” of the US, the EU and Japan became increasingly evident.
If international investments within the EU are included, the intra-triad share of total international investment stocks leapt from 36% of total stocks in 1980 to 55% in 1988 (Stallings and Streeck, 1995). Correspondingly, the developing world’s share of EU FDI stock dropped by one-third, while its share of Japan’s FDI stock dropped by 40% (UN, 1993).

For Third World nations, participation in the new internationalization was even more of a privilege than in the old and regions that had been peripheralized under the old system (Africa and the Middle East) lost even more in the new system. While Latin America represented the old system, East Asia was the site for the new.

Globalization and the Multinational Corporation

Many of the claims made about globalization and the gains from trade liberalization have little foundation. Even among those who have tried to examine the issue, there is a wide range of estimates on the size of positive impacts from liberalization.

In the era of the WTO and corporate led globalization, the world has seen unprecedented financial crises that have shattered the lives of millions and unravelled decades of development in Latin America and Asia. The promised spurt in worldwide economic growth failed to materialize. Countries like Argentina that followed the WTO model, have been devastated.

There were an estimated 45,000 parent MNCs in the mid 1990s controlling about 280,000 affiliates (UN, 1997). Of these, 37,000 (82%) were home based in the 14 major developed countries. 90% of the MNC headquarters are in the developed world (Hirst and Thompson, 2000).
In 1996, the stock FDI was US$ 3.2 trillion and the MNCs controlling this stock were responsible for sales of US$ 7 trillion. This was much more than the total of world trade at US$ 5.2 trillion in 1996. Only 8% of the stock FDI had origins in a developing country’s MNC, although they accounted for about 15% flows (Hirst and Thompson, 2000). Some 80% of US trade was conducted by MNCs and for the US, 40% was estimated to be intra-MNC trade. Clearly, MNC and FDI trade are very closely linked with a great concentration of FDI. The hundred largest MNCs controlled one-fifth of the total global foreign assets, had US$ 2 trillion of foreign sale, and employed 6 million workers in 1995. 60% of the MNC stock is associated with manufacturing, 37% with services and only 3% with the primary sector (Hirst and Thompson, 2000). The growth in the service sector FDI has been the particular feature of the surge in overall investment levels.

The implications of the above for developing nations are significant and there are good ethical arguments against the MNC trade monopoly. One of these implicates problems for world order. With an increasingly globalized international system, and the majority of the world’s population excluded from the process, a greater disruption of political, social and environmental aspects of the world’s economy can be anticipated. Greater disruption in the “periphery” is increasingly having a more immediate consequence on the “core”. This is reflected in the increasing number of refugees and migrants fleeing conflict and poverty and seeking opportunities in developed nations.

There are also good economic reasons for not continuing the present inequities in North-South relations. In the 1980s, while the EU, Japan and the US were greatly maximizing on the beneficial “Triad” relationships, a recession could not be
prevented. In fact, a more balanced redistribution of trade and resources would benefit both rich and poor nations. Paul Hirst and Grahame Thompson (2000) put it best when they asked “How can the global system, however partial in its truly internationalized features, manage when two-thirds of its population is symmetrically excluded from the benefits of that system, while the limited prosperity it generated is increasingly concentrated among the already employed and successful in the wealthy 14% of the world and a few client states?” (Globalization in Question, pp.76-77).

The Informational Economy and Globalization

Since the mid 80s, states all over the world have engaged in deregulating markets and privatizing public companies, particularly in strategic profitable sectors (e.g. energy, telecommunications, media and finance). Investment opportunities have opened up the world over. However, deregulation and privatization are merely requirements in capitalistic systems and countries left to the impulses of market forces and power relationships between governments and multinationals, have become extremely dependent on technological and financial aid. “It is precisely because of the interdependence and openness of the international economy that states must become engaged in fostering development strategies on behalf of their economic constituencies” (Castells,1996). In the new global economy, if states want to increase their wealth and power, they must enter the arena of international competition, steering their policies towards productive mechanisms.

Unfortunately, stepped up market competition on a global scale takes place under managed trade (by the G-7). In trying to combine rapid technological change and
entrepreneurial innovation with deliberate government strategies for increased productivity, countries fall victim to their own ideologies.

The global economy is internally diversified into 3 main regions: North America (Canada and Mexico), the European Union and the Asia Pacific. Around this triangle of wealth, power and technology, the rest of the world becomes organized in a hierarchical and interdependent web where countries compete to attract capital, human skills and technology to their shores. “The new global system is at the same time dynamic, exclusionary and unstable” (Castells,1996). While dominant economies are linked to the global web, segments, regions, economic sectors and local societies are excluded from the processes of accumulation and consumption that characterize the global economy. Thus, while the informational/global economy shapes the entire planet, most of the world’s people do not work or buy from the global economy. Many intellectuals attribute this marginalization to the global system’s creation of the “Fourth World”.

In the global system 4 main processes determine the capacity of nations to engage in market competition:-

1). Technological capacity.

2). Access to a large, integrated, affluent market such as the EU, North American trade zone or Japan.

3). The differential between production costs at the production site and prices at the market of destination.

4). The political capacity of national and international institutions to steer the growth strategies of those countries/areas under their jurisdiction.
“The global economy emerging from information based production and competition is characterized by its interdependence, its asymmetry, its regionalization, its exclusionary segmentation, and as a result of all of these features, an extraordinary variable geometry that tends to dissolve historical, economic geography” (Castells,1996).

The architecture of the global economy features an asymmetrically interdependent world organized around three major economic regions and increasingly creating gaps between productive, affluent information rich areas and impoverished areas that are economically devalued and socially excluded. The intertwining of the three major economic regions makes them practically inseparable in their fate. Around each of these regions an economic hinterland is created with some countries being gradually incorporated into the global economy.

**Cultural Imperialism and Media Imperialism**

In all capitalist and quasi-capitalist societies, processed food, drink, tobacco, cars and personal and household products and leisure related items take up most advertising revenue. It appears unnatural that consumer advertising should predominate over producer advertising in Third World countries, because one would suppose that those most likely to be able to purchase these goods would not be the mass population.

Nonetheless, consumer goods are just as heavily promoted in Third World countries and this paradox is often explained by how cultural imperialism is reproduced through media imperialism.
The cultural imperialism thesis argues that the values and beliefs of powerful societies are imposed on weak societies in an exploitative fashion. Similar arguments have been used to explain the consequences of the influence of the US media on rich nations like Canada (Lee Chin-Chaun, 2000), Australia (Sinclair, 1996) and the world in general (Tunstall, 1977).

Media imperialism follows logically from cultural imperialism. If the US control of the media is admitted, then cultural imperialism is clearly achieved through the mass media which creates the conditions for conformity to the hegemon culture, limiting the possibilities of effective resistance to it (Becker et al., 1986; Mattelart, 1983; Schiller, 1981, Meyer, 1988).

On the other hand, even if we replace “Americanization” with “capitalist consumerism”, it can be argued that the process of globalization has enabled a double process of cultural-ideological transformation. Americanization itself is a process that is necessary to global capitalism and the culture-ideology of consumerism.

King (1984) has argued that the link between Americanization and cultural dependence began with the Hollywood movie industry cartel in the 1920s and this was achieved by exploiting the interrelationships between the economic, political, and cultural-ideological spheres, structured by the economic interests of capitalists who owned and controlled the industry and the channels through which its products were marketed and distributed (King, 1984).
In his book, “Transnationals and the Third World: The Struggle for Culture” (1983), Mattelart identifies five theoretical stages through which the analysis of the “transnational apparatus of production of cultural commodities” has proceeded. He conceptualizes the present stage in terms of “culture industries”. He argues that the culture industries (spanning from television to tourism to advertising) seek to transform the global audience into consumers of transnational commodities through the propagation of a set of self-serving notions of development, communication, organization, daily life and change. Bagdikian (1989) has documented that with the help of innovations in electronic technologies, TNCs have created unprecedented opportunities to reconstruct global cultures to serve the interests of global capitalism.

But how do TNCs actually control media markets in the Third World? A study of the practices of the Motion Picture Export Association of America, in India, provides an example. American TNCs operate a cartel to import and show American films while Indian films are kept out of mass circulation in the US. The same processes seem to work for television and video distribution (Pendakur, 1985).

The research on mass media in the Third World shows that commercial purposes are dominant. The enormous growth of the video-cassette industry in the 1980s, in India and other developing countries, has augmented the products of TNCs with local material, and the two co-exist in the marketplace (Mowlana, 1985; Ganley and Ganley, 1987).

Globalization does not occur in a vacuum; its corrosive impact on democratic governance is augmented by an ideology of privatization. This is prevalent both on the international level and within the countries whose economies are being privatized.
Privatization reverses the old and successful tradition of social contract theory on which Western democracies were founded. Social contract reasoning postulated that only those forms of public power resting on popular sovereignty can be legitimized.

The ideology of privatization insists that private power, free from government regulation is the essence of freedom. Privatization puts the public sector on the defensive. By modelling a society based on free markets where government power is minimized, privatization lends credibility to a global market where there is no government at all. The national government becomes an instrument of private economic interests rather than of the public good. Government is thus used as a tool of global corporations, banks, markets and organizations like the World Bank and IMF.

The Culture-Ideology of Consumerism

The dominant paradigm in the study of development in the 1950s and the 1960s was the modernization theory, based on the polar opposites of traditional and modern. Its underlying idea was that in order to develop, the countries of the Third World would have to become more like advanced industrialized countries in terms of their economic, political and value systems. While the first two requirements seemed relatively unproblematic, the question of values required the transformation of traditional value systems that sometimes were tied to religion.

The value system that was deemed appropriate for a successful transition to capitalist modernization was the culture ideology of consumerism. Wells (1972) has suggested that “modernization” needs to be analytically analytically split up and replaced by the concepts of “consumerism” (the increase in consumption of the material culture of
developed countries) and “producerism” (increased mobilization of a society’s population to work, and to work more productively in the non-consumerist sector of the economy). Thus it follows that “development requires the maximization of producerism” (Wells, 1972), and that consumerism is antithetical to development. High producer and consumer societies of the First World are actually attempting to develop politically important movements that challenge consumerism. Countries of the Third and Fourth Worlds that score low on both measures, score low due a lack of means of production and the lack of spending power. Their elites however, consume prodigiously.

There are nonetheless, societies like China and India, where since the 1980’s urban populations of both nations have lurched into a state of high consumerism, although unable to sustain a sustained level of producerism. Wells argued that premature consumerism can never lead to development, even when prompted by an industrial policy based on import substitution. His conclusion was that those who genuinely want development should encourage coercive producerist elites.

It is easy to see how consumerism can be accused of serving the interests of global capitalism, dominated by TNCs domiciled in the United States. The dynamic of permanently increasing the consumption of products of capitalist enterprise feeds through the profit maximizing practices of each individual unit to the system as a whole, irrespective of the consequences for the planet. The specific task of the global capitalist system in the third world is to promote consumerism among people with no regard for their own ability to produce for themselves, and with only an indirect regard
for their ability to pay for what they are consuming. Consumerism, thus has nothing to do with satisfying people’s biological needs but creating “induced wants”.

Globalization and Interdependence

Globalization emerged as a buzzword in the 1990s just as interdependence did in the 1970s, but the phenomena it refers to are not entirely new (Keohane, R.; Nye, S. 2000). Koehane and Nye further describe these phenomena: “Interdependence refers to a condition, a state of affairs – it can increase or decline. Globalism is the state of the world involving networks of interdependence at multi-continental distances”. The linkages occur through the flows and influences of capital and goods, information and ideas, people and forces. Globalization and de-globalization refer to the increase and decrease of globalism (Keohane and Nye, 2000). Globalism does not imply universality. Indeed, globalism is accompanied by increasing gaps between rich and poor nations. It implies neither homogenization nor equity. Globalism can be classified as economic globalism, military globalism, environmental globalism and social globalism. When people speak of globalization, they typically refer to increases in globalism (Keohane and Nye, 2000).

Robert Keohane and Joseph Nye in their book “Power and Interdependence” (1977) strengthened the notion that interdependence promotes peace by arguing the evolution of simple to complex interdependence that binds the economic and political interests of states tightly together. Others go even further and claim that interdependence has reached another level, transcending states and establishing a “Borderless World” (Ohmae, Kenichi, 1990).
“Globalization is a fad of the 1990’s and it is made in America” (Waltz, 2000). Thomas Friedman’s “The Lexus and the Olive Tree” is perhaps the most exultant celebration of the American way, of market capitalism and liberal democracy. Freedom, markets transparency and flexibility seem to be the keywords. The “electronic herd” moves vast amounts of capital in and out of countries according to their political and economic merits. Capital moves instantaneously into countries with stable governments, progressive economics and open accounting systems and out of countries lacking those facilities. Countries wishing to attract investment and the benefits of technology must adhere to certain strict policies (for example, the SAPs imposed on LDCs by the IMF).

Globalization also means homogenization and it often encounters resistance due to its requirement of conformity. In its movement, globalization has excluded most of Africa, Latin America and parts of Russia, the Middle East and Asia. For many countries, the process of globalization varies by degree. Waltz (2000) puts it best when he says that globalization is mainly limited to northern latitudes and the concept of a global village seems lacking.

There is also a difference in the nature of interdependence today compared with interdependence earlier. During the years of post World War Two recovery, protectionist policies lingered as the US opened its borders to trade while taking a relaxed attitude towards countries protecting their markets. Waltz explains the period between 1914 and the 1960s as developing an interdependence deficit. This may explain the steady growth of interdependence thereafter.
Waltz (2000) also points out that money markets may be the only economic sector that has become truly global but despite the ease of communication, financial markets in the past were at least as integrated as they are now.

In a sense, the new interdependence closely resembles the old and this is often underplayed by many globalization theorists. As Waltz (2000) rightly points out, in any competitive system, the winners are imitated by the losers. In the process, there seem to be clear winners and losers (especially in the context of globalization and the WTO). Friedman expresses this when he says that one has to “do what the electronic herd requires, or remain impoverished”. Friedman further asserts that in a competitive system, a few do exceptionally well, some get along, and many bring up the rear.

Many researchers exaggerate the closeness of interdependence, and even the extent of globalization by thinking of individual states rather than the international political system as a whole. States are differentiated from each other by economic capability. The inequalities of states are growing more rapidly and rich countries are becoming richer. In the international system of today, the United States depends relatively little on others and has a wide range of political options and the ability to pressure others to assist them. When national economies fail, the United States (through the workings of the IMF/World Bank) has the ability to step in. International agencies often follow. Friedman calls this “a bailout organized by the United States”. The international economy operates within a set of rules and institutions that have to be sustained. For example, the role of NGOs in the development of Third World nations provides some insights into the nature of interdependence.
The role of NGOs in underdeveloped nations has grown immensely and today there are more than 5000 international NGOs (INGOs) based in developing nations that work with over 20,000 local NGOs (Picciotto, 1996). Shaw (1990) states that by the late 1980s, development oriented NGOs in the North raised over $3 billion from private sources and received a further $1.5 billion from Northern governments. This together, accounted for 15% of all official foreign aid.

The obvious questions that arise are – “What is the relationship between NGOs and the state and the relationship between NGOs and the donor agencies that fund them?” Should NGOs be partners or competitors with the state? Questions have also been raised about the repression of NGOs (in some nations) when they undertake an advocacy role on behalf of the poor. On this issue, concerns about dependency itself and about over-reliance on foreign donors are outstanding. There is a concern that NGOs may “sell out” to donors and representing the poor may raise the question of accountability for many NGOs.

**Inequality, Globalization and World Politics**

Inequality has always been a defining feature of world politics. Immense and increasing disparities of wealth, power and security are shaping the world more than ever before. Economic liberalization is exacerbating the gap between rich and poor within virtually all developing nations. Other elements of globalization are increasing the inequalities of political power and influence and creating new dimensions of inequality. For some nations, globalization is eroding the viability of the state while others are better placed to exploit new opportunities. The disparity of power among
states is also becoming more marked as a new set of far reaching rules, rights and values are being asserted and imposed at the global level.

Technological advances, far from creating more equality are in fact widening the gaps among states and regions. Globalization is thus increasing the inequality of resources, capabilities, and the power to make or break the rules in the international arena. Within weak states, globalization and widening inequality are eroding the capacity of governments to deal with increasing social, economic and political conflicts.

Inequality within the traditional conception of the world order is a positive, restraining, ordering force. It permits the operation of a balance of power substitute for the centralized authority option. At the same time, hierarchy in the international system has never meant the strict imposition of absolute will by powerful states. Similarly, in the contemporary accounts of international relations, the relationship between power and accommodation is continued in theories that assume that “hierarchy breeds order” (Buzan, Jones and Little, 1993).

The experience of the 1990s suggests that traditional hierarchy does not maintain order in the face of new challenges. Since the end of the Cold War, the insufficiency of the US to provide solutions for these challenges has highlighted the shortcomings of the existing international institutions. Today, for countries to achieve the goals of health, environmental protection and security, a more sophisticated order is required. The most powerful states in the system continue to resist any reform of the institutions they dominate. For the last 20 years, normative arguments for greater equality in international institutions have been advanced. Unfortunately, these arguments continue
to have very little effect (Pomerance, 1982). Inequality shifted to the centre stage with the North-South politics in the 1970s. What came to be known as the North-South debate was fed by three different arguments about injustice and inequality among states.

Underpinning one case for redistribution among states was the argument of historical injustice through colonialism. The exploitation of resources needed to be redressed through the transfer of technology and wealth to the developing world.

A different emphasis blamed underdevelopment on the structure of the world economy. A more theoretical argument emerged in the wake of John Rawl’s 1973 work “A Theory of Justice” that tried to set an egalitarian standard of justice for politics. In the early 1980s Charles Beitz extended these principles to international society, arguing for a transfer from rich to poor countries, on the basis of interdependence and world community.

In the early 1980s, Regan, Thatcher and Kohl brought a new agenda that pushed inequality off the domestic and political agendas. Theories of self-help were being promoted and the South’s failures were accounted to policy failures highlighted by the debt crisis. The neo-liberals promoted the market remedy for all of the South’s troubles (Bauer, 1984). As a consequence, aid flows to the South were cut back and assistance offered became conditional to strict IMF rules. Many countries, during this period suffered an increase in inequality (Charney, 1985).
Today, justice claims based on inequality have all but disappeared. By the 1990s, just one aspect of inequality remained prominent on domestic and international political agendas – poverty. Poverty has replaced inequality as the goal of a just society.

This requires reducing or eliminating some absolute standards of deprivation (UNDP, 1996). Policy requires governments to target welfare measures towards the poorest. As Stewart and Berry note, problems with targeting are not just practical ones (the poor are often unable to gain access to benefits) but also political. The increased attention to poverty has also brought about a new categorization of the South. In the 1980s, institutions dealing with the debt crisis began to distinguish among different categories of poor and developing countries, using descriptions such as “middle income”, “low income” and “highly indebted”. Since 1996, the IMF and World Bank have put together a debt relief initiative for the poorest and most indebted countries of the South (IMF, 1998).

In the early 1990s, the new focus on poverty alleviation was accomplished by a reduced role of the state including its role in administering development projects and delivering aid through the heavy reliance on NGOs (World Bank, 1997). By the late 1990s however, these multilateral institutions realized that the market oriented approach grossly neglected the role of state institutions and there is currently a renewed focus on strengthening and modernizing the state and its capacity to deliver. These shifts in policy hide the continuing and deepening inequalities in the world political and economic systems.
It is apparent that developing and developed countries do not compete on a level playing field. This contrasts sharply with the claims that globalization will open up new opportunities for poorer nations. Yet developed nations are willing to exploit opportunities in the world economy. The Uruguay Round of trade negotiations for example, promised to liberalize rules for all nations, yet the negotiations have created a system that is biased against developing countries. If one looks at the issue of tariff barriers, developing nations face tariffs 10% higher than the global average, with the least developed nations facing figures up to 30% higher. The reductions that were negotiated have been much more advantageous to developed nations, reducing tariffs on 45% of what they export (UNDP, 1997).

The clearest examples of this unequal treatment relate to textiles, clothing and agriculture. Since 1961, textiles and clothing have had restrictive quotas (the Multi Fibre Arrangement) beyond which tariffs apply. For countries like Bangladesh and Sri Lanka, these goods account for half their export earnings, for Sub-Saharan Africa 24% of exports, for Asia 14%, and for Latin America and the Caribbean 8% of exports. The Uruguay Round will eventually reduce tariffs to an average of 12% (which is three times the average levied on developing country exports).

In agriculture, the US and the European Union dominate world markets, giving heavy subsidies to their own farmers. It has been estimated that these subsidies amount to around half the value of agricultural output in these economies (UNDP, 1997). This protectionism has three devastating effects on developing countries:

1. It keeps world prices for agricultural commodities artificially low.

2. It excludes developing nations from markets in the industrialized nations.
3. It exposes developing country producers to “dumping” of cheap produce from developed nations (Handley and Messerlin, 1996).

The use of non-tariff barriers is yet another hindrance to developing country exports. Quotas, voluntary export restraints and anti-dumping measures restrict the export potential of developing countries. A core part of the 1970s agenda for equality was for the transfer of technology from developed to developing countries (North to South). Initially, this was seen to be the role of MNCs but there has really been no transfer for many in the South who claim that without technology they cannot hope to compete in the global economy.

The regime of patents and intellectual property rights introduced in the Uruguay Round makes technology transfer even more difficult (OECD, 1998).

**Markets and Inequity**

In the last 30 years, a great deal of research has been done in comparing and analyzing various paradigms and conceptual perceptions of the international (world) system. While the debate about methodologies from the 1970s continues, the new debate now is between those who think that little has changed since the end of the Cold War and those that think that a great deal has changed (Kranser, 1994; Strange, 1994).

The universe of globalization is far removed from the “golden straightjacket” theory promoted by Thomas Friedman. Economic globalization results from innovation and technology, information, trade, foreign investment, and international business. The main actors are companies, investors, banks, private services industries and
international organizations. The present form of capitalism ironically foreseen by Marx and Engels, poses a dilemma between efficiency and fairness. While specialization makes it possible to increase wealth, the logic of capitalism does not favor social justice. Economic globalization has thus become a cause of inequality among states and the level of global competitiveness limits the scope of states and other actors to address the problem.

Cultural globalization stems from technology and economic globalization, which together create the flow of cultural goods. The choice is between uniformization (Americanization) and diversity. The result is a reaction against Western culture. Political globalization is a product of the two and is characterized by the dominance of the United States and its political institutions, including a network of international organizations and trans-governmental networks. The question of American hegemony remains an open one, affected by America’s tendency towards domination and isolation.

The benefits of globalization are many but “Friedmanlike” optimism is very fragile as globalization excludes many poor countries and people from markets and services. Globalization also raises the question of the nation state’s survival. Market forces are often accused of both hindering and aiding governments in carrying out their economic policies. Wolf (2001) sees globalization as a journey towards an unreachable destination – “the globalized world”. According to Wolf, “a globalized economy could be defined as one in which neither distance nor national borders impede economic transactions. A world where the cost of transport and
communications would be zero and the barriers of borders and boundaries would not exist”.

Many do not see globalization as a new phenomenon and firmly believe that the nation state will survive. Wolf (2001) suggests that globalization is not destined, but chosen – a choice made to enhance a nation’s economic well-being. The potency of states, Wolf says, lies in the choices they make about globalization. He further notes that globalization only progresses as far as national policymakers allow it to.

Internationally, institutions such as the WTO, the IMF and World Bank, the EU and policies such as NAFTA, have launched the liberalization of economic policies worldwide. This multilateralism is a major facilitator of globalization. However, in the developing world, globalization does not necessarily create a sense of optimism. In fact, it is often perceived as destroying governments and further enhancing North-South inequities that already exist.

**Other Impacts of Globalization**

In the market based economic system, globalization supposedly opens up opportunities for all states. Yet, evidence suggests that the process is highly imbalanced. Though largely driven by technology, globalization is also shaped by deregulation, privatization, and political choices made by governments. The flow of goods, services, people and capital although increasing, is also barred by regulations.

The impacts of globalization have been strongly shaped by those that hold the power to enforce the rules of the global economy (Franck, 1995). Globalization seems to be
cementing old economic inequalities between “haves” and “have-nots” – including the capacity to make rules. Yet, the new rules for globalization require the cooperation of “have-nots”.

In the area of international trade for example, globalization has wrought many uneven consequences. It is evident that the high levels of trade in today’s world economy are concentrated among developed nations (UNDP, 1993). Although many developing nations have liberalized their economies, many are still marginalized. The role of the IMF, World Bank and the OECD in creating the terms for liberalization has been critical.

Globalization, it has been argued, is changing both competition among and policies within nations. It also affects the actors and institutions in world politics. In a system created for 51 countries, 193 states now enjoy sovereignty which is becoming more diffuse. Traditional conceptions of order fail to take new actors into account and fail to explain how and why these actors have emerged onto the stage of world politics. The traditional hierarchical order undermines the globalization process due to new global concerns such as environmental problems, trade rules, equity and interdependence.

**Environmental Degradation and Inequality**

Since the Brundtland Commission’s report “Our Common Future” in 1987, the Earth Summit in 1992, environmental issues have emerged on the global stage as central concerns. This is on account of the way they are linked to social and economic aspects of development and also because they appear to set limits on what can be achieved by
“development” itself. Michael Redclift and Colin Sage (1999) identify four critical dimensions of inequality which are relevant to any consideration of the environment and resource degradation.

1. The unequal distribution of historic responsibilities for global environmental changes, especially climate change.

2. The fact that global changes have disparate impacts on different people and regions of the world.

3. The degree to which the international discourse over global changes tends to reflect different environment and development priorities; the developed countries showing priority to sustainability as a goal rather than a set of management tools.

4. If sustainability was considered to be a common goal of international politics, economic growth itself would become redefined and the reduction of waste and pollution would constitute an objective of policy together with the reduction of world poverty.

The discussion of climate change has concentrated our attention on shifts in the climate system that are difficult to understand, but severe problems of pollution lie near at hand. “Indoor pollution” from burning wood and poor ventilation harms over 400 million people worldwide and contributes to acute respiratory infections from which 4 million children die annually. Household sewage is another global problem – sewage is the main source of water contamination and poor sanitation for over one and a half billion people worldwide. In the developing world, almost 95% of the sewage is untreated. The provision of clean drinking water would enable 2 million fewer children to die from diarrhoea each year. Currently, thirteen and a half million children die as a result of poor diet (Ekins, 1996).
According to Khor, debt servicing by capital importing developing nations from $ 90 billion in 1980 to $ 158 billion in 1992, so that there was a total flow from South to North over the period (1980 – 1992) of $ 1,662 billion, of which $ 771 billion was interest payment and $ 891 billion the repayment of principal (Khor, 1994). Debt servicing is draining about $ 160 billion annually from developing nations, yet the overall stock of debt in the South is rising by about $ 100 billion per year and the debt to export ratios remain extremely high. For example, 29 of the 32 severely indebted nations still have debt to export of more than 200% despite bilateral relief measures (Broad and Melhorn-Landi, 1996). As noted by Khor, this overhang of huge debt stocks poses a major constraint on prospects for financing sustainable development in the South.

Southern governments have attempted to reposition themselves within the new global order by embracing liberalization and deregulation but international investment has also led to a compromise of their environmental resources and ecosystem functions. The exploitation and sale of tropical hardwoods and other rare plant and animal species, as well as non-renewable mineral resources, constitute examples of natural resource depletion through trade.

International capital favours concentration rather than dispersal. According to estimates by Broad and Melhorn-Landi, between 1989 and 1992, 72% of all foreign investment (FDI) went to 10 countries, while around 50 of the world’s poorest nations received just 2% of FDI. In 1993 East Asia and the Pacific received 55% of all FDI and Latin America and the Caribbean 24%, while Sub-Saharan Africa accounted for
3% and South Asia just 1%. The 10 or so beneficiaries of FDI are likely to join the ranks of the North while the remaining 140 plus nations may slip further behind, especially if they remain dependent on the export of their primary commodities. While methods of calculating the deterioration in terms of trade vary, it is agreed that the real value of non-oil primary products has been falling by an estimated 5.7% per year during 1974 – 1980, 3% per year during 1981 – 1986 and 1.8% per year during 1987 – 1993 (Broad and Melhorn-Landi, 1996). The IMF and World Bank prescriptions for raising export earnings through primary commodities has, not benefited developing nations.

It is apparent that such policies have set into motion processes that require increased demands on natural resources made by desperate people in order to meet their livelihood needs (Mearns, 1991). A recent UNRISD publication shows that removing subsidies, reducing wages and increasing market competition forces people to diversify their livelihoods in order to survive. In the urban areas this may mean a second job or participating in the informal sector. In rural communities, the increasing costs of agricultural inputs and declining incomes, force farmers to seek other survival measures; squeezing residual fertility from overused land, planting adventitious crops on marginal land, using common property resources to extract lumber, wood fuel, and other forest resources. These short term activities have immense long term consequences on sustainability, and together with wage-labour migration, results in a declining food security in the South.
Globalization, Environment and the Poor

Globalization as a social and economic system in a capitalistic world economy has some crucial implications for the global environment. In many instances, the site of environmental degradation may be far removed from its agent of causation. This represents the interdependent patterns of development that involve the mobility of capital and the relocation of industrial processes. Environmental change arises from the process of globalization and its underlying dynamic of material accumulation. Saurin argues that this process concentrates wealth in certain areas and regions by extracting from and dispossessing other locales and groups (Saurin, 1996).

Integrating with the world economy greatly diminished the capacity of local producers to exercise control over their choice of production systems and the management of resources. Decisions made half a world away, usually involving the imposition of externally derived macroeconomic goals and profit incentives, exert a greater influence over local production and environmental systems. The food industry provides many examples of this pattern of development where Northern capital exercises great influence over land use in the South.

The Netherlands controls 24 million hectares of production capacity, 10 times its own area of cropland, pasture and forest. Part of this capability supports cassava production in Thailand and Indonesia that enters the feed industry for pig farming in the Netherlands (Postel, 1994). Indonesia, eager to increase its share of the EU’s cassava quota, has seen domestic prices rise sharply. Farmers are also switching to unsustainable methods and mono-cropping to increase cassava production (Conway and Barbier, 1990).
This example shows the impact of a distorted trading structure along with short term policy objectives that lead to environmentally unstable outcomes (Peet and Watts, 1996). Buttel and Taylor have argued that packaging multiple environmental problems within a common rubric conveys a scientific legitimacy and political rationale for responding urgently (Buttel and Taylor, 1994). Such arrangements for environmental management tend to provide an opportunity for powerful groups to exert control over the resources of others in the name of sustainable development.

This management paradigm with a curative rather than a preventative agenda has dominant for the last three decades. Arturo Escobar asks the question “What kind of planet do we want?” (Escobar, 1996) and in turn inquires into the identity of this “we” who supposedly know what’s best for the entire world (Scientific American, September 1989). Of course, the “we” in Escobar’s question is the small group of multilateral agencies (World Bank, IMF, WTO and the G-7) who control over 60% of world economic output and over 75% of world trade.

The World Bank has been able in the past to disguise the greater part of its lending program under the guise of basic needs and poverty alleviation. Similarly, it managed to offset the criticisms of the environmental impacts of its policies through the introduction of environmental reforms in 1987. In the early 1990s, Bruce Rich commented on the Bank as follows: “Beneath its long self-proclaimed mission of banker to the poor and behind its new green facade, the Bank continued to do what it has always done; move larger and larger amounts of money to developing country governments for capital intensive, export oriented projects” (Rich, 1994).
Not surprisingly, the Bank added the language of participation to its plan for poverty alleviation and sustainable development. However, the 40,000 people displaced by the Itaparica dam in Brazil or the 90,000 people displaced by the Sardar Sarovar dam in India (who have suffered directly as a result of World Bank funding of socially and environmentally destructive projects) would have a legitimate axe to grind against the World Bank.

At the same time, the IMF has also imposed its own programs of regressive social engineering using the pretext of economic stabilization and structural adjustment, designed to ensure that nations meet their debt obligations and deepen their integration into world markets.

The WTO is charged with ensuring the continuing liberalization of trade through the elimination of subsidies and import controls. Together, these three organizations (with the blessings of the G-7) in their economic management of world trade, have caused a major reorganization of societies and economies in the nations of the South.

For the vast majority of developing countries, the current move to maximize economic growth is associated with many activities that result in high levels of pollution and resource depletion. To attract foreign investors, Southern governments relax environmental standards and working conditions, while lowering wages. The exploitation of Chile’s native forests, the expansion of shrimp aquaculture in Honduras, mineral extraction in Brazil’s Carajas scheme are examples of renewable and non-renewable resource exploitation.
In an era of globalized production systems, the corporate agenda remains dominant and national governments in the South are severely compromised in their capacity to ensure the social welfare of their populations. The multilateral institutions oversee the functioning of trade liberalization and deregulation to ensure a suitable climate for investment and enhanced profits. Northern governments vigorously promote the notion of environmental management in the South, mainly because it represents a new area of earnings in a field where the North holds a large scientific and technological advantage.

Although globalization is an underlying dynamic of global environmental change, the lack of corporate opposition to global warming can only be explained by the business opportunities that these problems are likely to create. As Bhaskar argues, the emission of greenhouse gases is a classic international case of market failure, since the costs of an individual nation’s economic activity are incurred worldwide, while the benefits of these activities are appropriated nationally. The problem of addressing global warming poses an international dilemma. How can countries be induced to take measures which may benefit them indirectly? (Bhaskar, 1995).

From the perspective of developing countries, the real costs of reducing emissions levels are very high. It is unlikely that “sustainable development” will gain precedence over economic growth in the developing South. At the same time, a transition to cleaner technologies in the South is not encouraged by Northern governments whose focus is to gain markets for themselves. They place their own short term economic advantages over long term global benefits.
Climate change is another factor that obscures the international picture. Climate change is likely to affect developed and developing countries differently. The evidence from the Inter Governmental Panel for Climate Change (IPCC) and other bodies is clear: global warming is likely to lead to more unpredictable weather in tropical areas.

Globalization, Markets, Poverty and the Environmental Assault

“Globalization is an inevitable, technologically driven process that is increasing commercial and political relations between people of different countries. For them, it is not only a natural phenomenon, but primarily good for the world, although it is recognized that the process produces both winners and losers”. (Weisbrot, 1999). The process of globalization can be described as the economic, ecological, and political integration of nations. Unfortunately, the process of integration does not always relate to fairness and equity. In fact, “there is ample evidence to show that the globalization process will neglect at least a billion people for several decades until they can integrate themselves within national and global markets”. (Agarwal, 1998). Additionally, the adverse effects of free trade on the fragile global environment cannot be overemphasized.

Environmental problems are climbing higher on the international political agenda and have become acrimonious in North-South relations, with rich and poor nations divided on how to delegate responsibility for reversing the planet’s ecological decline. Ecological globalization poses enormous challenges to traditional government structures, especially in the poorer nations of the South. National governments are ill suited for managing environmental problems that transcend boarders and have a
collective impact on the planet’s health and natural systems. Nations grant significant power to the WTO and IMF but environmental issues remain as an afterthought in these institutions. Over the course of the 20th century, the global economy stretched the planet to its ecological limits and international governance structures are much needed in the 21st century, to ensure a sustainable future. The mismatch between ecological imperatives and the prevailing economic practices will have to be bridged to check the deterioration of critical ecological systems. The new rules for the global economy are however, set by the WTO and IMF where maximizing on global commerce is the top priority.

Even something as basic as our food supply is now deeply integrated into the global economy. The value of world agriculture trade skyrocketed in recent decades from $224 billion in 1972 to $475 billion in 1997 (French, 2002). The developing world is a net importer of foodstuffs such as grain and meat and an exporter of cash crops. Cash crops like coffee, cocoa and palm oil that are the mainstays of many national economies hold many environmental costs including the displacement of farmers and the promotion of chemical intensive agriculture.

Susan Strange offers a penetrating and pessimistic look at the future of the state-based international system. She finds three fundamental flaws in the state system.

1. The inability to manage the international financial system.
2. The lack of action to stop environmental destruction.
3. The failure to stop the growing gap between the rich and the poor.

For her, the “Westphalian” system has been an abject failure.
In line with this thinking, the huge problem of the Third World, like the debt crisis for example, are being increasingly blamed on the conventional models of development theory and practice. Many feel that the core mistake is the association of development with economic growth or the assumption that growth is the means to development. Thus, the focus is on indices such as the GDP of nations that creates a false impression that wealth is being generated.

If maximizing the growth of GDP is the top priority, then those with capital to invest will make the most profit and the wealth generated will not benefit the majority. In fact, it may serve to deprive the poor of the resources they once had. The basic problem in Third World development is not the shortage of resources such as land and capital, but their extremely uneven and unjust distribution.

The global economy is a market system and market forces have an overwhelming tendency to make wrong development decisions. The major effects of the market system on development are:

1. Market forces allow the rich few to take most or all of the available resources (20% of the world’s people who live in developed countries consume approximately 80% of resources with a per capita resource consumption that is about 17 times that of the poorest half of the world’s population.

2. Market forces have mostly produced the development of the wrong industries.

3. Much of the Third World’s production capacity has been has become geared to the demands of the rich. (Dowlah and Dowlah, 2004).
Globalization has gone as far as it has only because political decision makers have made a series of decisions affecting trade, investment, capital markets, fiscal and monetary policies, public ownership and the operation of international institutions. Globalization is not just the spread of corporate and financial activity, it is the spread of political ideas backed by economic power.

It also represents the export of a culture and psychological disposition, one based on “growth fetishism”, compulsive consumption and the thoughtless exploitation of the natural world. This may explain the minimal resistance to globalization, when people are besotted by consumerism and consumption. Belief in the power of growth and consumption reduces the attitudes of people to the natural world, as a mechanism providing resources. Growth like globalization is now implanted in people’s minds as a force beyond human control.

It is quite evident that the current pattern of material consumption is environmentally unsustainable. The implications of the un-sustainability of material consumption, challenges some of our most fundamental beliefs about how we live. Nowhere is the political and ideological force of growth fetishism more apparent than in the tortuous debate over how to tackle global warming. In 2002, the US National Academies of Science endorsed the IPCC’s (U.N. Intergovernmental Panel on Climate Change) conclusions and produced a new report titled “Abrupt Climate Change: Inevitable Surprises”, which argued that global warming may trigger unwelcome climate events. In 1997, the Kyoto Protocol finally saw a glimmer of hope and the proposed 5% reduction in emissions by rich countries over 10-15 years would have been a significant step in the right direction. Under pressure from the fossil fuel lobby in the
US, loopholes were inserted in the protocol and the election of George Bush in 2001, totally ruled out even minimal emission controls. The perceived impact of reducing emissions on the rate of economic growth was the main reason for the reluctance of the rich countries to cooperate.

**Liberalization and Inequality**

The changes in the last two decades in economic and social policy in both developed and developing nations are broadly defined as liberalization or globalization. These changes have had important effects on world inequality. The inequality in income distribution within countries is important as this is where world inequalities have been exacerbated over the past two decades.

The gap between rich and poor nations has long been a major source of inequality. The policy changes described as “liberalization” commenced with a move from “Keynesian” to a monetarist macro economic standard in most developed countries and a shift from state welfare to pay-as-you-go social services.

There were parallel changes in developing countries where policy was subject to the same shifts through conditions set by the IMF and World Bank and also through the dominance of their educational systems (particularly the U.S.) which produced cohorts of so called “Third World technocrats” (Hellenier, 1992). The principal change in developing countries was a shift away from state intervention in industrial and social policy, towards a liberal market policy.
There are strong reasons to be concerned with the impact of liberalization on income distribution. Income distribution is important in itself as people’s well being depends on their relative as well as their absolute standards of income. It is also important for its implications for social and political stability, poverty and growth. This has been underlined by evidence indicating that equal income distribution tends to lead to higher growth rates (Alecina and Rodrik, 1994).

Existing studies indicate that inter-country income differences are a more important source of world income inequality than are differences in income within countries (Berry, Bourguignon and Morrison, 1991). Changes in inter-country income distribution depend on relative growth rates across countries and changing terms of trade between them. Growth rates are affected by liberalization but they also depend on factors like savings and investment rates and education policy. In examining inequalities within nations, a further set of theoretical considerations is crucial. Looking at distributional outcomes is vital to distinguishing between primary and secondary incomes. Primary incomes are those generated by the economic system (e.g. regular wages and dividends) and these are affected the impact of changes in the structure of the market on people’s incomes. Secondary incomes are basically deductions from individuals’ primary incomes (e.g. taxes) or additions to income such as pensions provided by the state, public goods provided by NGOs or families. Secondary incomes are thus affected by changes in government taxation laws and expenditure policies and by access to publicly provided goods and services.
The policy changes undertaken in the 1980s have affected both types of income. However, it must be noted that the effects of liberalization differ depending on nature of the policy changes implemented (Taylor, 1988).

**Primary Incomes**

In the world as a whole and within particular countries, the upper income groups and upper income nations (shorthand for the rich) have disproportionately more capital, land and skills while lower income groups and low income countries (the poor) have disproportionately more labour. It follows that changes that lead to the concentration of these assets among families, are likely to make income distribution more unequal, while changes that lead to a rise in returns to labour, or decrease the concentration of assets are likely to lead to a more equal income distribution (Wood and Ridao-Cano, 1996).

Interventionist government policies, such as that affect exchange rates, import restrictions, wage rates, interest rates, tend to factor rewards from reflecting factor endowments in the way they would in a “free” market environment. Liberalization relaxes these restrictions and brings about a situation closer to free market equilibrium. In developing countries, the restrictions have generally depressed returns to the well off (profits) and improved returns to those whose main asset is labour. Hence, removal of restrictions would tend to worsen (make more unequal) income distribution, as profits and skilled wages rise and unskilled wages fall.
In developing countries, the expected effects of liberalization on income distribution vary with the type of economy:

1. Manufacturing goods export producers
2. Mineral exporters
3. Primary goods export producers
4. Import substitution industrializing countries

The move toward market liberalization has not been uniform across all categories. Most restrictions that have been maintained or enhanced tend to harm developing countries as a whole and those without assets within them. For e.g. restrictions on intellectual property have not been removed but reinforced by recent policy changes. Restrictions on the import of goods from developing countries (e.g. the Multi Fibre Agreement and the control on agricultural products) have also been maintained.

**Secondary Incomes**

Policy changes associated with liberalization include changes in tax policy and the provision of social services, affecting secondary income distribution. On the macro side, reforms tend to reduce the total share of taxation and expenditure in GNP. This usually has a small regressive effect on secondary income distribution.

Most advanced countries saw a worsening of income distribution from the mid-1970s. Primary income distribution in developed countries became more unequal as a result of several factors. A major one was an increased variance of wage and salary earnings (Kuznets, 1955). According to Cory and Glyn, “The 1980s saw a general increase in earnings inequality” (Corry and Glyn, 1994). They found that the largest increase
occurred in the U.S.; Sweden saw a reversal of strong earlier declines in inequality and the U.K., after a century of stability in earnings dispersion gave way to sharp increases. Other factors contributing to the worsening trend of income distribution were a tendency for a rising share of profits and a falling share of wages, rising unemployment, and the changing age-profile of the population.

The extent of policy change in developing countries and the effects of liberalization have differed across regions because of differences in economic situations and structures. The foreign exchange and debt crisis that hit the developing world in the 1980s was mainly concentrated in Africa and Latin America. Asia (except the Philippines) was less affected (OECD, 1993).

The Transformation of Work and Employment

The historical evolution of the employment structure has gradually been dominated by the trend toward increasing productivity of human labor. Information technology has further brought about an evolution of employment especially in the G-7 countries. The common features of these changes are:-

1). The phasing out of agricultural employment.
2). The decline of traditional manufacturing employment.
3). An increase of the service sector.
4). An increased diversification of service activities as sources of jobs.
5). The rise of managerial, professional and technical jobs.
6). The “white collar” proletariat made up of clerical and sales workers.
7). The simultaneous rise of the upper and lower levels of the occupational structure.
There are two different versions of the information model adopted within the G-7 with some distinct features.

**The Two Information Models**

1. “The Service Economy Model” represented by the US, UK and Canada is characterized by a rapid phasing out of manufacturing employment (after 1970), as the pace toward informationalism accelerated. This model almost completely eliminated agricultural employment, and differentiation among various service activities is the key element to social organization. Capital management is favored over producer services and the social service sector is expanded because of a dramatic increase in health care jobs and to a lesser extent education related jobs. The role of the middle manager is greatly enhanced under this model.

2. “The Industrial Production Model” is represented by Japan and to some extent also by Germany. Manufacturing levels are kept relatively high (one-fourth the labor force) and there is a gradual movement toward a new socio-technical paradigm. This model reduces manufacturing jobs while reinforcing manufacturing activity.

Various versions of these models in the G-7 countries are dependent on their position in the global economy. For a country to be focused on the “service economy” model means that other countries are exercising their role as industrial producers. The implicit assumption is that post-industrial countries would be service economies while less advanced nations would specialize in manufacturing and agriculture. However, throughout the world many economies are “quasi-subsistence”, where agricultural and industrial activities thrive outside the information core, based on their connections with the global economy.
Is There a Global Labor Force?

Although it seems logical that a global economy would require a global labor force, yet this statement is empirically wrong. While capital flows freely in global financial networks, labor is highly constrained by institutions, culture, borders, police and xenophobia. Only 1.5% of the global labor force (80 million workers) worked overseas in 1993, half of them concentrated in Sub-Saharan Africa and the Middle East (Campbell, 1994). In the EU only 2% of workers work in another EU country. Despite the public perception in the North regarding the invasion of immigrants from the South in the late 80s, the impact of immigration on labor was extremely low. In the UK for example, the percentage of foreign labor was 6.5% in 1975 and 4.5% in 1987. Only in the US did a significant wave of new immigration occur in the 80s and 90s (Newsweek, 1993).

Foreign Direct Investment (FDI) is the driving force of globalization and the worldwide stock of FDI tripled from US$ 500 billion in 1980 to over US$ 1,500 billion in 1990 (Bailey et al, 1993). Undoubtedly multinational corporations are the most significant agents of this pattern of FDI and they are also the organizers of the global labor force. The number of multinational corporations increased from 7000 in 1970 to 37,000 in 1993 with 150,000 affiliates worldwide. Although they employ “only” 70 million workers directly, these workers produce one-third of the world’s total private output. Global values of their sales in 1992 were US$ 5,500 billion, a figure 25% greater than that of world trade (Tyson et al, 1988 &UNCTAD, 1994). A
wide range of opportunities has opened up for multinationals with regard to labor strategy. They can do the following:-

1). Downsize, keeping skilled labor in the North and import inputs from low cost areas.

2). Subcontract their work to transnational establishments and auxiliary networks.

3). Use temporary labor/part time workers.

4). Automate or relocate tasks.

5). Obtain from their labor force, agreements to more stringent conditions of work and pay.

“There is no systematic structural relationship between the diffusion of information technologies and the evolution of employment levels in the economy as a whole” (Castells, 1996). Jobs are displaced and new jobs created, but the quantitative relationship between the losses and gains varies among firms, industries, sectors, regions and countries, depending on competitiveness, firms’ strategies, government policies, institutional environments and relative position of the global economy. The specific outcome of the interaction between information technology and employment is largely dependent on macroeconomic factors and sociopolitical contexts.

Overall, the employment projections for the early 21st century forecast a significant increase in jobs for the US and moderate growth for Japan and the EU. For the 1992-2005 period, the projected net increase of jobs would be 24 million for the US, 4 million for Japan and 10 million for the EU (OECD, 1994). These projections are dependent on migration and participation and the realization of these projections depends on socially determined decisions on the uses of technology, on immigration,
policy, the evolution of the family, institutional definitions of working time and on the new system of industrial relations.

Thus, information technology per se does not cause unemployment but it obviously reduces working time per unit of output. The kinds of jobs change in quality, quantity and the nature of work. A new production system requires a new labor force; those individuals and groups unable to acquire information skills could be excluded from work or downgraded as workers.

Finally, the flexibility of labor processes and labor markets induced by the network enterprise affects the social relationships of production, introducing a new model of flexible work and a new type of flexible worker. On the surface, societies are becoming dualized with a substantial top and bottom, growing at both ends of the occupational structure. There seems to be a shrinking middle, depending on each country’s position in the international division of labor that is largely unnoticeable. But at the very core of social structure, a more fundamental process has been triggered by informational work, namely, the disaggregation of labor, ushering in the network society.

There is little doubt as to the relation between international trade and labor standards. The reality is that free trade creates “huge and endemic trade imbalances between nations and declining wages, high unemployment and the proliferation of environmentally devastating, unsafe work at subsistence wages across the globe”. (Gardner,1994). Labor activists and other critics assert that the WTO’s “corporate globalism” sacrifices local regulatory control and weakens the protection of workers.
These problems are especially prevalent in developing countries. In Asia, cheap migrant labor has become a commodity as rural people are displaced to urban industrial areas. Migrant workers have no rights and are ready to accept any type of employment. The Filipino government promotes labor export where nearly 2000 workers leave everyday. (Ratshitanga, 1999).
Chapter Four

Deconstructing the Dependency Paradigm
A Framework for the Myth of Prosperity Thesis

This chapter attempts to design a framework for the myth of prosperity thesis and is based on certain assumptions: Dependency theory and the expert-biased development paradigm have failed in their basic goals and these theories have been unable to capture and accommodate the globalization process. Globalization changes the level of inequality and imbalance to the detriment of Southern nations whereby even cases that are labeled successful and less dependent play a “rentier” or “client” role in promoting Northern capital, and the results of economic liberalization do not benefit the masses. The political economy literature suggests that resource-rich economies have a greater propensity to be subjected to rent seeking behavior by those in power (Trovik, 2002). The resource appropriation argument rests on the presumption that rent seekers through bribes or distorted public policies can easily control the resource in question.

The aura of prosperity that the neo-liberal agenda along with media generates is rather false and the vast empirical evidence on the “true state of affairs” for many of the so-called successes of globalization is shocking. For example, India is often showcased as an emerging economic power and a beneficiary of liberal economics; this becomes hard to uphold when the facts reveal that 44% (half a billion people) in India live on less than one dollar a day (Mehta and Shah, 2000).

If the successes of globalization belie such stark empirical facts, one can only imagine the plight of the majority of Southern nations that lack the tools to integrate into the
current global system. This aspect of globalization is all but forgotten. The most potent and long-lasting effect of globalization as it stands today has been on the realm of strategic ideas that have been straitjacketed into a certain mould, which reduces options for weaker countries to devise their own solutions to the various perplexing problems that they face.

Stephen Gill (1995) has defined knowledge as “the principle form of production and power resource”. Following on, it can be argued that particular ideas which have been privileged in the globalization discourse must hold sway over the policy processes in poorer countries which increasingly look for models to emulate from the developed world. Being in possession of most of the knowledge circulating in the public policy realm, the developed countries on the whole are in a unique position to control the ideologies and mentalities of the global ideational system.

We are often fooled by the facade of relative power. China, we are told, exports a humungous amount of goods to the world, and it is a developing country. However, it is not the export of toys and machines that make a state fundamentally powerful. The World Trade Organization is the agency that exports transnational regulatory institutions to its member states. We know that the WTO is dominated by a narrow set of ideas and attitudes. The world economic system is set up in such a manner that to maximize gains from trade, a state has to go via the WTO policy regime. And therein lies the “structural power” of supposedly global- but in fact ideationally very local- institutions like the WTO.
The ideological reach of this predatory globalization is not limited to concrete policy propositions between states alone. There are what many label “soft transfers” between non-state actors such as multinational corporations and non-governmental organizations. Therefore, the various management models and corporate structures that are being emulated by companies in the developing world are equally part of this hegemonic discourse as the ideological imports of the NGOs that protest against these very companies (Greider, 1997).

The antithesis to this argument has been pointed out by Samuel Huntington (1993) who has pointed out that “drinking Coca Cola does not make Russians think like Americans.” Similarly, it is often said that globalization in reality leads to ‘glocalisation’. For example, multinational companies often have to alter their marketing strategies according to the cultural tastes of a particular country. However, this ignores the fact that the hegemonic presence of Western brands not only homogenizes the structure of the market globally, but also creates an illusion of superiority for such products. The newfound consumer culture in China and India and the hankering for foreign goods is a good example of this tendency.

The state as the monopoly of political power within defined borders is undergoing broadly similar transformations across the world as a result of globalization, and this reduces space for individual states to shape their own political systems (Albrow, 1997). For example, austerity programs of the International Monetary Fund often forces states to adjust their political and economic system to a neo-liberal model in order to receive financial aid in a crisis situation. Prior to the Asian Financial Crisis,
the IMF forced the countries in the region to liberalize their financial systems, despite savings rates being 20-22% higher in these countries vis-à-vis Western Europe and the United States (Chossudovsky, 2000). On the other hand, the developed world, through the WTO, often influences the trade policies of developing countries that have few choices but to join the global system. China and India were markedly different—both economically as well as politically—prior to their enmeshing in the global economic system. Now both China and India have a broadly similar economic system, and they are converging even further as they compete to attract foreign direct investment.

There have been some suggestions—notably by Randall Germain (2001)—that the developing states had re-instated themselves in lieu of the Asian Financial Crisis of 1997, and that in turn has forced the transnational forces acting on them to adjust to their changed stance. As an example we can look at the increasingly assertive stance of the Group of 20 (G-20) countries at the WTO negotiations. Moreover, the World Bank has been forced to amend its Comprehensive Development Framework after the crisis to be more sensitive to social needs of countries. This power shift, however, is relative merely. The “decision-making structures of the global economy” have not changed significantly, and the developing countries operate within the framework set for them by transnational commercial interests and international institutions which are heavily influenced by developed countries.

Immanuel Kant once spoke of the “moral unity of mankind”. However, unity is achieved through the equal consent of all participants and their equal contribution. Globalization—its current avatar—does not offer developing countries the chance to make their own choices about major economic and political policies. Ardent neo-
liberals would counter the above-mentioned argument by suggesting that poor labor standards and inadequate environmental regulations are in fact a source of negative marketing for countries, and hence they would not do it. Marxist critiques, on the other hand, would present a diametrically opposite argument.

What is forgotten in this quibble is that the poor countries have no say in this ideational battle- they are obliged to accept the dominant ethos of the time- in our case neo-liberalism. Their policy processes, in the meantime, get continuously compromised due to influences by the all-encompassing globalization process that brings the dominant ideology with it.

Free trade is well hyped today although it doesn't say much about *fair* trade. Many trade pacts and agreements seem to conveniently ignore social aspects such as the rights of workers, leading to possible conditions like sweat shops, encouraging such low wages that one cannot live on them and forcing children into harsh working conditions. Some of these agreements do not do much to help developing nations, but do a lot to help large corporate profits. Environmental degradation is another concern. Accountability is a major issue in all of this. It is often the case that large corporations can make profits but socialize the costs (i.e. get the tax payer to pay for any cleaning up of problems).

In today's age of globalization, while the rhetoric sounds like an amazing future is available for everyone, the reality shows that “everyone” is currently the large multinational corporations that stand to benefit from a more open set of rules, that will allow them to reap more benefits (Korten, 2001).
In order to help ensure then that the process of globalization falls into the line of the rich and powerful nations (where these corporations are mainly from), military might is often employed. This can be seen in most conflicts around the world during the twentieth century, as well as probably all previous ones. This is not a new revelation, but often hidden through the revisionist history that victors write, and continued through the media and propaganda systems of the conquering nations. Most wars throughout history have had trade and resources at their core; these wars can be hot wars, or cold wars.

The WTO ministerial meetings since Seattle in the beginning of December, 1999 have turned out to be failures. Enormous public protests (with estimates from 50,000 to 100,000 protestors), almost entirely non-violent, faced much criticized police crackdowns in what had become a state of emergency. However, Seattle wasn't the first, or the last protest at the current forms of globalization. In fact, protests have occurred all around the world (Sampson and Whalley, 2005).

The growing inequality between rich and poor of the world, compounded by new demographic trends, the perceptible rise in the number of tensions and conflicts in what is supposed to be a safer and more stable world are the factors that threaten to upset the balance of North-South relations.

The structures of the global economy have fundamentally changed since the early 80s creating a new financial order that breeds poverty, environmental destruction and weakens national governments (subjugating them to the narrow interests of privilege and power).
The present global financial system was born in the 1970s and 80s through the successive deregulation of currency exchange rates, international financial transfers and banking systems. Before the deregulation, the financial system served the interests of international trade. After deregulation, the volume of financial activity rose rapidly, while the volume of international trade continued to rise only moderately, implying that much of the financial activity was not directly related to trade (Hoekman and Kostecki, 2001).

Assets were traded in a matter of days, rather than years. What became increasingly significant about these rates of turnover was that the financial sector started dominating the national government. Global finance was breaking national constraints. In the 70s, dependency theories promoted the “looking after” of the developing world in the form of a “core-periphery” relationship. With deregulation, and the power of the corporation, dependency theories have subsequently lost their substance. With an emerging neo-classical agenda and America’s supreme status, globalization created a vacuum that needed to be filled by a new kind of player; one that would supply labor and raw materials in return for FDI and profitable corporate link ups (Dowlah, 2004).

Economies like India and China seemed poised for such ventures and since its economic liberalization in the 90s, India has become both host and recipient to such attentions. India has become a prime target of IT outsourcing and FDI while also providing a supply of “technocrats” to the US corporate and academic sectors. Has this trend made India less dependent on the North or is it a new dependence of necessity?
The facts are revealing as evident in the vast empirical data available on the subject. It is a known fact that the exploitation of workers and the environment has dramatically increased. The poor have lesser protections from their own government while money that is certainly flowing around is not trickling down to the vast and poor majority. The greatest distortion has been that although the social programs were intended to assist the most needy in society, the programs and ended up assisting the better off.

“Many of the benefits meant for the poor, like credit and subsidized medicines, have been correctly cornered by the relatively better off people. [This has been done by] directly acquiring these provisions for their own use or by charging a higher price than the one fixed by the government, while selling these benefits to the poor” (Basu, 1993).

India’s outsourcing provides an avenue for engineers and technicians to race to jobs in the US while eliminating engineers and middle managers in India. Although the rhetoric of globalization is all about freedom, the reality is the opposite. Much of global commerce is controlled by power wielding empires with a degree of control that would be the envy of history’s tyrants. Commerce is becoming inflexible to the rights of societies.

In broad terms, neoclassical theory treats the economy as a collection of competing agents that interact to maximize their utility. For cases like India, these interactions limit themselves to the wealthy few while 700 million remain excluded from the benefits of this new dependency. The purpose of an economic system is to support a healthy society and players like India need to root their economic systems in the larger societal system.
It is a central tenet of neoclassical theory that a free market will bring supply and demand into balance. However, as the global manufacturing base has experienced unprecedented growth (with players like India and China), the balance has tipped. The fierce wage price competition has moved manufacturing to the lowest wage countries and since employee wages are a large cost item, Southern nations compete to host global manufacturers at the cost of their own worker’s rights. Apologists however, claim that shifting manufacturing to poorer nations is eliminating poverty.

Critics of globalization have called attention to the grotesque market imbalances that free markets produce. In the 1990s, (writes Thomas Frank in “One Market Under God”) global markets made the “corporation the most powerful institution on earth, transformed the CEO into one of the wealthiest elites of all time and from America to Indonesia forgot about the poor with a decisiveness that wasn’t seen since the 1920s”. Defenders of globalization and markets respond by saying that the world’s poor are better off with markets and at least countries like India are democratic. However, when one points out China and human rights they remain silent. India’s democracy has certainly not contributed to the lessening of inequity and when poverty and hunger remain as outstanding issues, they contradict Amartya Sen’s “famines do not happen in democracies” hypothesis.

Sen recommends further trade liberalization and increased exports as the solution to hunger in the Third World (Sen, 2000). Yet export-oriented agriculture robs the poor of their land, their water and their livelihoods. There is an inverse relation between increasing agricultural exports and declining
food consumption locally and nationally. When countries grow flowers and vegetables for exports, they also sow the seeds of hunger.

Yet India promotes exports of flowers and meat and India spends $27 million (1.37 billion Rupees) as foreign exchange for promoting floriculture exports earning a mere $6.4 million (0.32 billion Rupees) in return. India can buy only a quarter of the food it could otherwise have grown with the export earnings from floriculture (Mehta and Shah, 2000).

In the case of meat exports, for every dollar earned, research has shown that India is destroying fifteen dollars worth of ecological functions preformed by farm animals for sustainable agriculture. Thus, as a society, India is paying more in terms of food insecurity and ecological destruction than it is earning through exports of luxury crops such as flowers and meat. Putting resources in people's hands, and guaranteeing small producers’ access to local markets is a far more secure, sustainable and inclusive way to remove poverty (Mehta and Shah, 2000).

For decades now, many MNCs have known that their future rests in the Third World. Take for example the tobacco companies and the immense growth in global tobacco consumption in developing countries. The world’s 1.1 billion smokers are expected to rise to 1.64 billion annually in the coming years. The two major contributors to these numbers are India and China.
The IMF-World Bank programs were designed to address the maladies assumed to underlie all economic ills – poor governance, excessive governmental intervention and spending. Despite the rapid economic growth in 2001-2005, evidence shows that India’s growth is mainly urban led with ever widening gaps between the cities and the rural areas (Peet; Born; 2003).

Of the roughly six billion people in the world today, fewer than 1 billion are found in advanced democracies. More than 4 billion live in “low income” or “lower middle income” countries. With a population of 1 billion (and growing) India’s claims to market success have to be weighed against the struggling, poor and needy 700 million who have not felt India’s globalizing successes in any substantial manner.

Michael Chossudovsky (2001) has named India’s economic liberalization “the IMF’s direct rule”: “Indirect rule in India has a long history: the Rajputs and princely states had a fair degree of autonomy in relation to the British colonial government. In contrast, under the IMF-World Bank tutelage, the Union Minister of Finance reports directly to 1818 H. Street NW, Washington D.C., bypassing parliament and the democratic process. The Union Budget text, formerly written by Indian bureaucrats in Delhi has become a repetitious and redundant document. It’s main clauses are included in the loan agreements signed with the World Bank and IMF”.
Chossudovsky accuses India’s “exit policy” of liberalization of crushing the rural poor, eliminating the rural poor, and supporting exports to rich nations at the cost of social welfare systems. He further claims that the IMF’s economic medicine has contributed to secessionist movements in Kashmir and Assam and the resulting poverty has caused the masses to feed on both Hindu and Islamic fundamentalism.

The GDP of the country grows while the people remain poor. In India, the wealth created by IT in Bangalore does not spread to the poor in Varanasi or Calcutta or even those on the outskirts of Bangalore. Globalization in India, in fact serves to magnify the clash of past and present. One is overwhelmed by the extremes – luxurious hotels and software companies on the one hand and massive hunger and poverty on the other. India is a key example of the globalization dilemma as it is home to the largest number of hungry people in the world – 233 million compared with 183 million in Sub-Saharan Africa and 119 million in China (UNDP, 2003, Human Development Report, cited in the Indian Express, July 11th, 2003). For the higher classes opportunities are compounded while for the poor, vulnerabilities are reinforced. India remains in the bottom while ranking countries in terms of human development indicators.

Despite its successes with the software industry, India still uses low-tech approaches to solving its problems. All residents in India worry about one
common scarcity – water. Ironically, one of the best known safe drinking water brands is produced by “Pepsi”- the US multinational. Working with India’s liberalized government, Pepsi assures dependence of people on bottled water as opposed to advocating free potable drinking water as a public good.

One of India’s main rivers, the Ganges, serves bathers in 29 cities and 70 towns with 345 million gallons of raw sewage being dumped into it every day in addition to 70 million gallons of industrial waste, 6 million tonnes of chemical pollutants and 9000 tonnes of pesticide (Crossette, B. (1991) “Kofi Annan’s Amazing Facts” The NY Times, September 27th 1991).

Patnaik and Panda have clearly articulate how: “India has followed the dictates of European and North American Colonialists. Foreign capital has been used to rape LDCs of natural resources, and exploit their cheap, yet skilled labour, all in the name of the bottom line. Along with the rapacious behavior, international financial institutions circling around LDCs have scented blood profits” (Patnaik and Panda, 1992).

India has fallen prey to the new theocracy spreading its insidious tentacles throughout the developing world. The present debt owed to developed countries has mushroomed, from $75 billion US at the end of the 1980s to $90 billion in 1994, soaring to nearly $99 billion at the beginning of 1996, making India the third most heavily indebted nation in the world (Kaushik, 1997).
Deconstructing Dependency:

Dependency Theory is in large part a theory of development in the third world. One of its strengths is its recognition that from the beginning, capitalism developed as a multinational system. It recognized that the core-peripheral development had different features in the core than in the periphery, where the disadvantages of the relationship were evident in both the economic and political realms (Ghosh, 2001). Dependency Theory therefore spends its time on the question, "how can we have a development in the periphery that more resembles that at the core?" Or a more charitable account, if the core-periphery link is broken, can we have development in the periphery that has some or all of the elements that we identified as desirable in the core?

While industrialization for a small country may be difficult or impossible in those conditions, development of other kinds that could arise out of redistribution of wealth and redirection of labor, such as health care, education, fulfilling basic needs and the growth of democratic institutions, is certainly possible. But this would require a good deal more circumscription of the "rights" of the national bourgeoisie than the Dependency Theorists by and large were willing to embrace. (In fact, it usually entails a civil war). This kind of development, which it praises and over-estimates in the metropolis, is undervalued by Dependency Theory in the third world and doomed by its reliance on the national bourgeoisie (Stephan, 1990).

Dependency Theory did not characterize development in the third world as not "real" development but it critiqued that development, to point out that societies in the periphery are structured differently from those at the core and that the building process
that would continue, but never lead to a society like that in the core. In that sense, dependency theory has created a situation where third world countries are "developing" countries, but not development as understood in the core, but rather the development of underdevelopment (Lall, 1975). This falsity of dependency theory is still evident in the globalization era where countries such as India are put on the forefront as shining examples of progress and development (while the vast empirical evidence shows otherwise) and the world media effectively creates a myth of prosperity around a small elite, ignoring the billions that remain unaffected by globalization and free trade.

During the 60's and 70's the systemic inequities in the so-called North-South trade were repeatedly pointed out and equated to the continuing of the economic relations of colonialism in the newly independent countries, and to the role of the “comprador” class in economics and politics. This was a large part of the content of anti-imperialist work that argued that the U. S. wasn't aiding countries to develop, but deforming their economies to suit the imperialist dominated world market and assigning them to a persistently disadvantaged position (Krasner, 1985).

The theory of core-periphery development does not preclude industrialization. What tasks get relegated to the periphery change over time according to a complex of different factors, as do what tasks the periphery opts on its own to undertake and can successfully sustain. That some high-tech manufacturing should be exported to the Third World would be explained by a shift in the interest at the core to other more profitable and monopolizable pursuits (Moran, 1987). That some country may have undergone development, succeeding in reaching some of the goals Dependency
Theory seeks, is a bit more problematic, but in their partial realization and their exceptionality they continue to bear witness to some functionality in the Dependency Theory model. The world is still divided into rich and poor countries and nations that have supposedly slipped out of the dependency mode (like India and China) remain classified as developing and poor.

Was there something systematic and managed by the imperialist countries that made third world development stagnate in the first 20 or 30 years after independence? How has this changed? What then was colonialism, if not a special mechanism with more content than just "capitalism develops unevenly?" And what was the early post-colonial period? One used to count the contradiction between the imperialist countries and the former colonies as one of the main contradictions driving history in the 70's. Much of the content was a struggle for the ascendance of the national bourgeoisies in these countries and the uprooting of the systemic market relations and politically created economic parameters favorable to the imperialist countries. The world may be approaching "capitalism develops unevenly" and there may be historical as well as old and new systemic elements dictating "the world is still divided into rich and poor countries", but the Dependency Theorists attack the notion that there was an unblocked path for third world development in the post-colonial period (Seers, 1981).

That being said, the recent surge of growth in the periphery may mean that core-periphery development as a theory no longer gives a very complete picture of the present day world. It may be having the same problems coping with the changes that were experienced in explaining the theoretical grasp of imperialism in the 90s. To what extent has development evolved from the core-periphery model? Growth without
development (being an industrial producer is no guarantee of prosperity) is an attempt to maintain that third world growth still fits within the peripheral framework. But there are some important new developments in the world contributing to the new shape of third world development. First, there is a huge glut of capital seeking investment opportunities that has focused in overseas markets increasingly since the 70s. There has been an explosion in the technology of investing, new instruments offering vastly reduced barriers for investors. There's been a big explosion in the technology of information and capital transfer. Together they have facilitated the rapid movement of huge amounts of capital and changed the principal form of capital transfer from North to South. This switch from governmental to private investing has helped to increase the wealth and power of a broader section of the local bourgeoisie in a group of NDCs (newly-developing countries) creating more billionaires and millionaires and generally allowing for greater internal development to fit the needs of the international market.

It takes some time for a bourgeoisie newly involved in the international market to mature, to undergo a step-wise development and slow but persistent accumulation, eventually leading to more core-like pursuits and the potential to attract and absorb capital when it becomes available.

Dependency Theory's main project has been to plan for a more core-like development in the third world. There is some kind of partial withdrawal from the status quo of international trade that favors imperialism (Ghosh, 2001). There is some kind of protectionism to shield local industry, maybe even price controls. There is an attempt at primitive accumulation of capital, though a kinder and gentler sort, steeped in
nationalism and voluntarism under some sort of radical democratic rule. There is a
desire to accumulate capital, and so a pre-occupation with multinational and
multiethnic states. The overall goal is to facilitate independent development with a
market driven by domestic demand, supplied by a national bourgeoisie and with a
greatly expanded petty bourgeois sector (Chilcote, 1984).

Dependency Theory seemed to represent the aspirations of third world petty bourgeois
during the early post-independence period. The new growth in part based on super-
conductive international capital, changes the equation for the Third World petty
bourgeois. Some growth of a core-like class structure and an increasingly internally
driven market during the boom times in the NDCs render obsolete the old riddles of
the educated third world youth in the 60's and 70’s. New issues such as dealing with a
newly large and active masses and the re-impoverishment of the petty bourgeoisie
during the bust cycles create conditions for a restatement of the political role of the
petty bourgeoisie in the NDC's. The questions of development that Dependency
Theory sought to answer in the 60's and 70's have changed for the NDCs and potential
NDCs. Even the so-called least developed countries are asking different questions as
they negotiate with many regional and international players for a piece of the capital
flow. The choice seems to be: attract capital by accepting an IMF austerity program,
literally pledging the continued impoverishment of the people; create an anti-union
and anti-human rights environment; compete with other countries to attain some
industrial development and the significant trickle down that comes with it; get some
growth at the expense of further deterioration of the subsistence economy, the culture
and the ecosystem. Then remain a poor country. Or, with difficulty set back the
bourgeoisie, meet basic needs, educate and care for the health of the people, support
and build on the subsistence economy and see what capital you can attract. More likely the country will face capital flight, embargo, invasion, and years of extreme cultural pressure to capitulate (Chilcote, 1984).

Although Dependency theory places itself within a "world-system", but in fact, it completely misunderstands the nature of modern capitalism as a world system:

1. How can dependency theory provide an adequate understanding of post-World War Two capitalism as a world system, if it doesn't understand that the revisionist bloc of countries was part of that world system?

2. It misunderstands the role of the Third World bourgeoisies, often ending up as an advisor to the bourgeoisie. This goes to the extent that it has paid little attention to the development of big power strivings among the stronger of the "peripheral" bourgeoisies, even when this has been expressed in militarist form and caused bloody tragedies. How can dependency theory provide an adequate analysis of the role of imperialism in the capitalist world-system if it doesn't understand the process whereby various weaker powers strive to become regional power-brokers or even recognize the imperialism of such major powers as Russia and China?

3. It doesn't understand the process of capitalist development that swept the newly-independent countries. For example, it regards the spread of capitalist relations in agriculture and the breakup of the old peasant economy as simply the result of bad political decisions or imperialist domination. It denied the spread of industrialization in the Third World until it was obvious to everyone, and then it downplayed its significance. How can dependency theory claim to analyze the capitalist world system if it doesn't even recognize many of the main processes of capitalist economics?
4. It downplays the role of the proletarian organization needed if there is to be a serious challenge to capitalism and imperialism. It has no understanding of the role of the proletariat as a world-wide class and the basis for any solid socialist movement. It writes off the proletariat in the "core" countries and sees the proletariat in the dependent countries as only one of several sections of the "popular masses", without any special role. How can dependency theory provide an adequate basis of the world-system if it has little concern with the billions that live in poverty in the periphery?

5. It identifies "real" capitalist development with an increase of the prosperity of the few rather than with their devastation of the masses. Doesn't this mean that dependency theory has never really cut the umbilical cord that links it to bourgeois "development theory" and to the theorizing of such groups as the UN Economic Commission for Latin America (ECLA)?

Dependency theory prides itself on its view of the economic difficulties facing the periphery, yet it has failed to grasp the evolution of peripheral economies. Its approval of "growth without development" and "the development of underdevelopment" negate the growth of capitalist relations in the newly-independent countries. Dependency theory loses its relevance in the face of development and industrialization. The existence of important changes doesn't mean that the masses of these countries have become prosperous. The split between rich and poor has grown deeper, both between rich and poor countries and among the classes inside Third World countries. Thus Third World poverty has been connected not just with the lack of development, but with development itself. For example, the spread of capitalist relations in agriculture tends to devastate the masses. Any theory like dependency theory which ignores these
changes or grossly mistakes the economic and political conditions facing the working
masses is the wrong standard of evaluation for emerging economies like India where
the reality is quite different from the myth of prosperity created by the flow of global
capital. (1)

For a long time, the fate of the developing countries was shaped by the political
strategies of the two super-powers, both of which sought to acquire and maintain their
influence over these countries. But the emergence of a new, multi-polar configuration
as a result of changes in the East, has opened the way to a new era in international
relations and a recasting of North-South relations. Nonetheless, there are some
unchanging circumstances that will continue to guarantee an uneven development
paradigm:

1. Disparities in wealth between nations as a group are due fundamentally to
asymmetries of economic and political power that are constitutive of the capitalist
system of development, and indeed of world capitalism generally (Pieterse, 2001).

2. The asymmetries of economic and political power that exist between groups of
nations cannot be removed or significantly ameliorated within the structures and
strategic possibilities that are integral to the prevailing system of capitalist
accumulation (Kitching, 1982).

The polarization between the North and South is more pronounced than it has ever
been. The United Nations Human Development Report for 1997 shows that the share
of world trade for the 48 least developed nations, representing 10% of the world's
population, has halved in the past two decades to just 0.3%, with over 50% of all
developing countries not receiving any foreign direct investment (two-thirds of which
went to just 8 developing countries). (2) In fact, around 100 developing and transition countries experience slow economic growth, stagnation, or outright decline, and the incomes of more than a billion people now no longer reach levels attained 10 or even 30 years ago. The same Report indicates that 1.3 billion people a day live on a dollar a day or less, that there are 160 million malnourished children, that one-fifth of the world's population is not expected to live beyond 40 (in some countries life expectancy has fallen by 5 years or more), and that 100 million people in the North live below the poverty line (the North also has 37 million jobless people). Well over a billion human beings lack access to safe water, nearly a billion are illiterate, and around 840 million experience hunger or food insecurity. The same report also shows that the net wealth of 10 billionaires is worth 1.5 times the combined national incomes of the 48 least developed nations. (3) The accomplishments of some nations in the face of such adversity are commendable and even heroic: during 1980-95 Burkina Faso, Gambia, Senegal, and Zimbabwe reduced child mortality by a third to a half in the face of declining incomes for much of this period, and Algeria, Jordan, Peru, Syria, and Trinidad and Tobago by a half to two-thirds (the latter nations despite reductions in per capita income of 20% or more over the last decade). But the disparities between North and South are increasing dramatically, and this in the era of globalization: the share in global income of the poorest 20% of the world's people has fallen from 2.3% in 1960 and 1.4% in 1991 to a current level of 1.1%, while the ratio of the income of the top 20% to that of the poorest 20% rose from 30:1 in 1960 to 61:1 in 1991, and grew still further to a figure of 78:1 in 1994. (4) These figures point to a serious dilemma for the nations of the South. It is estimated that these nations need to expand economically at a rate of around 6-7% annually for several years if they are to provide employment opportunities for their expanding labour forces (growing at about 3.5% a year in
countries such as Brazil and Mexico), and if they are to hope to meet their citizens' basic needs for food, shelter, clothing, health and education over a twenty-year period. (5) These trends show no sign of slowing down, even though the United Nations estimates in *The Human Development Report* that it will only take 1% of global income and around 2-3% of national income in all but the most impoverished countries to fund a programme to eliminate world poverty. (6) Where the subject of comparative international political economy is concerned, these stark and appalling facts call for an account of the systemic international inequalities that are their basis, and since the aim of the uneven development or dependency paradigm has always been to furnish precisely such a theory, it has not lacked a *prima facie* rationale even when some of its formulations have been questioned and found in whatever ways to be lacking. The time is certainly right for a revisiting of this paradigm: global capitalism as currently configured confronts less wealthy nations with severe, systemic, and pressing problems, problems that only this paradigm has depicted and analyzed in a serious and comprehensive way.

**Discussion:**

In keeping with the aims of this thesis, it is important to raise issues regarding the impact of globalization on Southern nations. This highlights the crucial gaps in the globalization process and might help channel the discourse towards a more holistic and sustainable approach.

By effectively demonstrating the imbalances of the global system and highlighting the political, economic, social and environmental impacts that adversely affect the
development of Southern nations, pertinent theoretical lessons can be drawn. This will contribute towards a better understanding of the effects of globalization on the South.

In India’s case one has to keep mind that real development and prosperity has to be gauged from a “bottom-up” rather than a “top-down” approach. Long term sustainability is a vital issue in accessing economic growth. In addition to the social costs, India’s globalizing efforts have to be viewed from an environmental point of view (especially in consideration of India’s poor sustainability index rankings).

The main theme that emerges is the concept of globalization and its effects on Third World countries such as India, and its relation to the modern dependency theory or neo-dependency.

As defined by the International Monetary Fund, globalization is the growing economic interdependence of countries worldwide through increasing the volume and variety of cross-border transactions in terms of goods and services, free international capital flows and more rapid and widespread diffusion of technology. From this definition, it can be understood that globalization is related to various economic, political, cultural, and technological aspects of a nation’s life. In terms of economics, nations participate in globalization to increase the international flow of capital, including foreign investments, which would lead to the economic stability of the nation to provide the development of infrastructures compatible to trade. Theoretically speaking, all of this seems easy to achieve through globalization. However, many disadvantages are overlooked which entirely affects the economy and society of a nation. As mentioned earlier, the worldwide increase in GDP is coupled with the uneven distribution of
economic development across nations, which further widens the gap between the rich and the poor. In addition, globalization has four dimensions, namely, trade, movement of capital, movement of people, and the spread of knowledge and technology. Only those developing nations that are able to keep up with the pace of global trade have benefited from globalization (De La Dehasa and Bertola, 2006).

In the case of India, since the early 1990s, the country’s economy has been liberalizing with the unanimous approval of the more affluent sections of the population, such that foreign investors that have flooded into the country are not subject to the purview of national laws, as are the domestic investors. Dependence on foreign capital has always led to the sacrificing of national policies in favour of the demands and conditions of international agencies and international finance (Korten, 2001). International lenders rarely lend without conditions. With external liberalization in India, the lowering of import duties was a condition imposed by international financiers which led to the reduction in social spending that is often disguised as a matter of improving “efficiency” and controlling “unnecessary budget deficits”. The material benefits have not translated into a generous “trickle down” for the poor masses. The problem with basic needs (water, roads, and electricity etc.) has contributed to the desolate condition of the 700 million residents still living in rural India, and the 200 million that constitute the urban poor.

India’s intellectual elites periodically pay attention to these deficiencies but the middle classes were too much occupied by the ruling party’s mantra of “India Shining” to anticipate the recent electoral shock. In its wake, the masses’ growing urgency for basic needs has come to the forefront again. India can build dams but cannot maintain
rural irrigation systems. It can launch satellites but cannot or will not build public toilets. India’s political elite has taken a long time to grasp the message from India’s poor and the “feel good” liberalized economy has yet to provide the right balance for India’s poor majority.

These conditions have led many economists and sociologists to believe that the poverty in India is partly brought about by globalization and the concept of Neo-Dependency. Neo-dependency is defined as the development of a nation, as part of an international system in which the leading powers have used their economic strength to make a nation’s development dependent on, and subordinate to, the interests of those leading powers (Carter, 1999). Results of such dependence include the reliance of most countries almost exclusively on one or two export goods while their internal growth is arrested because they are at the mercy of the fluctuating and changing world prices for their only exports; thus, this larger market is controlled by the great powers (Carter, 1999).

Aside from this explanation, the concept of neo-dependency can be perceived as one of the strategies and avenues for globalization. Through the exchange of goods of different countries, globalization is already taking place. The concept of globalization does not mean presence around the world, but means that a country must perceive global competition and global markets to prosper. “Global” means the entire world, but is made up of smaller, more individual geographic entities beginning with the market in the nation’s current state or province and extending beyond.
Related to the concept of neo-dependency is the theory of dependency, which can also explain the current condition of India in relation to its globalization. Dependency can be defined as an explanation of the economic development of a state in terms of the external influences including political, economic, and cultural on national development policies, and a historical condition, wherein the economy of a certain group of countries is conditioned by the development and expansion of another country to which their own is subjected (Ferraro, 1996). The Dependency Theory has three common features, where one is that dependency characterizes the international system as having two sets of states described as the dominant and the dependent, where the dominant states are considered the advanced industrial nations and the dependent states are those from Latin America, Asia and Africa, having low per capita GNPs and rely heavily on the export of a single commodity for foreign exchange earnings. The second feature is that external forces are of significant importance to such dependent states, where external forces include multinational corporations, international commodity markets, foreign assistance, and communications. The third feature is the relationship between the dominant and the dependent states; their interactions are not only reinforced by, but also intensify the unequal patterns (Ferraro, 1996). From this, it can be understood that the Third World nations are dependent on the business and foreign resources provided by the dominant or developed countries.

Both concepts are related to the globalization of India, as neo-dependency and dependency characterize the operations of the economy of the country. Through the application of these concepts, India is becoming “globalized” and is thus able to participate in the globalization of trade. In line with globalization is the role of the capitalist system which enforces a firm international division of labor that is
responsible for the under-development of many nations in the world. With capitalism, division of labor is being implemented in such states, which supposedly contribute to the growth and development of the country. However, due to capitalism, the economy of India becomes dependent on the economy of the dominant states.

Take for instance, a leading Indian bank’s advertisement that uses the image of a “rickshaw puller” to sell the bank’s credit cards. This advertisement speaks volumes of the kind of change that has swept over Indian society. As India marks the 15th year of its open economy era, there is very little realization of the changes globalization has brought for the majority. While socio-economic indicators may capture the changing digits of statistical parameters, the economic impact for many is not visible on spreadsheets.

There is a broad consensus among Indian decision makers that the only way to move ahead is to give capitalism an unchecked rein, even at the cost of destroying the country’s strategic interests to market forces. This policy marches in tune with the flow of capital and foreign investment.

It can be seen that the effects of globalization and the application of the concepts of neo-dependency and dependency has not brought adequate success to the economy and society of India. It can be argued that in addition to the effects mentioned, is the increasing levels in the population of India. Through globalization, neo-dependency and dependency, India seems caught in between development and lagging behind, given the structure of its society. A limited section of the society is given the chance to succeed and benefit from globalization while the poor to suffer the scraps of success
being enjoyed by the few elites and the politicians. Globalization has opened a portal of communication to almost all parts of the world, and this has enabled some degree of progress. However, the desolate condition for the majority has left the economy of India to provide unequal opportunities to its citizens. Only those with capital count.

George Bush has acknowledged the importance of the Indian middle class as a market for US goods and services. A showy consumerism now dominates the bigger urban centres hiding the realities such as the suicide of thousands of farmers, the ousting of people from ancestral lands for development and the removal of people from city slums. These victims are not some residual minority who will “catch up” with the economy. In India, these represent more than half the population.

Despite many important advances since the “Bretton Woods” agreement, the state of Third World development remains extremely unsatisfactory. About a billion people live in extreme poverty and more than 800 million do not get adequate nutrition. Third World Debt looms large on the horizons of most underdeveloped nations and development continues to benefit the Third World elites, the developed nations, and their multinational corporations. The division between the North and the South continues to widen with very little “tricking down” to the poor majority in many nations, and one-third of the world’s poor are getting poorer. Moreover, in both rural and urban areas, the broader enabling environment does not adequately support the needs of the poor, such that rural poverty can be associated with isolation, lack of roads, poor infrastructure, and limited institutional presence, while urban poverty is generally associated with poor quality housing, over-crowded, unsanitary slum settlements, ill-health related to spread of infectious diseases, the threat of exposure to
environmental hazards, and fear of evictions from illegal squatter settlements in precarious locations (Mehta and Shah, 2001).

The chapters that follow will attempt to submit the vast empirical data that highlights the gaps in the globalization process, demonstrates the imbalances and above all deconstructs the myth of prosperity that is being created in regard to the progress of the South (using India as a case study).

1. A different view and criticism of dependency is raised by Grosfoguel (2000) that emphasizes the underestimation of culture and the overemphasis of economics and politics within the dependency tradition.


3. The claim that the net worth of 10 billionaires is 1.5 times the combined national income of the 48 least developed nations is the focus of an article titled 'Seven Richest Could End World Poverty' by Larry Elliott and Victoria Brittain in the Manchester Guardian Weekly, June 22, 1997. The Human Development Report estimates that the cost of its proposed $80 billion anti-poverty programme could be covered by the wealth of seven billionaires. The 'structural adjustment' programs advocated by the International Monetary Fund and the World Bank for developing countries require the wholesale elimination of expenditure on education, health, and social services, and this in countries that may be experiencing a decrease in the years of average life expectancy!

4. Thus, in 1994, the GNP per capita in Rwanda and Mozambique was $80 and $90 respectively, and in the US $25,800, Japan $34,630, and Switzerland $37,930. Average life expectancy at birth in Mozambique was 46 years (no figures were available for Rwanda), in the USA 77 years, Switzerland 78 years, and Japan 79 years. See the World Bank's World Development Report 1996, Oxford 1996, pp. 188-9

5. These points are made by Ajit Singh, from whom these figures are taken, in his 'The Actual Crisis of the 1980s: An Alternative Policy Perspective for the Future', in A.K. Dutt and K.P Jameson, eds., New Directions in Development Economics, Aldershot 1992, pp. 104ff. Singh also notes that virtually throughout the 1980s, a decade of economic recession, the Latin American and African countries made net resource transfers to the developed countries, rather than vice versa: in 1984-85 alone the Latin American and African countries transferred $40 billion and $5 billion respectively to the developed nations.

6. The claim that 1% of global income is all that is needed to eliminate poverty world-wide is perhaps unrealistic; given the complex causal relationship between economic factors and human capacities that has to be taken into account in any characterization of poverty. The Human Development Report tries to reflect this complexity by having two sets of indices of poverty ('income poverty' and 'human poverty'), but this only emphasizes the difficulties involved in making plausible the claim that global poverty can be eliminated by expending 1% of the world's income.
**Chapter Five**

**The Case of India**

After nearly five decades of insulation from world markets, state control and slow growth, India embarked on a process of economic liberalization and progressive integration with the global economy in 1991. Despite changes in the government since then, the thrust of reforms has been maintained with a growth rate of about 6% a year. Has the process been planned and nurtured to eradicate India’s poverty, and massive socio-economic gaps that continue to linger or has the sudden surge created a myth of prosperity that effectively hides India’s massive human problem? This chapter will attempt to cover the historical roots and political economy of India’s late integration with the world economy.

With the world’s second largest population and despite a rapidly growing economy, India’s development has largely been viewed as one of the disappointing development stories. India has remained poor with a per capita income of $450 in 2001 (especially in comparison with China and other Asian nations with a similar rate of economic growth).

India has played a very minor role in international economic affairs and the decline in its share of world trade has been dramatic. Its own protection while substantially reduced remains high.

India entered the 21st century with a severe macroeconomic and balance of payments crisis. Its consolidated gross fiscal deficit was 9.4% of GDP and the account deficit
was 3.1%. Inflation was at a high rate of 10% and by 1991, foreign exchange reserves were below two weeks worth of imports (Ministry of Finance, Government of India, *Economic Survey*, 2002).

This shabby state of affairs coincided with the collapse of its ally, the Soviet Union, causing a state of panic for economic policymakers. Prime Minister Narshima Rao launched a series of systematic reforms covering foreign trade and investment, exchange rate management and industrial policies.

**Polity and Society**

India is the second most populous nation in the world with an estimated population of just over 1 billion. The nation is racially and culturally diverse, representing all the major religions of the world.

The dimensions of India’s economy are as imposing despite the low per capita income. The World Bank in 2000 ranked India 12th among 210 nations and territories in gross national income (World Development Indicators, 2000). In terms of per capita income however, the country ranked 153rd.

Upon gaining independence from Britain in 1947, India chose to become a republic with a “Westminster-style” parliamentary government consisting of 28 states and 7 union territories.
Economic Development Strategy

When India emerged from colonial rule, it was desperately poor and rapid economic development was necessary for alleviating poverty. Nationalists have often argued that British imperialism destroyed the economy and prevented industrialization and rapid development. Others claim that without British rule there would have been no nation state and the legacy from British rule of a legal, administrative and political framework was the basis for an independent and modern India. Unfortunately, the integrity, efficiency and equity of this framework greatly deteriorated after 1947.

In India’s case, the need for a wider opening to the world market arose because of the controlled and insulated nature of the Indian economy prior to 1991. The economic achievements of the British era were mixed. For several decades after 1947, the Indian state was intensely absorbed in coping with the problems of law and order, administration and the partition of the sub-continent. It was in the mid 50s, after the consolidation of political power that India made a sharp break with the inherited colonial economic policy of laissez-faire.

India then engaged in an economic policy of planning, autarky and socialism that constituted a sense of economic nationalism. The dominant features of the Indian economic strategy during this era were the thrust for investment goods and import substitution (ISI). The strategy soon created serious economic imbalances especially in agriculture and in the 1960s, India faced food crisis, balance of payments problems, shortages of basic necessities, industrial over-capacity and inflation. Under pressure from foreign donors, a correction was applied through devaluation and economic liberalization which provoked a nationalist reaction. This resulted in a shift to the left
that prompted an escalated role of the state through the nationalization of important sectors of the economy.

**Development Strategy**

At the dawn of planning for India’s development, there was a system of administrative controls on the economy in place if the government chose to use it. Policymakers used, expanded and tightened these controls in the years that followed, justifying the policy as essential for promoting economic development.

The First Five Year Plan (1951-1956) was a simple one sector (Harrod-Domar) model that was successful in achieving its targets. This was followed by a very ambitious Second Five Year Plan that called for a closed economy growth model to produce investment and consumer goods. The plan resulted in a severe balance of payments crunch in 1957 that led to a regime of import controls. Investment in heavy industries took place in the 60s and 70s and subsequent plans were more or less ad hoc responses to emerging circumstances.

In short, India’s economic performance was poor and for three decades until 1980-1981, the average annual rate of growth of GDP was 3.75%. With a population growth of 2.25% per year, income per person grew at a mere 1.50%. The percentage of the population with consumption below the poverty line was at an average of a little more than 50% (Byres, 94).
The expansionist fiscal policies of the 1980s resulted in rising financial deficits and the situation led to the macroeconomic crisis of 1991. India’s post 1991 era of reforms stands in sharp contrast to its postcolonial economic history.

India’s participation in the world markets declined steadily during the second half of the 20\textsuperscript{th} century, with only marginal improvement following the reforms of the 1990s. India’s inward orientation has led to lower economic growth and stagnating living standards. India’s GDP growth averaged 3.75% a year from 1950-1980, putting it in the category of a low income, slow growing economy among the 41 “Third World” countries examined by Reynolds in 1985.

It’s growth rate increased to 5.8% and 6% respectively during the 80s and 90s (World Bank, 2000). But how has this increase really affected wages and income for the majority, poverty and inequity?

Most of the actions needed to integrate India’s economy fully with the world economy are domestic. The benefits of integration will be higher if the global trading environment becomes more liberal and the growth of market demand in industrialized nations is sustained. But, even as it may have the potential to advance human welfare, economic globalization also results in the transfer of disturbances from one part of the world economic system to other parts of that system as conveyed by the oil shocks of 1973 and 1979 and the market crash of 1987 (both having had an impact on India’s economy).
Further, as UNCTAD (1999) has pointed out the vulnerability of even the strongest developing economies to powerful forces unleashed by globalization. It also generates disturbances in national markets as the entry of economic agents from outside, such as MNCs, affects the fortunes of local actors.

Such economic dislocations may eventually make for the weakening of capabilities, marginalization and de-industrialization. International integration may lead to national disintegration which manifests itself in unemployment, poverty, exclusion and marginalization (Streenten, 1998).

There is however, a structured aspect to the impact of globalization that is beyond the cyclical disruptions that accompany it and this has significant implications for an expanding North-South inequity.

Economic integration of the world economy has placed nations in an hierarchical order. It has successfully divided economies into “core” and “periphery” often through economic and military coercion. This distinction is often blurred but the core economies are very much the centres of autonomous growth and expansion, more advanced in technology and research, specializing in capital and skill intensive manufacturing and producing high value goods (Bhalla and Lapeyre, 1999). In contrast, the poor and marginalized economies of the South have stood at the periphery, and have largely been rendered into a source of raw materials, cheap labour and also a market for the high value products.
The core has the ability to transfer its economic disturbances to them and to dominate them politically and thus condition their development. Many MNCs, as agents of the core, have come to exercise great control over the periphery economies. Globalization, in this aspect is not a neutralizing, universal force, but a powerful mechanism dominating the developing world and ensuring an asymmetrical, dependent and hierarchical economic system. Behind the promise of prosperity for all through globalization, lies the present reality of global inequity.

While impressive aggregate statistics can be reeled out to underline the deepening of the globalization, in reality the process is quite one sided. For example, almost all of the world’s 37,000 MNCs belong to the OECD countries and they are basically policed by their home countries (Thompson, 1996). While 80% of their R&D function is limited to their home bases, 75% of FDI stock and 60% of FDI flows were in the 1990s, confined to the triad of North America, Europe and Japan (Thompson, 1996). “What is described as globalization is thus simply triadization; for all intents and purposes it is the advanced industrialized economies that constitute membership of the global economy. Integration remains partial and truncated, for nearly two-thirds of the world is virtually written off the map as far as any benefits from this form of investment is concerned” (Thompson, 1996).

Occupying the dominant positions in the international institutions of economic governance, the advanced industrialized states have established international economic arrangements that primarily serve their interests. Even if globalization places some constraints on their options, they are able to limit them by virtue of their dominant
position. In contrast, developing nations are stuck in a viscous cycle of economic weakness which forces them to work within the confines of the existing system.

Even as G8 nations establish quotas on LDC imports and proclaim their commitment to free trade, they impose “voluntary export restrictions” on LDCs which are built into the quota system. The myth of free trade is thus maintained.

**Economic Policy Reform**

Economic policy reform for the last fifty years has fundamentally revolved around the roles of states and markets in economic processes. With the end of World War Two, globalization entered an intensive phase as its pace quickened. With a resurgence of the neo-classical doctrine, a series of chain reactions of economic liberalization occurred, across a broad range of countries in the developing world. Liberalization has increasingly side lined the legitimate role of the state in the economy, but this may not work for many developing nations. For many developing nations, states are compelled to intervene on account of two key concerns; national security and legitimacy. For these reasons, states have a permanent interest in the economy. Capital may be globalized but legitimacy is rooted in the state. A major concern for developing nations is to find the optimum balance between the world-system and the state in fostering economic liberalization (Gereffi and Wyman, 1990).

The larger project of economic policy reform usually consists of two phases; economic stabilization and structural adjustment. Stabilization is a short term program designed to rectify macroeconomic imbalances. Structural adjustment stretches over a longer
period and deals with issues like the relationship between the state and market; the national economy and the world economy.

Nothing has antagonized the Indian corporate sector more than the prospect of subordination at the hands of foreign MNCs or threat of being squeezed out of business by them. While recognizing India’s need for FDI for faster growth, the corporate sector has come to the conclusion that its interests diverge significantly from those of foreign MNCs. The left had always made the case against foreign investment as an instrument for drawing out the country’s economic surplus, while supplying obsolete technology.

After the initial enthusiasm about liberalization, business in India turned to a more realistic appreciation of the challenges that liberalization provided through foreign competition. It was concluded that liberalization had been too sudden and hasty. There was a demand for a level playing field in the face of foreign takeovers and imports. Even though economic liberalization was an anathema in Indian politics at one time, economic liberalization, incrementally, has in the era of globalization become an aspect of the centrist position in India’s economic policy.

Two dominant facts that became apparent in the late 80s have been critical in making evident to the national policymakers the gains from participation in the world economy through trade and investment.

1. The collapse of the USSR proved the failure of a closed economy.
2. The high-growth experience of East Asian economies (including China).
Politics and economics are naturally very interrelated, and the process of globalization has been at times, pushed by the developed nations – through various economic schemes and regimes. Additionally, developing nations are adopting more open policies that accommodate the demands of developed nations as side payments to smooth over strategic differences.

**India’s Infrastructural Challenge: Presenting the Best Case**

**Scenario for the Future**

India has come a long way since Independence (see Table 1). 1947 marked a major departure from almost a thousand years of political, economic and social subjugation. The country was then literally in darkness. Compared with today’s 85,000 mw of installed power generation capacity, the total installed capacity in 1947 was 1362 mw (although this is true for many developing nations in the Post World War Two era). Life expectancy at birth was 32 and the overall literacy rate was 17%. By 1991 life expectancy had increased to 60 and literacy to 52% (GOA Survey, 1997).

The evidence, though not yet conclusive, suggests that literacy rates have finally begun to accelerate in North India as well and that the overall level of literacy may have risen to about 60% at present. Official poverty estimates hovered around 50% in the first three decades after Independence but have declined since to about 35%. The 1960s witnessed a serious bout of food insecurity but measures taken since then have resulted in almost 30 years of relatively comfortable food self-sufficiency (GOA Survey, 1997).
Although many Indians are justifiably disappointed at the progress made by India since Independence, one must recognize the positive achievements that have been accomplished. After a century or more of zero economic growth, the first three decades of the post-Independence period laid the foundation for sustained economic growth of a kind not seen in India’s recorded history. But this growth, of less than 1.5% annually in per capita income and 3.5% in national income was clearly inadequate to make any dent in the high poverty levels prevalent in the country. However, the foundations for modern economic growth were well laid and India saw significant economic acceleration in the 1980s and 1990s. The higher annual growth of per capita income at about 3.5% achieved in the 1980s became palpable and major poverty ratios fell significantly (GOA Survey, 1997).

The progress achieved in the 1980s should have taught policymakers the lesson that higher economic growth must be the key objective of economic policy, and that it is only higher economic growth that can reduce poverty and provide sustainable economic security. No distribution can take place when there is nothing to distribute.

It is useful to look at the long-term decline of both China and India. India began its decline as an economic power from the early part of the 18th century, while China’s decline perhaps began in the early part of the 19th century (see Tables 2a and 2b). It would appear that India accounted for about 16% of world income in the early 1800s whereas China was at 32%. The share of both these countries declined over the next century and a half and fell to about 4% for India and 5% for China by 1950.
Correspondingly, it was Europe and the United States that gained substantially over this period.

India’s improved economic performance since the early 1980s has substantially increased its share of world income from about 3.4% in the late 1970s to about 4.6% now. However, during this period, China’s superior economic performance doubled its share of about 5% in the late 1970s to about 11%. This has been achieved by a major step up in investment and economic efficiency brought in through the active implementation of economic reforms throughout this period. *Thus the achievement of long term and sustainable acceleration in Indian economic growth over the next 10 to 20 years requires substantial enhancement of overall investment levels and improvement in economic efficiency.*

The countries that have achieved high annual growth rates, in excess of 6% in per capita income in the last three decades, have done so through significant increases in their gross investment rates (see Table 3). The achievement of per capita income growth of 6% in India over the next 10 years will require a GNP growth rate of over 7.5% per annum. Even if this were achieved, Indian per capita income in the year 2010 would not exceed what the per capita income of countries such as Thailand was before 1985. In other words, even if India is able to achieve a significant step-up in its economic growth, it will still be substantially behind most East Asian countries.
As it may be seen from Table 3, all countries that have succeeded in stepping up their
growth rates to about 6%, were able to do so by substantial increases in gross domestic
capital formation in excess of 30% of GDP. The current Indian investment ratio hovers
around 25% to 27%. This needs to be stepped up to more than 30% within the next few
years. A primary driver of higher economic growth is investment in infrastructure. The
India Infrastructure Report had projected that the achievement of GDP growth of over
7% would require an increase in investment in infrastructure from the prevalent levels
of about 5% to 5.5% of GDP in the mid-1990s to about 8% of GDP by 2005-2006.

The report concluded that it would not be possible to achieve this unless the public
sector kept up its existing rate of investment in infrastructure amounting to about 4.5%
to 5% of GDP, while increasing private sector investment in infrastructure
substantially to account for the balance. Private investment in infrastructure would
have to increase from about 0.5% to 1% of GDP in the mid-1990s to 2.5% to 3% of
GDP by about 2005. Thus, the achievement of higher growth requires the maintenance
of public investment in infrastructure facilities at a high level, while policies are
changed to facilitate increasing levels of private investment.

The main impediment to the achievement of this scenario is the deteriorating fiscal
situation of both the central and state governments in India. The government’s ability
to invest has been declining continuously since the late 1980s because of its
deteriorating fiscal position (see Table 4). What is encouraging, of course, is the
increase in private corporate sector investment levels subsequent to the 1991 reforms.
The reforms have somewhat succeeded in encouraging higher levels of private investment but further increases are constrained by declining public investment levels.

India adopted an economic policy based on self-sufficiency and trade protection in the context of a planned economy from the immediate period after Independence in the 1950s. This policy remained relatively unchanged until the late 1970s. The first glimmer of change began in the 1980s with some liberalization of the tight industrial regulatory system, liberalization of imports and a more focused export promotion. This was also accompanied by a stepped up public investment program focused on enhancing the infrastructure facilities in the country.

These measures seemed to have broken the low growth trajectory of the Indian economy and increased the rate of GNP growth to almost 5.5% per year for the 1980s as a whole. However, this growth was achieved to a certain extent, by widening fiscal deficits incurred to finance the higher public investment program. The resulting higher growth also widened the current account deficit as imports grew faster than the exports. Thus, although the Indian economy achieved a higher growth path in the 1980s, it ran into a serious economic crisis in 1991.

It was against this background that the economic reforms were initiated in 1991. India has, accordingly, gone through a wide ranging reform process covering the areas of macro economic and fiscal stabilization, industrial policy, trade policy, exchange rate determination, public sector policy, financial sector policy, capital markets and
agriculture. The effort has been to eliminate existing controls in all areas which had
distorted resource allocation and inhibited entrepreneurship. It was thought that these
measures would nudge the economy towards the attainment of even higher
productivity and efficiency.

The results so far have been mixed. After an initial downturn in 1991-92 the economy
recovered and attained a growth rate in excess of 7.5% per year between 1993-1996.
The external balance was restored, inflation was reduced, banks were subject to new
prudential discipline, and the capital market became deeper and more vibrant. But the
fiscal deficit has remained stubbornly high at about 6% of GDP after an initial
adjustment. After three years of buoyant growth in 1993-1996 the economy has
experienced a slow-down and has now come back to the kind of growth path achieved
in the 1980s. This is a crucial consideration for policymakers (Gupta, 1993).

Although a great deal of economic reform has taken place in the 1990s, much remains
to be done. In many areas, reform has been halfhearted and in others, it has not really
begun. Fiscal adjustment has been very partial and the fiscal situation in both the
centre and the states is now becoming unsustainable. Consequently, public investment
has fallen sharply, which is also constraining the higher growth feasible in the private
corporate sector.

Industrial de-regulation has been quite comprehensive except in the case of small-scale
industries. More than 800 items continued to be reserved for production in the small-
scale sector. Among the objectives of economic reform was an acceleration in the generation of industrial and other employment. The items reserved for the small-scale sector are typically those that are easy to manufacture and are labor intensive. This measure may have been useful when it was put in place to encourage the entry of new entrepreneurs into the industrial sector. It has now become obsolete and acts as a brake on the expansion of the many small-scale units that were set up in the last three decades (Gupta, 1993).

Moreover, it also inhibits the growth of industrial employment that would otherwise take place if such growth impediments did not exist. Many of the items such as clothing, shoes, plastic goods, sports goods, toys and the like are those in which India would be extremely competitive globally. The restrictions on investment levels in these items does not allow for quality and technology advancement on a consistent basis, which is so essential for a continued and sustainable expansion in exports.

The result is that India is unable to experience sustained long term export growth, so vital for attaining an overall higher growth path. India experiences short bursts of rapid export growth whenever significant “real” devaluation enhances our price-based low ended competitiveness. Such growth peters out as soon as this advantage is exhausted.

Similarly, reforms in other areas have been half-hearted. Although a great deal of discussion has taken place in the last four years or so over private investment in infrastructure, the economic and regulatory conditions in place have not been
conducive to a significant increase in private investment and in infrastructure. Reforms in the financial sector were also begun with a great deal of enthusiasm with the entry of a handful of private banks and some expansion of foreign banks along with the promulgation of new prudential requirements and interest rate deregulation. These initial reforms have not continued and the financial sector has therefore some distance to go before it becomes as efficient as it is in other countries.

The greatest failure of Indian economic policy has been in the area of human development. As the state gave greater attention to the production of goods and services in the public sector, areas such as education and health never received the attention that they should have. Thus, though significant improvements have taken place in these areas since Independence, India’s achievements are still quite a distance away from those in East Asian countries. Investment in human development would require much greater spending for education and health by both the public and private sectors and the assurance of a minimum level of nutrition to all citizens of the country.

Such an increase in expenditure can only be achieved if the government can reduce or eliminate unnecessary subsidies and re-allocate expenditure directly to such social necessities. Detailed calculations on the returns to public sector investments suggest that the average returns at present are not very far from zero. The cost of current borrowing is in the region of 10-12%. This, then is, the extent of inefficiency in the allocation of investable resources available with the government at present. Thus, an improvement in public sector functioning is a key requirement for both achieving
higher growth in the economy and for finding the resources necessary for higher investment in social services (Ghosh, 1998).

**India’s Best Case Scenario**

The movement of Indian households across income groups has been tracked for more than a decade and attempts to understand the expansion of the market as also to project how this expansion will take place over the next decade or so. The results are quite startling. If one believes that the way the economy has gone in the past 20 years has been healthy and that market expansion has been very large, the prospects for the future are quite staggering.

For convenience, all households have been classified into five income classes: low, low middle, middle, upper middle and high. The cut-off point for each income class is adjusted for inflation so as to make income groups comparable over time. The high income group comprises households who have income above Rs 110,000 per year at 1995-96 prices. The low income households are those with income less than Rs 25,000 per year. Although it is likely that the observed income is understated significantly, the comparisons over time are valid since the sampling is done on the same basis every year (Associated Chambers of Commerce, 1997).

The data show that low income households declined from about 65% in 1985-86 to about 54% in 1994-95; the proportion of the high income households increased from
about 1.1% in 1985-86 to 2.9% in 1994-95. During this period the GDP grew at an
average rate of about 5% to 5.5%. We, therefore, observed that the change between the
mid-1980s to mid-1990s was significant but slow (Associated Chambers of
Commerce, 1997).

What is of great interest is the acceleration in this change that is expected over the next
decade or so if GDP grows at about 6.5% or more during this period. The proportion of
low income households is projected to decline sharply from the 54% in 1994-95 to less
than 15% by 2010. In fact, in urban areas they would become negligible at 2% or less.
The growth in high income households is then more than dramatic from 2.9% in 1994-95
to more than 15% by 2010. In terms of actual magnitude, the number of low income
households would fall from about 85 million in 1994-95 to 25 million by 2010.
Similarly, high income households will increase from 4.6 million in 1994-95 to almost
30 million by 2010. These are indeed dramatic changes that are expected over the next
decade if the economy can actually grow at over 6.5 % per year (Associated Chambers
of Commerce, 1997).

The striking conclusion is that there is a possibility of poverty being eliminated in
India within our lifetimes. This of course, is the government’s best case scenario.

The decline of low income households from 65% in 1985-86 to less than 15% by 2010
means that non savings households and non-consuming households will decline
precipitously and there will be huge accretions to low, middle, and upper middle
income households who will also save and consume more.
As a consequence of such income changes the market for goods will expand massively. For example, if the demand for two wheelers in the late 1990s was between 3 and 4 million per year, this may well grow to 7-10 million by 2010. The number of cars sold per year has already increased from about 30,000 a year in the early 1980s to more than half a million now. This may also expand by a factor of four over the next decade. Similarly, if the number of refrigerators sold is about 2.5 million per year these will increase to more than 6 million by 2010 (GOA Survey, 1998). Wristwatches have already achieved the penetration rate of more than one watch per household in the country. By the end of the next decade there could well be almost two watches per household.

Such an expansion of consumer demand will necessitate a corresponding increase in manufacturing investment, infrastructure investment and expansion of trade. Each of these elements of economic expansion contributes to a virtuous circle of higher consumption, higher investment, higher income growth, higher consumption and higher investment. This is the kind of rapid change process that East and South East Asian countries have traversed over the past 30 years; India is now poised to make a similar jump into the future given all the right conditions are available.

Such income growth brings about changes in food habits and therefore in food production. The share of cereals in food expenditure of households has fallen sharply since the early 1970s in both rural and urban areas. Fruits, vegetables, milk, processed foods, poultry, meat and fish have all increased their share in peoples’ diets. We can
also expect significant changes in clothing patterns and corresponding clothing
production. There will also be a massive increase in the demand for what may be
called modern housing which will again lead to significant changes in the production
pattern of housing and of building materials. With the increase in modern housing
there will be further expansion in the demand for all the goods which fill up kitchens,

Along with such changes in demand and production there will also be corresponding
changes in the transportation and distribution of goods. As the volume of retail markets
of consumer goods expand, there will have to be a transformation in the pattern of
retailing. The movement of massive volumes of goods will lead to the kind of
distribution change that has already taken place in Asian countries. The cultural
attachment to small stores with personalized services will become a feature of the past
and there will be an increasing number of large modern departmental stores and super
markets in most big cities. For example, it is estimated that almost half of all grocery
sales in Thailand are now made from stores which may be described as having modern
retail trade structures. This proportion was zero as late as 1980s, just as it is in India
now (GOA Survey, 1998).

If such changes take place, the urban form will also undergo corresponding change. As
the urban consumers become more harried in their shopping habits they will demand
goods of consistent quality at low prices while expending a minimum of transaction
costs. Branding will become even more important than it is today. However, looking at
the Indian income levels and distribution today and in the foreseeable future,
manufacturers will need to cater appropriately to each market segment. Even by the year 2010 almost two-thirds of households will be in the low to upper middle income ranges demanding goods at low prices but of consistent quality. The current patterns of new market entrants catering only to the rich will not have as much success as those who cater to the mass market.

With the massive increase expected in the volume of goods that will need to be moved, expected expansion in trade, increase in personalized vehicles, and the overall increase in transportation demand, major problems will be encountered unless there is a corresponding expansion of all elements of infrastructure services – roads, railways, ports, airports, power, telecom and the like. The India Infrastructure Report has estimated that investment in such activities amounted to about 5.5% of GDP in the mid-1990s (Associated Chambers of Commerce, 1998).

To cope with the kind of growth mentioned, it estimated that such investment would have to increase to almost 8% of GDP by 2006 or so. As it happens, the increase in investment that had been expected by the end of the current decade has not fructified. Thus, if the kind of economic vision that has been sketched above is to become a reality, there would have to be even faster growth in all aspects of infrastructure investment in the coming decade, in both the public and private sectors.

India has already witnessed a relatively rapid urbanization over the last 2-3 decades. It is expected that the urbanization level is likely to be around 30% by the year 2001,
with the urban population increasing to about 300 million. India already has more than 300 cities with more than 100,000 population and 23 cities with more than a million people (UNCTAD, 1998). As the pressure on housing increases and people become more mobile, there will be mounting pressure on the social front and possibly a breakdown of the familiar joint family system.

Although India has not done as well as many other countries in health, the life expectancy in India has increased from less than 32 at the time of Independence to about 62 now. At medium and higher income levels, people are living to higher and higher ages into their ’80s and even ’90s. With this increase in longevity and pressures on housing, it is becoming more difficult for parents to stay with and be looked after by their children. Therefore, an increase in demand can be expected for social security instruments which provide adequate resources for people in their old age to live reasonably comfortably and with dignity. This demand will only intensify in the future.

It is imperative therefore that the financial sector be opened up to provide more opportunities for households to save in secure insurance and pension funds instruments in order to ensure their future. India would then complete another virtuous circle of high economic growth, high savings, high investment, high infrastructure investment, and high economic growth. The opening up of insurance and other segments of the financial sector is crucial for providing a social safety net for all citizens while at the same time providing a mechanism for the funding of new infrastructure entities that are likely to come up in both public and private sectors. It is mainly institutional investors who can be expected to have the capability of assessing the credit quality of
the different infrastructure entities, be they private companies, public sector companies, state governments or local governments.

Almost all infrastructure services have in the past been provided by the public sector. The pattern and organization of the provisions of such infrastructure services has been done in such a way that the public has got used to not paying the economic charges for these services. This includes key services such as power, water supply, irrigation, and transport among others. The argument for not charging appropriate user charges is essentially been on the basis of the inability of poor to pay for such services. This argument has little basis in fact since most such services are essentially consumed by the better off sections of society.

The key issue which is vital for the sustainability of the kind of economic growth sketched above is the need for a major campaign to bring up the levy of user charges to economic levels. Infrastructure entities in both public and private sectors would then be able to get adequate returns for their investments. At present, both the central and state governments are facing severe fiscal pressure because of the many hidden subsidies that have got embedded in the system. The fiscal balance of both the central and state governments would improve dramatically if user charges were imposed appropriately for all public services. It is only then that India would be able to invest adequately in the provision of such infrastructure services that are essential both for economic growth and for social justice.
There are two kinds of geographical divisions that are becoming apparent in the country. In general, the western part of the country has greater economic dynamism than the eastern part. Second, the southern, non-Hindi speaking states are showing much larger improvements in human development indices than the northern Hindi speaking ones. If current trends continue it is likely that the economic distance between the northern and the eastern states on the one side and the western and southern states on the other will increase significantly.

The key issue for the next decade is for the country to find practical ways in which the problems of these northern and eastern states can be addressed adequately and particularly in the sectors of health, education and nutrition. There would have to be some kind of special package for these states in order to help them begin to catch up with the better-off states. However, this is not merely a question of throwing resources. The problems are too complex to be dealt with merely through an improvement in resource allocation to the states. These issues will pose a challenge to the federal structure of the country and great political and social skills will be demanded of the leadership.

The decade of 1990s has been dominated by economic policy attempting to liberate the private sector from interference by the government. The objective has been to allow for restructuring and re-allocation of resources within the private sector, and from the public sector to the private sector in order to achieve higher levels of efficiency and productivity. During this period, however, there has been little attempt to improve the workings of the government and of the associated public sector.
The economic reforms in the next decade would have to focus especially on making government more effective, efficient, productive and responsive to the needs of citizens as they become increasingly more vocal. This will involve massive privatization of public sector entities at both the central and state levels in areas where the private sector is competent to take over such enterprises. Liberation from running such enterprises will enable the government to focus on those core areas such as law and order, health services, education services and essential infrastructure which the government and public sector alone can provide. This is the real challenge for the next decade.

**TABLE 1**

*Progress since Independence: Key Indicators*

<table>
<thead>
<tr>
<th>Year</th>
<th>Poverty (per cent)</th>
<th>Literacy (per cent)</th>
<th>Life Expectancy (years)</th>
<th>Power Capacity (MW)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1951</td>
<td>45</td>
<td>17</td>
<td>32</td>
<td>1,362</td>
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<tr>
<td>1961</td>
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<td>1971</td>
<td>52</td>
<td>38</td>
<td>50</td>
<td>14,709</td>
</tr>
<tr>
<td>1981</td>
<td>43</td>
<td>44</td>
<td>55</td>
<td>30,214</td>
</tr>
<tr>
<td>1991</td>
<td>35</td>
<td>52</td>
<td>60</td>
<td>85,000</td>
</tr>
</tbody>
</table>
### TABLE 2a
**Share of World GDP (%)**, 1700-1995

<table>
<thead>
<tr>
<th>Year</th>
<th>1700</th>
<th>1820</th>
<th>1890</th>
<th>1952</th>
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<th>1995</th>
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<td>13.2</td>
<td>5.2</td>
<td>5.0</td>
<td>10.9</td>
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<td>11.0</td>
<td>3.8</td>
<td>3.4</td>
<td>4.6</td>
</tr>
<tr>
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<td>2.5</td>
<td>3.4</td>
<td>7.7</td>
<td>8.4</td>
</tr>
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<td>28.4</td>
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<tr>
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<td>6.3</td>
<td>8.7</td>
<td>9.2</td>
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</tr>
</tbody>
</table>

### TABLE 2b
**Rates of Growth of World GDP, 1700-1995**

*(Annual Average Compound Growth Rates)*


NOTE: This figure is included on page 212 of the print copy of the thesis held in the University of Adelaide Library.
TABLE 3
Gross Investment Rates in Current Prices
Selected Countries (1952-1994) *Source*: Angus Maddison

<table>
<thead>
<tr>
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</table>

NOTE: This figure is included on page 213 of the print copy of the thesis held in the University of Adelaide Library.
The Growth of India’s Infrastructure: The Need for Expansion

India initiated an ambitious reform program, involving a shift from a controlled to an open market economy, now showing signs of overheating because of basic infrastructure constraints, both physical and human. So far, the bulk of infrastructure had been in the public sector. The public sector in India, operating within a protected environment, has largely been subsidized by the government. Since the launching of reforms, the government is trying to reduce its borrowing which means that further subsidization will not be possible. There is one area where there is a need for private sector and foreign investment to come in. Because of the long gestation period, and many social implications, the infrastructure sector compares unfavorably with manufacturing and other sectors. For this, specific policies in these areas are needed to make infrastructure attractive. Clearly, there is a wide gap between the potential demand for infrastructure for high growth and the available supply. This is the challenge placed before the economy, i.e. before the public and private sector and foreign investors (Jalan, 1991).

Total Capital Needs For Investments

According to the India Infrastructure Report (IIR), currently 5.5% of the GDP is invested in the infrastructure sector. This needs to be increased to 7% within the next three years and 8% by 2005-2006, by which time the annual level of investment in infrastructural facilities is projected to treble or rise even more, from the current level of Rs. 6000 billion (US$52 billion) by 2005-2006. The total infrastructure investment requirements for the next five years have been estimated in the report at about Rs.
The task of finding such large amounts and thereafter deploying them productively calls for a close partnership between the public and private sectors, with a vital role reserved for foreign capital. To finance this large short fall, the domestic saving rate needs to be increased by a minimum of 26.7%. Besides, this has to be supplemented at the margin by FDI. However, this “margin” is indeed very important since the role of foreign investment has to be read not only as a gap filler between savings and investments but also as a means for bringing better technology and management.

Hence, FDI may prove to be the prime substitute. But a sustained FDI inflow would call for the creation of a fair, open and rational tariff structure. Besides, the availability of a critical infrastructure base is also becoming an essential precondition. The projected net foreign investment inflow includes both foreign direct and portfolio inflows. This will entail an increase from the current US $ 4-4.5 billion to about US $ 9-10 billion by 2000-2001 and US $ 15-16 billion per annum by 2005-2006. The expectation is that about 40 per cent of external capital inflows could flow into the infrastructure sector (Associated Chambers of Commerce, 1998). This is indeed a very ambitious target. The sustained inflow of such volumes of external capital would require an open foreign investment regime. Simultaneously, attention should be paid to keeping the macro-economic fundamentals stable.
The Role Of FDI In Infrastructure

The importance of the infrastructure sector also follows from the fact that foreign investors are now looking at infrastructural development as a yardstick for directing their investments. In fact, infrastructural development has taken precedence over wage levels in assessing the investment potential in developing countries. In India, the infrastructure sector itself is becoming an attractive investment area for FDIs.

Already there is a huge demand for funds from the manufacturing sector. On top of that, there is the demand from the infrastructure sector. Both draw heavily from the savings of the household sector. The growth of financial savings of the household sector however is not rising fast. In this context, the importance of the increased obligation of domestic saving needs underscoring.

Government Policy For Inviting Private & Foreign Investment

To encourage foreign funds flow into the infrastructure sector, the Financing Ministry has allowed Foreign Institutional Investors (FIIs) also to invest in unlisted companies. This was aimed at helping infrastructure companies as they would not be in a position to list their shares in the initial phase. FIIs now deploy 100% of their funds in corporate debt. However, the Ministry has not dispensed with the 20% withholding tax on such investments as per the suggestions of the IIR report.
Speaking at the World Infrastructure Forum, John Taylor, Director of the Infrastructure, Energy and Financial Sector Department, ADB, emphasized that the "counter guarantee" scheme was designed to cover specific risks including “discriminatory” government action of various kinds, non-delivery of inputs or non-payment for output by state-owned entities, availability of essential public services, changes in the agreed regulatory framework or tax regime, provision of essential complementary infrastructure, compensation for delays caused by government action or political uncertainty, transfer risks, foreign currency availability and convertibility.

In a bid to make the core sector attractive for FDI, the Cabinet Committee on Foreign Investment (CCFI) has modified the 49% cap on foreign equity in the infrastructure sector to make fund mobilization easier. This major policy decision, which will indirectly raise the foreign equity investment in the infrastructure sector, to well over 51% if a domestic partner fails to meet his commitment from internal sources, including borrowing, should really help the large industrial houses. The new mechanism is designed to overcome the constraints for the foreign equity cap in the infrastructure sector. Under the norms, companies operating in the sector can bring in equity through the mechanism of an investing company for the purpose of making investments in a licensee company and the service sector where there is a prescribed foreign equity cap (Basu, 1993).

The Central Plan outline for 1996-1997 on infrastructure has not shown any improvement despite a near crisis situation in infrastructure. This may be the result of
the hypothesis made by the Government all along; i.e. the private sector will take
over whenever Government vacates, thus solving the problem. The feasibility and
pragmatism of this hypothesis remain to be seen.

Compared to the allocation on the Central Plan outline and the growth in 1995-1996,
the performance in 1996-1997 was not significant. The growth rate in the energy
support for this sector has virtually been negated by the impact of inflation, where the
real increase has become negative. The same scenario emerges in the budgetary
support for communication in 1997-1998 with respect to science, technology and the
environment. Although the growth is definitely better than what it was in the last five
years, it still remains very low (CSO, 2000).

Besides, even if allocation in the sector is raised with a greater inflow of FDI and a
large participation of the private sector, the immediate problem will still remain since
the infrastructure is prone to a long gestation. Consequently, the inadequacy of the
infrastructure will continue for quite some time, unless technology up-gradation can
be done in infrastructure production, including construction activities, for reducing
the gestation lags and simultaneously improving the quality of products. With this
infrastructure constraint any indiscriminate growth may lead the economy to a
situation of over-heating and a further rise in inflation.
This poses challenges for the sector in several areas:

1) Capital accounts convertibility could also lead to large funds kept by Indians abroad flowing into India. The various estimates have put the NRI funds abroad at US $ 150-200 billion

2) India is not alone in seeking foreign funds in the core sector. China requires US $ 5000 billion in the next two decades. So does Korea. India has to complete with them.

3) One of the key problems in the commercialization of infrastructure is the risk of allocating funds. The successful design of a project involves the correct demarcation and allocation or risks. So far, projects were opened up to the private sector without adequate feasibility studies. The result is that projects once considered viable turn sour when the bidders find their costs shooting up. This needs correction.

4) The other problem is that the infrastructure demand for funds is long term and could come from the insurance and pension funds. But, these two areas have not been opened up. Here early action is necessary.

5) Official and private perceptions over the viability of a project often vary widely. Differences have to be narrowed.

6) In an infrastructure constrained economy with a high interest rate, any large program of investment may add to the inflationary potential unless gestation lags in the projects are reduced. Here comes the choice of an appropriate technology to reduce investment lags which in infrastructure projects in India are very high compared to that in many successful reforming countries.
7) The IIR report says that on the basis of existing tariff levels, it will be possible for port authorities to service debt obligations and pay a reasonable return on equity. But there is a need to delegate adequate power to the port trust to facilitate the speedy creation and operation of assets.

8) The Ports will have to upgrade their facilities to international levels. In the modernized ports, cargo would be mechanically handled; there would be special facilities for handling container and bulk cargo and computer-based cargo clearance including customs clearance.

9) Similarly, the future of road development lies in finding innovative ways of leveraging funds from the market to augment budgetary resources. There is also a need for adopting modern equipment-based technology that would lead to the expeditious construction of the much needed roads.

The growth rate of six-core infrastructure industries picked up by 5.2% in November 2003 pushing up the overall growth rate in April-November 2003-2004 to 4.2%. The segments that did well in November 2003 included the petroleum refinery (20%) and coal (6%) sectors. Power generation also picked up by 4.3%. The manufacturing sector did even better with growth rates surging to 8.1% in November 2003, the highest recorded over the past 45 months. Similarly, there was some improvement in growth rates in the mining and electricity segments. But the trends have been fluctuating in the recent period in both these sectors. Growth of industry and the manufacturing sector in April-November 2003-04 was the highest recorded over the past six years and it almost rivals the peak levels of growth achieved in the mid nineties (Associated Chambers of Commerce, 1997).
## TABLE 4

Declining Public Investment

**Gross Capital Formation (per cent of GDP)**

<table>
<thead>
<tr>
<th>Period</th>
<th>Total</th>
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</tr>
<tr>
<td>1995-98</td>
<td>24.0</td>
<td>8.3</td>
<td>7.0</td>
</tr>
</tbody>
</table>

*Source: Government of India: Economic Survey (various issues).*
Chapter Six

The Reality of India’s Economic Liberalization:

India is a country of rich social, ethnic, cultural and religious diversity contained in the principle of tolerance. India’s basic development goals are to eradicate poverty and accelerate human development. India has a very disappointing human development profile and there is an urgent need to reinforce the relationship between economic growth and human development. Statistics show that the social sector expenditure in terms of GDP has actually declined since the 1980s. Public expenditure is also subject to poor resource utilization, corruption and waste. India’s destination for the road ahead is clear. High population growth has dampened progress on every front and will continue to do so.

Health

The plague of 1994 did not just remain in the rural areas or urban slums. This propelled hysterical media coverage of the “scourge”. The plague actually only took 54 lives. Tuberculosis claims over 450,000 lives each year in India, nearly 8000 times as many. It would be lucky if this got any coverage in the media. Diarrhoea claims close to 1.5 million infants each year, one every three minutes (National Tuberculosis Institute of India, 1984-85). That is 30,000 times the number of lives lost in the plague. These facts are only mentioned when the UNICEF’s annual “State of the World’s Children Report” is released. Every fourteen days, over 7.5 million children below the age of five suffer from diarrhoea (Combined Surveys, ARI, Diarrhoea, and EPI, National Institute of Communicable Diseases, 1988). Close to 19 million contract auto
respiratory infections, including pneumonia in the same 336 hours. In the West, the plague helped reinforce old stereotypes. One London newspaper said the plague was marching ahead in a region where millions worship an elephant headed god who rides a rat. This made the locals reluctant to kill rats and hence the disease.

In 1992, USAID gave India $325 million to be spent on population control in the state of Uttar Pradesh. The program had serious implications, one being that hazardous contraceptives like Norplant would be pushed on rural women. Norplant was generally not in use in the West (USAID, 1993).

**Health Facts**

Every third human being in the world without safe water is from India. Every fourth child on the globe who dies of diarrhoea is from India. Every third person with leprosy in the world is also from India. Every fourth person on the planet dying of water borne diseases is an Indian. Of the over 16 million tuberculosis cases that exist anytime world wide, 12.7 million are in India. Millions of Indians suffer from malnutrition. Yet, the official expenditure on nutrition is less than 1% of the GNP (Seethe and Chatterjee, 1993). What of the threat posed to FDI by news of situations like the plague? Few nations have addressed the health and well being of their citizens with such callousness and contempt as the Indian elite. Never in history has the Indian government spent more than 1.8% of GDP on health. The current figure of public spending is 1.3% of GDP. Nicaragua spends 6.7%, Brazil 2.8% and China 2.1%. Amongst the advanced countries, Sweden spends 7.9% and the US 5.6%. In terms of health infrastructure nations like Sri Lanka and China are way ahead of India (Weiner, 1992). As much as 80% of people’s health care costs are personally borne. Only 20%
of hospital beds are in rural areas where 80% of the population lives. Across India, thousands of Primary Health Care Centers (PHCs) have not seen doctors for years.

Yet, India produces more doctors than nurses and more than a few doctors have been trained at the expense of the poorest people in the world. Many of them settle abroad. Thus, some of the most deprived and disease ridden people are subsidizing the health of the richest.

With the coming of India’s economic liberalization and savage cuts in health care spending, the pressure on the poor has grown. Lack of resources has little to do with it. In 1992-93, the Union Government slashed National Malaria Eradication Program funds by nearly 43%. In the same budget, the top 10% of the population got tax consessions worth Rs. 4800 crores. Metros like Bombay have seen the growth of “five star” hospitals while in rural India a family of five members with an annual income of $ 240 is considered to have risen above the poverty line (Central Board of Health, 1992).

**Education**

Census data reveals that less than half of India’s 179 million children in the 6-14 age group attend school. Of the over 130 million rural children in this age group, 57% are not in school and only about one-third of girls in the 6-11 age group are in school. Most children have difficulty reaching their schools. The Fifth All India Educational Survey (1989) found that 94% of rural children were served by a primary school within 1 kilometer, better still, 85% had a middle school within 3 kilometers. This sounds good on paper until one considers the terrain and the hardships involved in
getting to these areas ((National Council for Educational Research and Training, NCERT, 1989).

More than 60% of primary schools in India have only one teacher or two at best, to take care of all classes. They lack even the minimal resources. The National Council for Education Research and Training (NCERT)’s 5th survey found that of the 5.29 lakh primary schools, well over half had no drinking water and 85% had no toilets, 71,000 had no buildings at all. There were 2628 primary schools with no teachers at all (Tilak and Varghese, 1992).

The First Five Year Plan gave education 7.86% of its total outlay. The Second Plan lowered it to 5.83%. By the Fifth Plan, education had 3.27% of the total budget. Current spending is not more than 3.5% of GDP. Tanzania for example spends 4.3%, Kenya 6.7% and Malaysia 7.8% of GDP on education (Weiner, 1992).

As Amartya Sen and Jean Draze point out: “Literacy rates in India are much lower than in China. They are lower than literacy rates in many east and south-east Asian countries at the time of their rapid economic growth 30 years ago. And, they are also below literacy rates in sub-Saharan Africa”.

Mass illiteracy and lack of education hurt India in other ways as well. It keeps India’s basic capabilities stunted. Economic reforms suffer as a result, for no major reforms will last without basic changes in this area. As John Gabraith said: “There is no literate population that is poor, and no illiterate population that is other than poor” (Sen and Dreece, 1995).
The quality of India’s labor force is limited by low levels of human development. Liberalization and globalization have created compulsions for raising productivity levels.

The demand for education requires the mobilization of diverse communities and getting them to appreciate the long term value of education. To step up to that need the Indian Government would have to increase the allocation for education from the current 3.5% to at least 6% of the GDP.

**The Myth of India’s Food Security**

One would never know that there is an agricultural crisis in India from looking at the media. However, as P. Sainath (2001) points out, the growth rate of food production in India is falling from 3.5% in the 1980s to 1.8% in the 1990s. Investment in agriculture has all but collapsed. NSSOI (The National Sample Survey Organization of India) revealed that the 1990s saw the lowest level of employment generation since India’s independence (less than 0.7% annually), in rural India. Non-farm employment doubled during the 1980s, but even that stagnated in the 1990s.

Rural development is at a standstill, rural credit is collapsed leading to faster rates of land loss among small farmers. Small and marginal farmers who cannot pay their debt have had to auction their properties. In the state of Rajasthan, the poor have resorted to rotating hunger, choosing by turn members of the family who must go without food (Sainath, 2001).
Sainath also notes that in crisis states like Andhra Pradesh, between 1997 and 2000, 1800 plus people committed suicides, due to extreme poverty and frustration. The largest number, (1061) were listed as having committed suicide because of “severe stomach aches”. This fatal condition apparently results from the use of Ciba-Geigy’s pesticides which the government distributes for free. All this, in the state, that claims to be the home of India’s cyber city, Hyderabad.

Some of these changes are the result of WTO rulings. India removed quantitative restrictions on imports in 2001, two years ahead of the expected date set by the WTO. The portrayal of the Indian farmer as being non-competitive, caused industrialized nations to increase their subsidies 2-6 times in the 1980s. It is a myth that the Indian farmer is not competitive when there is no level playing field in India. Sainath (2001) accuses the Indian representatives of the earlier GATT negotiations of selling their country and negotiating plush jobs in the West for their own gain.

In India, there is a perception that a lot of “subsidies” are given to farmers, creating an urban bias against them. In reality, the vast majority of subsidies are not given to farmers but rather to the fertilizer producers.

The poor farmer is portrayed as being uncompetitive and living off subsidies and thus unable to participate in the global market. In reality, India’s farmers have the impossible task of competing with the U.S. farmer for example that gets $ 35, 000 in subsidies. The European Union for example destroys surplus milk and cheese which might depress prices if released to the local markets. But, with markets forced open by
trade agreements, the EU is able to dump these products in India and other developing
countries. This effectively kills the livelihood of the average dairy farmer in India.

Despite the WTO rulings, many failures occur on account of the Indian government’s
unilateral policies. When India declares a surplus of 45 million tonnes of food, it really
is the excess unsold stock. Pakistan and Bangladesh have also claimed surpluses of 5
times. This is however, impossible, since the largest numbers of the world’s absolute
poor live in the Indian Subcontinent and one might deduce that the surplus is due to
the declining purchasing power of the poor.

If the food produced by India is divided by the minimum per capita requirement of
food, there is no surplus. The claim of food security in India seems frivolous and
grossly ignores the fact that some people go hungry on a regular basis. Between 1991
and 1994, food prices in India increased by 100% and more recently in 2000-2001,
there was a further increase of 100% in food prices (Sainath,2001) The myth of India’s
food security portrays a grievous negligence and lack of accountability of the
government that has the one expected result – hunger.

With high levels of malnutrition and government stocks that are inadequately stored,
the state governments should have the foresight to create food-for-work programs. The
Rajasthan government did that (although in the middle of a serious shortage of water)
when it introduced a food-for-work program that was targeted towards constructing a
golf course!

Who are the poor? 40% are landless agricultural labourers, 45% are small and
marginal farmers who are net purchasers of grain! 7.5% are rural artisans, 85% of the
poor have problems directly related to land ownership, the one issue that the government has consistently ignored (Sainath, 2001).

Poverty in India is defined in a strange manner and conceals greater depths of deprivation than is usually reported. The definition that “if per capita income permits the purchase of 2400 calories of food, then one is not poor” is a ridiculously weak one. The emphasis is on income and not actual purchasing power, especially in view of the fact that the state fails to provide the basic amenities to citizens, necessary for everyday survival.

**Understanding India’s Human Development and Environmental Crisis**

Poverty is hunger and the lack of shelter. Poverty is being sick and not having access to health services. Poverty is not having access to an education and being illiterate. Poverty is being unemployed and living one day at a time. Poverty is a child dying because of hunger or unclean water. Above all, poverty is powerlessness, lack of representation and freedom. These statements represent the lives of millions of human beings in India.

In India, official statistics report that close to 90% of the population has access to drinking water although the reality in both rural and urban areas is reflected in the general health of India’s masses. Rapidly declining water tables, deteriorating water quality and increasing diseases are the stark reality of India’s problems. The lack of proper sanitation and waste disposal systems has an added impact on the entire population of India. When India’s economic growth was modest, the predominant environmental problems were poverty induced. These included deforestation, lack of
safe drinking water, poor sanitation and pollution. With India’s economic liberalization and growth, added pressures aggravate the already overloaded system with industrial pollution, ecologically unsound commercial practices, aquaculture, overexploitation of natural resources and the spread of hazardous substances. Consumption has grown at around 7.5% a year between 1970 and 1990. Irrigated land under agriculture has doubled, resulting in very low ground water levels (UNDP, 2002).

In addition, the following are consequences of India’s environmental neglect:
1. Steady deterioration in the quality of natural elements that sustain water and soil.
2. Nearly a quarter of all communicable diseases in India are water borne.
3. Respiratory morbidity has shot up in the urban areas. Vehicular pollution levels are among the highest with daily emission levels reaching over 870 tonnes.
4. Forest cover has shrunk to 64 million hectares, which is under 20% compared to the 33% set by the national forest policy.
5. Traditional common property regimes that provide survival options to communities have all but disappeared (Dubey, 1995).

India’s ongoing population explosion places a great strain on the country’s environment. Rapid urbanization and industrialization are straining the limits of municipal services (that are badly in need of an overhaul) and causing serious air pollution problems.

Despite a greater commitment by the Indian Government after the Bhopal incident in 1984, policies designed to develop the economy have taken precedence over the environment, in the last 20 years. Industrial development has undoubtedly come at a
price to the environment. Industrial pollution is increasing public health risks at an alarming rate.

**Air Pollution**

Industrialization and urbanization have taken a profound toll on India’s deteriorating air quality. India has more than 20 cities with populations of at least 1 million or more and the major ones (Mumbai, Delhi, Chennai and Kolkata) are among the world’s most polluted. Urban air quality ranks among the worst in the world. Of the 3 million premature deaths that occur around the world, due to indoor and outdoor pollution, the highest number occur in India. The sources are varied and include vehicular emissions and untreated industrial smoke.

In New Delhi, the airborne particulate matter (PM) has been registered at levels more than 10 times India’s legal limit. It is not the absence of a environmental regime that the pollution levels in urban India are so high; it is the lack of environmental enforcement.

India also relies on coal-fired plants for electricity generation and this is a major contributor to air pollution as well. Sulphur dioxide and nitrogen oxide emissions are not regulated and the lack of enforcement is very apparent. Contributing to all of this is India’s growing energy consumption which increased from 4.16 quadrillion Btu (quads) in 1980 to 12.8 quads in 2001. This was a 208% increase in consumption. Higher energy consumption in the industrial, transportation and domestic sectors continue to drive India’s energy usage at a rate that is even faster than China’s (103% from 1980-2001) (UNDP, 2002).
In 1992, India signed the UN Framework Convention on Climate Change without making a commitment to reduce emissions of carbon and greenhouse gases. While India recognizes the importance of reducing these emissions, there is no enforcement because the Indian government has placed all its cards on economic development. In 2001, India with 251 million metric tonnes of carbon equivalent emitted, ranked fifth in the world in carbon emissions, after the US, China, Japan and Russia. Between 1990 and 2001, India’s carbon emissions increased by an alarming 61%, a rate surpassed only by China’s 111% increase in the same period (The Hindu, 2005).

The Sustainability Index

The Environmental Sustainability Index (ESI) has ranked India 101st out of 146 countries analysed for sustainability. Produced by a team of environmental experts from Yale and Columbia Universities, the 2005 report is the most comprehensive, country-by-country environmental ranking system to date (The Hindu, February 4th, 2005).

Using 21 indicators and 76 measurements, including natural resource endowments, past and present pollution levels, and policy efforts, the report creates a “sustainability score” for each country, with higher scores indicating better environmental sustainability. The ten most sustainable countries, ranked by the ESI, are wealthy nations that a good population balance and an abundance of natural resources. The only developing nations in the top ten are Uruguay and Guyana, both of which have low population densities and abundant natural resources. Conversely, the only densely populated
countries that have received above average rankings are Japan, Germany, the Netherlands and Italy.

Even though India’s per capita consumption levels are far below the world standards, inefficient management of consumption has dragged India’s environmental record down. India for example, may use less energy per person than Finland, but by using highly polluting coal at only 35% efficiency rates, rather than wind or solar power, the environmental effects are very harmful.

North American firms for example, take great pride in their environmental policies and performance. Corporate demonstrations of environmental and social responsibility generate long term marketing and branding advantages, which translate to competitive advantages. American consumers, investors and business leaders increasingly recognize that the full environmental impacts of business operations extend throughout the global supply chain.

Adherence to minimum environmental and labour standards is taken into consideration when selecting vendors and suppliers in other countries. However, these issues have received scant attention in regard to outsourcing of software development, customer service and business process outsourcing (BPO) work from the US to India.

**Environmental Effects of Outsourcing**

Several factors contribute to the lack of attention to environmental and labour issues in IT outsourcing. The first is the lack of understanding of the IT outsourcing firms in
developing countries, except for a very narrow focus on core IT capabilities of service providers.

Outsourcing brokers, client representatives and project managers in the IT and BPO outsourcing arena do not risk alienating their clients by raising environmental issues and fair labour practices (Commerce Times, 2005).

Industrial companies in India have opened software development and call centre divisions to take advantage of the tax holidays provided to firms with export oriented IT divisions. These tax holidays are used to declare income from polluting industrial activities that are derived from IT operations. The government of India is fully aware of this issue but the economic imperative sidelines any environmentally related issues. The extent of pollution in India by firms profiting from the IT industry is impossible to hide. India is a country where less than 50% of all sewage is treated and where regulatory agencies lack the authority to implement basic environmental protections. There is a strong correlation between poor environmental performance and unethical business practices (Commerce Times, 2005).

**Coca-Cola Goes to Court in India**

The state government of the southern Indian state of Kerala recently filed a lawsuit against the corporate giant for abuse of the state’s groundwater. In a major campaign to hold the Coca-Cola company responsible, the state issued a series of directives aimed at curbing the abuse of groundwater by the company. The company had not complied with the state’s directives to check the cadmium content in its effluents and to check water pollution in the area (indiaresource.org, 2005).
The Coca-Cola company is in disarray in India, with many communities holding it responsible for creating severe water shortages and for polluting water and soil. The bottling plant in Plachimada, Kerala remains shut for over sixteen months because the local village council refused to renew the company’s license to operate.

The campaign has taken a major toll on the company’s profits. It’s sales in India for 2005 dropped 14% in the April-June quarter. This reversal of fortune comes three years after the company was voted the best performing subsidiary globally in 2002.

This campaign against Coca-Cola enjoyed widespread international support. College and University students in the US and UK have led campaigns to revoke the company’s contracts. Rutgers University in New York recently removed Coca-Cola from its premises and the University of Michigan has placed the company on probation for one year until it cleans up its environmental act in India.

Human Rights Violations and MNCs

In 1999, the US energy conglomerate Enron was accused of human rights violations (Human Rights Watch, 1999). Enron Power Corporation owns 50% of the Dabhol Power Corporation that employed security forces that routinely beat and harassed people demonstrating peacefully against the power plant. The report charged that Dabhol had indirectly benefited from other repressive government actions aimed at quelling opposition to the plant. Dabhol was the largest single FDI investment in India and one of the largest private power plant ventures in the world.

The project was a joint venture of three US companies – the Houston based Enron Corporation, General Electric, Bechtel. The Maharashtra State Electricity Board was a partner as well. Local opposition to the Enron project began in 1992 over concerns
about transparency, corruption and the terms of Enron’s investment. Farmers protested the unfair acquisition of their land by the project and the diversion of scarce water. Fishermen protested over fears of the plant’s effluents killing their fish harvests. Charges of beatings and harassment by police and contractors of those protesting against the project were ignored and were documented by Human Rights Watch. The Government of Maharashtra ignored the public outcry. The US Government bore special responsibility as it provided Enron with government loans for investment to the tune of US$ 290 million for investment in Dabhol. The Indian press reported the abuses but US officials failed to investigate the matter. The US Ambassador to India in the mid-1990s, Frank Wisner told Human Rights Watch in an interview: “I have never seen any information on human rights violations related to Dabhol”. Ambassador Wisner was named to the board of directors of Enron Oil and Gas on October 28th, 1997, a few months after he left his post in India.

The Indian government almost always places the economic imperative over the rights of its citizens and the environmental and human cost of FDI is almost never mentioned. As highlighted by the Bhopal Gas Disaster, “mega bucks” backed by “mega-business” often cause immense human suffering and this is certainly the trend in India.

**India and the World Bank**

The planners and engineers of India in the 1950s and 1960s were oriented to the building of dams as the principal response to water resource development. The Bank began lending money to India in the 1970s at a time when policy reforms removed restrictions on the ability of individual states to directly access foreign aid. Since then,
World Bank loans to India have doubled or tripled each decade. By one estimate loans for irrigation, drainage and flood control constitute 14% of World Bank loans to India. The same estimate reports that foreign provides about 13% of public sector outlays in the irrigation sector, with the World Bank accounting for almost 80% of this assistance.

The Bank sponsored displacement and consequent loss of livelihoods has invariably led to a loss of cultural roots, mental and physical trauma, and economic impoverishment. In most projects, the Bank nor the Indian Government have bothered to ascertain the number of people displaced, leave alone proper resettlement and rehabilitation.

The environmental effects have been disastrous. They have opened up areas rich in natural resources for exploitation by private capital leading to large-scale deforestation and the devastation of several river valley systems. This has of course, led to the increased frequency of floods, severe droughts and the loss of biodiversity.

India joined the World Bank in 1944 and is among its oldest members. It is the World Bank’s largest borrower, with cumulative lending of more than US$ 47 billion as of June 2000 in market based loans from the International Bank for Reconstruction and Development (IBRD) and development credit from the International Development Association (IDA), the World Bank affiliate that provides interest free loans to economies with low capita incomes.

From 149 to June 2000, the Bank has extended about 215 loans and over 292 development credits to India, totalling approximately US$ 26.2 billion from IBRD and
US$ 27.2 billion from IDA. As of June 2000, the Bank’s lending portfolio of ongoing projects for India comprised 79 projects amounting to US $ 11.5 billion (World Bank Report, 2000).

Given the enormous record of the World Bank’s dealing with India, it is not surprising that the Bank is poised to resume lending for destructive large dams in India. The last time the Bank supported a dam project (the Sardar Sarovar in the Narmada Valley) in India, strong opposition and an independent review documenting numerous policy violations led to an embarrassing withdrawal of Bank support.

Yet, on its 60th anniversary, the World Bank seems determined to repeat its mistakes in India. The Bank’s legacy in India has been shameful, displacing more than 10 million people, flooding millions of hectares of lands and pushing India into debt. However, the Indian Government seems as eager as ever to do business with its long time associate.

“The Bank’s new dam building plans for India not only defy the lessons of rational sector planning, they will likely also have massive social and environmental consequences. They will pour more water into the leaking tubs of India’s water and power sectors than plugging the holes in the system” said Peter Bosshard of the International Rivers Network based in Berkeley, California in 2004.

In a country where 200 million (one fifth of the population) people do not have safe drinking water, 600 million (two thirds of the population) lack basic sanitation, and 350 million (two fifths of the population) live below the poverty line, the Indian
Government choses a plan that will likely repeat the same cycle of displacement and suffering and in the end cause more harm than good. Many NGOs and social service groups believe that the Narmada Valley Project will displace around 1.5 million people (close to 10,000) in the Indian states of Madhya Pradesh, Maharashtra and Gujarat. 60% of those displaced will probably be minority and indigenous groups (Report of the Commissioner, 1989).

The government supports the building of over 3,000 dams on the Narmada River with a loan of US$ 450 million from the World Bank (World Bank, 2002). Debt is the fuel that propels India’s unrealistic plans for development. The workings of the debt institutions can perhaps be best illustrated by the way they have operated in the area of massive controversy namely, the environment and the impact on human life, and this is best exemplified in the building of dams in the South.

**Employment**

Most voter surveys conducted during the build-up to the Assembly elections held in 2000 suggested that unemployment was high up on the list of concerns. Surveys conducted after the parliamentary elections were announced, have done nothing to contradict this. Voter surveys, of course, need to be interpreted carefully. For example, inflation was assumed dead as a political issue, but kept cropping up on the list as well. So was the emphasis on unemployment genuine, or simply a knee-jerk response driven more by habit than by fact?
Data on inflation would support the knee-jerk interpretation. However, given the numbers on employment, the political class would be putting themselves at great risk if they ignored the voter surveys.

Conventional sources of employment data lead to three inescapable conclusions:
One, employment growth over the mid-to-late 1990s fell short of labor force growth.
Two, organized sector employment, encompassing both private and public sectors, has plateaued, even showing signs of decline (GOA, Economic Survey, 1997). Three, the share of employment in agriculture has remained relatively constant, even as the sector’s share in GDP has declined significantly over the last couple of decades.
The concern with future prospects for employment is thus entirely understandable. The question is: are these patterns the consequence of fundamental factors that nobody has any control over, or are they the amenable to policy intervention, which could bring GDP growth and employment closer together?

If fundamental and inexorable factors are at work, what does this mean for the way in which people plan their lives? If effective interventions are possible, how do they propose to implement them? Instead, however, the debate has taken an entirely different direction. On one hand, the ruling coalition has claimed that between 2000 and 2002, 8.4 million jobs were created, which is a significant achievement, even though falling short of a more ambitious target.

The implication is that the stagnation in the preceding years has been arrested and a new growth trajectory has been initiated. There isn’t very much, if any at all, detailing
of where these jobs were created, in what sorts of activities, at what levels of wages and whether a significant number of them offer workers stability and upward mobility. Presumably, voters would be interested in these things while making up their minds on the government’s record.

Look a little deeper and there appears to be a logical explanation for this tactic. This rests on the unwavering consensus across all political formations that labor market reforms will inflict short-term political costs that will far outweigh any benefits. This fits directly into the context of the two questions that are central to the whole issue of employment. There is, admittedly, a lot of fuzziness about the structural relationship between growth and employment.

The chances are that technological progression is inexorably weakening it, because virtually all new technologies are labor-saving. However, working against this tendency is the fact that market economies will always find innovative ways of making use of abundantly available resources, unless constrained from doing so by regulation. However, on the issue of immediate intervention, there is far less fuzziness. All parties are rejecting two bodies of evidence that correlates accelerating employment growth with job market flexibility. One body comes from comparisons across countries. Perhaps it is easy to dismiss this justification by claiming the unique conditions that prevail in India. Be that as it may. But, the second body of evidence comes from India itself.
Nobody will disagree with the fact that, whatever employment growth there has been is in the services sector, much of it informal, almost all of it unprotected by any job security regulation.

Look at this against the backdrop of the three facts about employment that were stated at the beginning — slow growth, a stagnant organized sector and a huge overhang of labor in agriculture.

It is obvious that the economy has gone through a structural transformation in terms of the shift from agriculture to non-agriculture in terms of GDP, but has fallen far short of this in terms of its labor force.

The unwillingness of industry to absorb large numbers of workers is precisely why there are so many people still dependent on an agricultural sector that is continuously diminishing in its importance. As long as the political consensus on preserving job security persists, no party has a workable solution to the unemployment problem. This is precisely why the debate has settled into a mock battle between superficial claims and arcane challenges.

**The Problem No One in India Wants To Face**

The first thing to note about the “employment debate” is that no one really knows what has actually happened because the official data collection agencies are slothful beyond measure. There is no uniformity and the data is old by the time it becomes available for analysis.
But whichever way one looks at it, there is no gainsaying one stark fact: unemployment has grown by almost 5% between 1994 and 2000, whereas in the previous decade it had declined by about 1%. Even the people who make themselves available for employment have declined — from 2.43% during 1983–1994 to 1.37% during 1994–2000 (Report on the Number of Poor, GOA, 1993).

The huge growth in the number of self-employed could be an explanation, but it is simply not known about what has really happened beyond the fact that in some way the increase in unemployment must be related to the low rates of public and private investment in the 1990s. It also turned out that while in the 1980s there had been a fairly substantial growth in agricultural employment, this growth went missing in the 1990s.

In rural India, about 25% of the population are landless. Evidence shows the net output growth and the employment elasticity of output in agriculture have declined very sharply. In Bihar, Orissa, West Bengal, and Andhra Pradesh there is growing unrest. It will spread to other parts of India if the problem is not tackled.

In mining and quarrying, electricity, gas and water supply, there was an actual decline in employment, clearly because of the sharp cuts in public investment. These industries are dominated by the public sector.
But manufacturing employment appeared to have grown very slightly from 2.26% during the 1984-1994 to 2.58% during 1994-2000. But its share, which was 16.28% cent in 1993-1994, declined to 15.33% during 1999-2000 (Tendulkar, 2000). At the aggregate level also, the share of organized sector employment declined from 7.26% in 1993-94 to 7.06% in 1999-2000 (Tendulkar, 2000).

This has happened because since 1996, investment virtually dried up. If the heightened activity in the capital market is a sign, it is showing signs of reviving now.

But even if there is an investment boom matching or surpassing the one between 1993 and 1996, what is the order of employment that India is going to create, given that the new investment will be highly technology and capital intensive? If about 700,000 people are joining the ranks of the unemployed educated every year, how are they are going to be accommodated?

The irony is that when the Planning Commission looked into the employment issue a couple of years ago, it left it to the unorganized sector to deal with the problem. This does not mean that the government doesn’t need to change policies designed to increase the share of manufacturing in GDP and employment. But the sobering fact remains: even China where employment in manufacturing has grown so rapidly since 1985, does not expect to employ more than 120 million (up from the current 95 million) in manufacturing over the next decade and a half (OECD, 2002). Not just this. Only around a quarter of them are expected to have lifetime employment, and wages are likely to remain at the current levels in real terms.
It is hard to see India escaping this outcome because it is well near impossible to provide a workforce of 330 million with gainful employment, on a permanent basis, for eight hours a day, for 30 years. So politicians have a responsibility not to promise precisely the opposite. There is no way that they can deliver.

The extent of income human poverty in India demands urgent action and an improvement in the quality of basic human services. To enable this to happen corruption and inefficiency, which are largely responsible for the level of deprivation present, have to be rooted out. Institutional reforms are much harder to attain than economic ones and in a society that still runs on an inherited administrative system, the political will to eradicate the ills of the system, is weak.

**Agriculture**

The low agricultural productivity levels for many developing countries including India, is not an unusual fact. The projections for area and productivity of crops like wheat, rice and others like sugarcane and cotton reveal the prevailing dichotomy. India ranks among the top five countries in terms of having the largest area under cultivation but India’s ranking in productivity levels brings it to the bottom of the chart (with per hectare yield hovering amongst the lowest five countries).

Farmers are often misled to believe that diversification from staples to cash crops is the only way to go. At the same time, farmers are pressured to increase crop productivity levels to remain competitive in the world market. The biotechnology industry encourages this to bring in expensive and risky technologies that eventually add to the farmer’s troubles.
In 2000, for example, India’s rice paddy yield was around 3008 kilograms per hectare. In Thailand, a major rice exporter, paddy productivity stood at 2329 kilograms. In the United States, the average yield per hectare was more than double at 7037 kilograms. If productivity alone was the criteria, the US should have captured the world market and Thailand, with its lower levels of productivity, should have been unable to export rice.

However, even with such low productivity levels, India procured a record 20.9 million tonnes of rice in 2000-2001. The grain stock build up, has seen a huge rice and wheat surplus in recent years (65 million tonnes in 2001). Yet, the state governments are unable to use these surpluses to their advantage, asking the farmers instead to lower productivity levels (Frontline, 1995).

In the US, despite high productivity, farmers find the cultivation of rice uneconomical. The US government therefore, subsidises farmers. American farmers receive an average subsidy of US $ 30,000 per farm per year. Additionally, the new Farm Bill brings federal support of US $ 180 billion for the next ten years (Frontline, 1995). If productivity were the sole criteria, there is no reason why the American farmer should require government subsidies for survival. Asking Indian farmers to increase productivity levels is nothing less than suicidal.

For several decades now, basking in the afterglow of the green revolution, and with abundant monsoons, farming and agriculture do not attract attention. Policymakers believed that there was no cause for concern as the country had the capacity to
reproduce another “green revolution”. With massive urbanization and migration to the cities, farm labour had been running short for some years.

The alarm bells have been ringing for sometime now. Among the multiplicity of problems facing Indian agriculture, rapid fragmentation of land holdings is keeping pace with a rapidly increasing population. In 1976, the average size of a holding was two hectares and in 1980 it came down to 1.8 hectares. Today, it stands at 0.2 hectares. The total number of land holdings in 1980 were around 89 million, and today they have crossed 100 million (Govt. of India, Eighth Five Year Plan).

Thirty years after the green revolution intensive agriculture has been on the decline. Mining of groundwater and destruction of soil fertility has made sustainable livelihoods impossible. By the turn of the century, per capita food grain availability has dropped to a low of 152 kilograms, nearly 23 kilograms less than in the early nineties (Indian Express and GOA, 1995). This compares favourably with the hunger that prevails in sub-Saharan Africa. In recent years, the unexplained number of suicides among farmers is testimony to an entire system gone wrong.

There is no greater scam in India than the so-called food subsidy. Under the guise of “food security”, the government keeps millions of tonnes of food out of the reach of millions of India’s poor. Even during the best of times, under-nutrition levels are high in India. The second National Family Health Survey (1998-1999) found that around half of all Indian children are chronically undernourished. The latest Human Development Report places India at the rock bottom of the international scale.
Against this background, the Indian Government’s Rs. 10,000 crores on food subsidies may look good from the outside but does it help bring food to poor families? Far from it. The food subsidy is essentially the deficit of the Food Corporation of India (FCI), whose operations are now chiefly geared to keeping food prices up. This has been achieved (temporarily) by accumulating massive amounts of food in FCI warehouses. Today, when the food grain stocks are close to 50 million tonnes, the Indian public has lost sight of the scale of this massive hoard (Venugopal, 1995).

When millions of people are undernourished if not starving, hoarding food on this scale (at an enormous cost) is totally insane. The food subsidy is large owing to the FCI’s high operating costs and also because the FCI is buying more food than it is selling. The difference is a net addition of stocks. Ordinary households therefore, benefit very little from these subsidies. In some areas, it has been reported that even families below the poverty line, prefer to buy food from the market rather than ration shops, because the price differential (which is miniscule) is overshadowed by the difference in quality.

In the meanwhile, rats and worms devour the stocks. Ration shop dealers, distribution agents and other intermediaries sell the PDS (Public Distribution System) food on the black market. According to the Planning Commission, 36% of PDS wheat and 31% of PDS rice, are appropriated by private parties across India. All this boosts the food subsidies without doing anything for the hungry.

Why are these mounting stocks not used to expand the PDS, food-for-work schemes or other anti-poverty programs? It largely seems to be a question of political priorities,
organizational abilities and the willingness to bear the costs associated with developing such programs.

Why is so little done to use food stocks for drought and hunger relief? There seem to be three basic constraints related to political, financial and structural factors. The political fact is that drought and hunger relief is just not a priority in the corridors of power. The poor have largely been abandoned in India’s lopsided democracy and with the growing orientation of economic policy towards the middle class, their concerns have been absolutely marginalized. The feedback from Delhi is actually one that often shows a total disconnect with India’s poor. In Delhi, the atmosphere is one of economic boom and unprecedented opulence, with internet cafes and smart restaurants and boutiques. The social distance between Delhi and the poor further enhances the political invisibility of the poor and hungry.

The financial constraint is such that the government claims it just does not have the money to sponsor income generation or food-for-work programs. Different parts of the public sector tend to defend their own budgets and “pass the buck” onto struggling state governments that are already coping with interest payments on debts. The third constraint is a structural one and derives from the primacy of the price support objective, where the government tries to ensure that prices do not fall.

Additionally, there are impediments that seem engrained in the Indian system: bureaucratic inertia, infrastructural bottlenecks, disconnect between Ministries and the State and Central Governments, and so on.
The explosive five-fold growth in urban India has resulted in serious infrastructure constraints. Contrary to the popular concepts of a predominantly rural India, an increasingly large percentage of India’s population lives in urban areas. Over the last fifty years, while the country’s population has grown 2.5 times, the urban population has grown 5 times. It is estimated by 2010, 305 million Indians will in nearly 3,700 towns and cities across the country. This would be approximately 30% of the country’s total population. This growth in the number of urban dwellers is due to the skewed development that has led millions into the bigger towns and cities looking for opportunities (IIPS, 1995).

India faces some serious problems due to its population pressure in the form of a deteriorating physical environment and quality of life. Almost one third of urban India lives below the poverty line.

Some argue that India’s weak infrastructure has paved the way for China’s growth in the manufacturing sector. India is becoming more of a “service center” for IT outsourcing of services. This according to economists, is not a healthy trend as the long term reliance on outsourcing services, they believe is not an optimistic scenario. To be able to sustain and prosper, India will have to focus on building its infrastructure. There are stories of power shortages, water shortages, uncollected garbage, untreated sewage etc. Even as the nations top “pundits” spend hours commenting on caste and religion, the state of the country’s miserable infrastructure rarely excites their fancy. Many of India’s well patronized economists display an equally grave and callous insensitivity to the problem. It has become more fashionable to preach the miracle of free markets, and it is assumed that if free markets can provide
colour TVs and a range of other gadgets, then they can also take care of the nation’s infrastructure.

Water, transport, housing, electricity, health and sanitation and education are some of the major areas of concern in terms of infrastructure. Investment requirements for housing in urban areas have been estimated to be US $ 12.5 billion in India’s 9th Five Year Plan. The India Infrastructure Report (1996) estimates the annual investment for urban water supply, sanitation and roads at about US $ 6.67 billion for the next ten years. The Central Public Health Engineering (CPHEEO) has estimated the requirement of funds for 100% coverage of safe urban water supply and sanitation services by 2021 to be US $ 41.6 billion. Estimates by Rail India Technical and Economic Services (RITES) indicate the amount required for urban transport infrastructure in cities with populations of 100,000 or more during the next 20 years to be in the order of US $ 49.28 billion. Clearly the Indian Government and Planning Agencies have a Herculean task ahead of them and the question of funds and the will to upgrade India’s aging infrastructure is outstanding in any undertaking of this size.

**India’s Population Dilemma**

In February of 2000, the BJP led government presented its new population policy that claimed to incorporate new and more effective measures for population stabilization. A closer look actually revealed a touch of “discrimination” rather than effective policy. Lacking in concrete measures, the crux of the policy rested on denying states representation to parliament based on their population. To put it simply, by taking away the democratic rights of states whose population was growing too quickly (the so
called “Hindi Belt”) the government hoped that these states would somehow control their populations. This was not only absurd and discriminatory but unethical under India’s constitution.

The new policy was a sophisticated way of passing the buck and ensured that noting would be done. The government washed its hands off the population problem instead of taking steps to check it. As it so happens, in the decade of liberalization the Hindi Belt has seen the least growth in industrial investment. The lack of growth is naturally preventing the state governments from funding social programs that might contribute to poverty reduction and population control. The BJP’s support of obscurantist religious ideas have undoubtedly contributed to social resistance against birth control and family planning and has perhaps also inculcated a new patriarchal value system.

Few in India can deny that there is an intense crisis of resources in the country. The intense competition for limited resources often leads to conflict between states. Land and water have been overexploited. The exploitation of mineral resources has threatened forests, nature reserves, and the general ecology. 70% of India’s energy resources need to be imported putting great pressure to export more or face currency devaluations. Overuse of natural resources has led to frequent disasters with great devastation. For a majority of Indians, life is a constant struggle just to put together the bare essentials to survive. Even as sections of India’s growing middle class struggle with scarcities and shortages, the poor and vulnerable are completely ignored.

Many states have neglected traditional methods of water harvesting for example, and have opted for big infrastructure projects that in the end, fail to deliver. The utilization
of available resources show a great degree of inequity. A small minority of Indians have the luxury for example, of taking two or three luxurious showers a day (along with having their cars washed and pets scrubbed) while others are lucky if their have access to clean drinking water. Even if India, in the future, adopted a fairer policy to share its water resources, with the projected population growth, it is unlikely that every citizen (on a per capita basis) would have access to a reasonable amount of water. The same is true for other resources like land, energy and food.

**Socio-Economic Consequences**

As serious as the above are the potential social consequences are equally serious. Industrial growth (as is evident worldwide) can take place without an increase in demand for labour. Improved agricultural tools along with the mechanization of agriculture, has reduced the demand for agricultural labour. Most of the population growth in India is taking place amongst those who have the least skills. India is likely to be inundated with either completely illiterate or poorly schooled youth in a stagnant or shrinking job market. The social consequences could be devastating and to an extent the some signs of this problem are already evident in the slums of India’s big cities.

More children from slums are pushed into the job market as their parents find it hard to feed them. Village youth and young adults from poor and desperate villages migrate to the cities to compete with the existing pool of unskilled labour for a very limited supply of jobs in the informal sector. Wages are pushed down and in the long run could reach near starvation levels as per capita budgets for social spending are cut. Money that is allocated for the purpose never really gets beyond the level of the
middleman. As their numbers increase, the bargaining power of these poor slum dwellers diminishes and they remain at the mercy of corrupt officials who cheat them out of the few schemes that the government tries to run.

This was particularly true in the Orrisa cyclone of 2000 and afterwards when there was widespread famine. There were documented reports of the needy being paid a mere fraction of the wages due to them under the food-for-work program. Corrupt officials take advantage of the fact that desperate people will for even less than what it takes to survive.

Cheap Labour: Asset or Liability?
Most of India’s elite, view the poor with disgust and contempt but do little to push for a meaningful population policy. In large part, this is because they benefit from the supply of cheap labour. However, this supply of cheap labour has some unrecorded economic consequences. It severely constricts demand growth and limits Indian industry to producing, low quality, low value added goods. In the global market, this eventually proves to be a competitive disadvantage.

Modern modes of production fetch larger profits when productivity is enhanced. India’s cheap labour cannot really compete with advanced mechanized modes of production and industries that rely on cheap labour are generally becoming unremunerative, generating low profits.

It is important for India to note that the high rates of growth in the ASEAN nations were also accompanied by falling birth rates, increasing literacy rates and rising
wages. Virtually every ASEAN member has a literacy rate of over 85%, with much lower infant mortality rates and higher life expectancy rates than India. Their workforce on an average is better trained, better paid and more skilled than India’s. Without investing in the social sector, India will not be able to compete in the highly competitive sectors of the world markets.

A cheap labour market, also creates a restricted market for consumption. Poor wages cannot create a demand to fuel further investment and industry does not expand. Industry has to cope with constant demand recessions.

India’s growing population threatens to be a problem with serious consequences. The past record of India’s national governments is full of delays and diversions and action is usually taken only when there is a near crisis. The danger is that a time may come when the problem intensifies and coercive and intrusive measures become the only option.

**Challenging the ILO: Bonded Child Labour in India:**

Approximately fifteen million children enter the workforce as bonded labourers in India. Most were put into bondage for comparatively small sums of money; US$ 35 is the average amount loaned in exchange for a child’s labour. To many of India’s extremely poor, this money is life saving. With no alternative sources of income or credit, the poor are forced to put children to work.

With credible estimates ranging from 60 to 115 million, India has the largest number of working children in the world. Whether they are sweating in the heat of stone
quarries, working in fields for up to sixteen hours a day, picking rags in city streets or hidden away as domestic servants, these children endure miserable and difficult lives. Many have worked since the age of five and most are likely to have a life span of about 50 years.

The working conditions for many children are very dangerous. For example, in the indigenous tobacco industry in India, children spend long hours over baskets of tobacco and the constant exposure to tobacco dust often causes serious lung disease. There is a very high rate of tuberculosis among children in this industry.

In the carpet weaving industry, the case is similar. Children sit in cramped quarters all day, inhaling wool fibres and dust. These children are prone to emphysema and tuberculosis and suffer frequents and bruises to their hands and fingers which their bosses “cure” by cauterising them with burning sulphur!

Children who work as silver workers also suffer frequent burns and those in the leather industry are exposed to toxins and chemicals long banned in the North. Children as young as nine years old (mostly girls) work 12-14 hours a day on cotton seed farms in Southern India. They are paid as little as 30 paise (less than 5 cents) a day and are exposed to dangerous pesticides. They supply multinationals such as Monsanto, Unilever and Syngenta with cotton seed. In 2003-2004, over 80,000 children were employed in cotton seed production in the state of Andhra Pradesh in southern India.
Why does the Indian government, the ruling class, the business interests, and the populace as a whole tolerate this kind of abuse? The pet response is that child labour and poverty form a viscous cycle.

In truth, the Indian Government fails to protect its most vulnerable. When international groups have attempted to step in and advocate on behalf of children, most Indian leaders and the Indian media attribute all “outside” attempts to help as having an ulterior motive. The media promotes the view that the developed world is really not concerned about children but rather with holding the competitive edge in the global marketplace.

The nationalist rhetoric has certainly been a diversionary tactic. The truth is that the official record on ending child labour is atrocious and woefully deficient. Former Prime Minister Narashima Rao made much of his initiative in 1994, to remove 2 million children out of hazardous labour by the year 2000. Two million, in reality, represents only 1.7-3.3% of India’s child labourers; the fate of the 58-113 million at large was not addressed. To date, these measures have not been undertaken.

India’s new zest for global markets and the dream of becoming a superpower has put the poor, needy and most vulnerable of all, India’s poor children at the very bottom of the priority list. Of all the measures necessary to put an end to this abuse of children, the one that’s most lacking in India seems to be the will to do it.
India’s Ship Scrapping Industry:

For the 36,000 migrant labourers working in Alang in the Indian state of Gujarat, the sound of the Arabian Sea is drowned by the deafening ship-beraking activity and the fresh ocean air is clogged with the fumes of welding torches. They come from the most backward states of India where poverty and unemployment compels them to migrate to the ship-breaking yards of Alang (Tiwari, 2001).

India is the world’s largest ship breaking nation by volume and the 6000 metric tonnes of steel that come out of Alang everyday constitutes about 15% of the country’s steel output. Using primitive methods, toxin-laden ships are broken down, under very hazardous conditions that expose the labourers death, serious injury and chronic health problems. Economic profits are gained by violating environmental laws, health standards and labour rights (Tiwari, 2001).

Although Alang has grown to become the world’s largest ship-breaking yard, it has done so by outrageously abusing labour and environmental standards. Some 36,000 labourers live in conditions that expose them to tuberculosis, leprosy, malaria, malnutrition, cancer, liver and gastrointestinal diseases.

Non governmental organizations in India along with international NGOs like Greenpeace has called for the observance of the Basel Convention under which exporting nations and polluting industries are required to take care of their own toxic wastes. For the Indian economy, the scrapping business is much too profitable to worry about environmental and labour concerns.
India’s Liberalization: Prosperity or Myth?

While part of India has benefited from being opened up to world markets, most of the country is still denied access to advantages of liberalization. India opened up in 1991, not because there was a political will to open up the economy, but because of a balance-of-payments crisis that left it with no choice and certain sectors were opened up as a result.

One would have expected India’s growth to have been driven by manufacturing, but almost by default, it came in the poorly licensed area of service exports. The manufacturing sector ideally placed in terms of labour and raw materials to compete, never took off. India’s restrictive labour laws put in place in the 1950s are still largely unreformed. Mandava and Shah (2000) of the Center for Civil Society write: “Entrepreneurs can expect to go through 11 steps to launch a business, over 89 days on an average, at a cost equal to 49.5% of gross national income per capita”. This contrasts starkly with 2 days for Australia, 8 days for Singapore and 24 days for Pakistan! Often this figure is just a notional one, and entrepreneurs often find it impossible to start a business. Street hawkers and shop owners survive by paying regular bribes to municipal authorities and the police. These restrictions largely serve as disincentives entrepreneurship and planned urbanization, the driving force of growing economies.

A major disincentive and obstacle to planned and productive urbanization is the drastic scarcity of accommodation for working people in India’s urban areas. In Bombay (Mumbai) for example, an urban land ceiling act and rent-control make it virtually impossible for new (often poor) workers to find housing, forcing them into extralegal
housing. As a result, vast shantytowns have become a hallmark of Bombay. One of these, Dharvi is the biggest slum in Asia, holding (by some estimates US $ 2 billion) of dead capital. For most migrants and workers in these slums, India’s economic liberalization is irrelevant.

During his visit to Mumbai, Jeffery Immelt, the CEO of General Electric (GE) said that India would always lag behind China if it did not improve its infrastructure. Almost all CEOs of major MNCs see infrastructure to be the biggest stumbling block to India’s efforts at higher growth on a sustained basis. India’s Prime Minister, Manmohan Singh, during his visit to the United States said that India needed US $ 150 billion over the next ten years to beef up its infrastructure. Economist argue that the Indian Government needs to improve the investment climate in India to get parties interested in infrastructure financing.

**The Need for Growth in India**

It might be useful to begin with a simple statistic, drawn from the World Bank Development Report of 2002. At the end of 1998, India had a per capita income of US$ 430, unadjusted for purchasing power parity (PPP). Despite the economic crisis, Thailand’s per capita income, also adjusted for PPP, was US$ 2,200. If India’s gross domestic product grows at 7% per year, it will still take over 31 years for India to catch up with Thailand’s present income level. This statistic is a stark testament to where India stands in the economic pecking order.

Contrary to common belief, this example proves that India was also hit by the Asian financial crisis, however slow it’s growth may have been. Even after the crisis,
Thailand’s per capita income was 5 times more than that of India’s and Indonesia, probably the worst hit, still enjoyed a per capita income that was 60% more than India’s. This shows India’s desperate need for growth, despite all the claims of the benefits of globalization. Even at 9% GDP growth, India will take around 22 years to catch up with Thailand.

These are not just statistics; they hold deep political and social concerns. The winners of India’s economic liberalization are not hard to determine; they are the well fed, well educated, aware of the world and have never had to worry about basic needs. They represent a small minority.

What about a 10 year old poor child? There are many such children in a nation with over a billion people, 72% of whom live in villages. More than 350 million live below the poverty line and over 450 million live on less than US$ 1 a day. More than 53% of children under the age of 5 suffer from malnutrition. Only 16% of India has access to decent sanitation. India still has a adult illiteracy rate of 47% with 61% of its female population that are illiterate. The poorest 20% of India account for only 9% of India’s consumption (World Bank, 2002). These statistics paint a picture of a nation where the majority are deprived of the minimum basics needed to become a part of the workforce.

How can the concerns of the poor and underprivileged be addressed? There is of course, no substitute for economic growth. India needs to grow at a minimum of 8% per annum for the next 20 years, to able to dramatically reduce mass poverty and
economic depravation. Growth certainly is not the only requirement, but it is a vital one.

To get an idea of the kind of growth in infrastructure necessary in India, let’s look at the following. India’s per capita consumption of electricity in 1996 was 347 kilowatt-hours; in contrast China’s was 687, Malaysia’s 2,078; and Thailand’s 1,289. In 1997, paved roads accounted for only 46% of the total roads in India. In Malaysia it was 75% and in Thailand 98%. In the same year, India had 19 telephones lines per 1,000 people while China had 56, Indonesia 25, Malaysia 195 and Thailand 80 (Srinivasan, 1998).

There can be no 8% growth on a sustained basis without improvements in infrastructure. This not only involves physical infrastructure but also social infrastructure like education, roads, water, sanitation etc. Attracting foreign investment has become a given in India’s government and politics. The more difficult investment is the investment in social infrastructure. Unfortunately, neither the federal government nor state governments have the funds to finances these activities. Decades of running budget deficits at the central and state levels have impaired the exchequer from

financing social infrastructure. Almost 50% of the federal government’s revenues are tied down to interest payments on existing public debt. Yet, there can be no sustained growth without creating a basis for human capital.

**India’s Human Capital Needs:**

The rapid growth in the market for outsourced research services from India destined for the US and Europe is beginning to expose weak links in the chain. Indian firms are realizing that they need to prepare for the next level of growth by bridging gaps in skills and paying more attention to building human capital. At one end of the spectrum
are the easily transferable skill sets in data collection and reporting formats. What about the high end research programs that require corporate insights and strategies and the special skills that go with it? The challenge for business in India is to look beyond financial capital and focus on building the much needed human capital element. There is need for Indian businesses to go through fundamental transformations to focus on human capital because sustained success and expansion requires this added element. An enormous challenge lies ahead of Indian companies for the transformations India has seen in the last decade has mainly been on account of evolving technology. India really needs to shift from local to global competition with a continuous self-renewal to move from a semi-regulated to a competitive economy.

What is India Embracing?

The ideology being welcomed wholeheartedly into India is one that worships acquisition because it gives a sense of power and achievement. Modernization in a sense has been made synonymous with Westernization. Human well being is increasingly being equated with material consumption regardless of unregulated economic growth, social and environmental effects. Indian culture is systematically being “commodified” where age old traditions are being packaged and marketed through economic media, cut off from their original context. Romila Thapar, an eminent Indian historian comments: “We have been taken over by the insatiable greed of commercialisation and by the intensity of the urge for marketeers to make a profit even out of a moment of time”.
If everyone in the world were to enjoy “American” standards of living, it is estimated that three planet Earth’s would be needed! Many agree that globalization is more about power than about trade and markets. There is a viscous link between globalization and the neglect of human values. Developing nations are practicing fiscal conservatism, concentrating on attracting foreign capital at the expense of basic social needs. Moreover, the instability of market forces leads to sharp declines in income for many, soaring unemployment and rapid degeneration of services. The Indian economist Prabhat Patnaik (2003) points out that this policy stimulates the import of more consumer goods for the rich and further reduces the living standards of the poor by cutting off minimum investments in basic needs.

Noam Chomsky puts it all in perspective when he comments on the process of globalization: “I would call it the extension of transnational corporate tyranny…..the interest is profit – but much broader than is it to construct an audience of a particular type…..addicted to a certain lifestyle with artificial wants…an audience atomized, separated from one another, fragmented enough that they don’t want to enter the political arena and disturb the powerful”.

Patnaik, in the Indian context believes that a second onslaught of colonization is taking place, in the form of encouraging deeper external technology and leaving it to them to decide national priorities and objectives. This results in alienation because of increasing pauperisation and fundamentalism that takes on an “anti-consumerism” façade. The net impact Patnaik believes is the fragmentation of the state. A Home Ministry of India Report states that white collar crime (especially bank frauds, forgery) has increased significantly (4942 crimes in 1961 compared to 26,891 crimes in 1991),
as a result of economic liberalization and particularly in those states where industrialization is rapid.

Chomsky (1997) makes the point on India: “It is like opening India up to international narco-traffickers, claiming that you are mature enough to resist……TV and advertising are simply cultivated addictions, designed to control people in a particular way……advertisers are not going to pay for a discussion that encourages people to participate democratically and undermine corporate power. The media believe in market principles for others, not for themselves”.
Chapter Seven

The South’s Future: A Review of Major Issues

What is the South’s Future?

Although in the four decades since World War Two, North-South relations seem to have come full circle, the gap between North and South remains wide. What sort of future does the South face in the 21st century?

Important as the international environment really is, the domestic environment is also an elementary precondition. However, what constitutes a proper domestic environment is a very open ended question. No one can question the importance of the international economic environment for the economic development of the South. It is in fact the very blood of modern economic growth. One could also pose the question: what choice does the developing world really have?

In particular, given the unreformed international system, would the necessary focus on domestic policy really have made a big difference? If it was assumed that all the developing nations faced the same economic environment, the differences in performance could perhaps be explained. However, the reality is that for political reasons some nations have been more favoured by the North than others. South Korea, Taiwan and China are good examples of nations taken under the US umbrella and accorded special access to capital, technology and markets.
On the other hand, it is not difficult to identify countries where grave shortcomings in the domestic policy acted as serious barriers to the pursuit of successful economic development. The Philippines, Cambodia and Uganda easily fall within this category.

**Living With the Growing Power of TNCs:**

As is evident from earlier chapters, one of the significant features of globalization is the rising power of TNCs. These behemoths of the modern world not only possess the resources at their disposal (in 1988 only 14 countries in the world had GDPs which exceeded total sales of the largest TNCs), but also control resources, technology and the know-how to carry forward economic growth (Streeten, 1991). From the extent to which they work worldwide as one integrated enterprise, they seem oblivious to the existence of national boundaries. There are no international laws or conventions to control the transnational dimension of their activities and given this enormous power, the typical developing country is in a weak bargaining position to deal with them. As Streeten (1991) remarks: “the asymmetry in treating monopolistic exploitation of citizens and that of foreigners, especially weaker foreigners, is glaring”.

The crucial role of these firms and the enormous power they wield calls for a multilateral framework of rules to govern their activities. This is especially needed from the developing countries’ point of view, to move towards a global order that promotes more fairness and equity.

In the end, we are left to speculate on the likely evolution of the international environment for an assessment of the prospects facing the developing world. One has to make simple calculations, with a compound interest table at hand to get an idea of
the staggering, unimaginable gap that will separate North from South if the trends of
the last 50 years are replicated in the next 50 years. The gap in average incomes
between North and South increased from 50:1 in the early post war years to around
130:1 by the end of the 1980s. A continuation of this pattern of differential per capita
income growth rates would imply a gap in the order of 350:1 in another 50 years
(Harvey, 2003). The magnitudes involved would correspond to comparing average
annual incomes of US$ 70,000 in rich nations with US$ 200 in the poor nations
(Harvey, 2003). Present trends certainly indicate a continuation, if not an accentuation
of the past pattern. The North, firmly led by the US is now very solidly poised to
dictate the world economy and would be absolutely against reforming the system.

One of the main challenges to global peace in the post Cold War era comes from an
old harridan; global poverty and her four handmaids – mass migration, hunger, disease
and debt (Harvey, 2003).

Global poverty remains the scourge of mankind. Despite globalization and the benefits
of economic liberation, nearly half of the world’s population in India and China live in
poverty. The economies of both nations have opened up but mainly benefit the urban
elite.

In Africa in 2002, some 14 million people in Swaziland, Zimbabwe, Zambia,
Mozambique, Malawi and Angola experienced severe malnutrition or starvation.
Health spending per person in Africa is US$ 13 a year. Africa owes some US$ 300
billion in foreign debt (Harvey, 2003).
South Asia constitutes about 1.4 billion people, of which 32% (446 million) live in poverty (less than $1 a day). If the income poverty measure is doubled, the head count poverty index will jump up to around 60%. This would increase the numbers living in poverty to a staggering 968 million (a figure that surpasses that of sub-Saharan Africa by 300 million) (Sharma, 2003).

Poverty in South Asia naturally stems from high population growth and unsustainable growth owing to the slow economic integration with the world economy, domestic conflicts, and natural disasters (Sharma, 2003). In terms of macroeconomy, governments in South Asia still maintain a tight control. The region’s share of world trade is insignificant at 1.1% of total trade exports and 1.6% in commercial services exports. Likewise, its share of world imports is around 1.3% in merchandise trade and 1.6% in commercial services trade. Gross FDI in South Asia stands at just 1% of GDP (World Bank, 2004).

Joseph E. Stiglitz (Nobel Prize Winner for Economics) sums it up well when he states: “The debate is not about whether growth is good or bad, but whether certain policies – including policies that may lead to closer economic integration and lead to growth; and whether those policies lead to the kind of growth that improves the welfare of the poor people”.

In India for example, the much touted IT and software development industry, that has seemingly created a myth of enormous prosperity, actually has some stark realities. Many parts of India are caught in the backbreaking cycle of poverty. Only a few leading “growth poles” share the cutting edge feel of IT driven Chennai. Throughout
the Ganges Valley of North India, the IT revolution has been slow to emerge, if it has emerged at all.

In no nation is the debate over information technology more relevant than in India, where new centres of IT are creating wealth and integrating some sectors into the global economy, while millions remain deprived and marginalized without even the most basic human needs. No developing nation has benefited more from IT than India and in no other country is the digital divide deeper or wider. They common view is that the new wealth is unlikely to trickle down to the poor villages and slums. As Bill Gates put it: “What good is a computer for someone who survives on one dollar a day, whose main concern is the next meal?” In India, only 0.2% of the population of one billion can be considered as Internet users.

Recent analysis by Nua Internet Surveys and eMarketer reveals enormous disparities. Indian e-commerce revenues are set to rise from $75 million at the end of 2000 to $254 million by the end of 2001, as cyber cafés enable increasing numbers of Indians to go on-line. The number of active adult internet users in India was 270,000 at the end of 1999 and was set to reach 1.5 million by the end of 2000, but this is only 0.2% of India's adult population. eMarketer attributes the low internet penetration in India to extreme and widespread poverty, compounded by a poor telecommunications infrastructure and limited PC ownership.
Can the North Help?

Can the rich help the poor? After all, the North has its own welfare programs to handle. How could the North possibly take on the responsibility for hundreds of millions of people?

One way of looking at the problem is that the cost of doing so now could be smaller compared to later. The North has already committed itself to 0.7% of its GNP (0.7 cents out of every dollar) to assisting the developing world. An acceptable justification may be that the North today is richer than ever before and if it was really committed, the tools available are more powerful than ever before in history. Information Technology, improved logistics systems, modern agronomics, new breakthroughs in the medical sciences etc. are at hand for assisting in the task. At the core of course lies the strategy of scaling up critical investments in infrastructure, health and education. Martin Ravallion and his team at the World Bank have gathered data that estimates that meeting basic needs will require US$ 1.08 per person per day (measured at 1993 purchasing power adjusted prices). According to the Bank’s estimates 1.1 billion people lived below the $ 1.08 level in 2001 with an average income of $ 0.77 a day. This would make the world wide total shortfall (to come up to the $ 1.08 level) approximately US$ 124 billion (Ravallion, 1994).

The estimated income of the top 22 donor nations in the Development Assistance Committee (DAC) in 2001 was US$ 20.2 trillion. Thus, a transfer of 0.6% would in theory raise the 1.1 billion in extreme poverty to a basic needs level (Ravallion, 1994). Does the North have the desire and commitment to do so?
The UN Millennium Project and others have estimated the need for doubling aid to Southern nations. The World Bank forecasted in 2001 increments of US$ 50 billion a year as being required. In 2003, the Bank recommended that developing nations could easily use US $ 30 billion a year of additional aid. In 2004, the UK and France called for a significant increase of foreign aid from 0.25% to 0.5% of donor GNP. The countries that would have to account for 90% of the increase amounting to some US$ 75 billion would be: United States 51% ($ 38 billion), Japan 18% ($ 13 billion) and Germany, France and Italy 20% ($ 15 billion) (World Bank, 2001).

However, it needs to be pointed out that there is a serious disconnect between the US $ 5 billion a year initiative by the third year and the forecasted US $ 100 billion a year between 2006 and 2015 with a much required commitment by the US to target 0.7% of GNP as aid (World Bank, 2001).

**Why are Economic Figures so Distorted?**

David Korten (1997) goes to the point of stating that the current economic system is not global when he says: “We do not have a market economy, but a capitalist economy”. Capitalism and the market are presented as synonymous but they are not. Capitalism according to Korten, is both the enemy of the market and democracy. It is the concentration of capital and economic power in the hands of a very few who want to rule the world economy.

This in fact, is not what Adam Smith envisioned. The first principle of the market economy is that it is comprised of many small buyers and sellers, which implies a huge degree of equity. Another fundamental market principle is that costs are
internalised in the producer’s price. The whole thrust of global capitalism is the opposite. By externalising costs as much as possible, it gets as many public subsidies as possible, and passes off other costs to consumers, workers and the environment. That is not a market and certainly not democratic especially when the 200 richest people have unimaginably more assets than the poorest 200 billion people!

The current global competition is about winners and losers. In the last 50 years there were improvements in the South but in the last 20 years the reverse has happened, with debt crises and increased poverty. The most dramatic indicator is the increase in inequality between North and South. In terms of wealthy creation, between 1989 and 1997, 86% of the increase in the stock market went to the top 10%, with 42% going to the top 1% alone (Korten, 1997).

This becomes evident in the developing world where on the one hand there are sprawling airports with duty free shops and luxury hotels and limos which gives the look of progress and prosperity. On the other hand, behind the many facades, people struggle to feed themselves and conduct their everyday lives. The more these economies modernize, the harder life becomes for their average citizens. Roads are built for cars that the majority of people cannot dream of affording; dams are built but thousands are displaced and deprived; golf courses are built for the pleasure of a tiny minority. Mere money in these nations is not wealth. It serves to create a artificial sense of prosperity but in reality these are financial bubbles for individuals that make money without creating national wealth. Real wealth for these nations is in food, fertile land, infrastructure and things that sustain the average citizen.
Debt, Development and the Environment: A Historical Perspective

Many researchers in the South are increasingly beginning to question the concepts of debt and the environment as defined by the North. They believe that the environmental decline of the South (as witnessed in the present day) is an extension of a legacy going back over 500 years, characterized by ecological plunder during the era of colonization. Such plunder, in Latin America, Asia and Africa, left nothing of any value untouched – spices, plants, animals, humans as slaves, land, gold, minerals, oil and fossil fuels. These researchers assert that the unimaginable wealth of the North is built on this bedrock of plunder that left the peoples of the South impoverished. These historically rich and self-sustaining lands are today characterized as developing or underdeveloped. Their point is that the cumulative historical and ecological debt that the North owes the South far outweighs the financial debt that the South owes the North.

They extend this argument and state that contrary to common perceptions, the ecological debt that the North owes the South is not just historical, but continues to be accumulated even today. According to “Accion Ecologica” of Ecuador, ecological debt is “the debt accumulated by the Northern industrial countries towards the Third World on account of resource plundering, environmental damage, and the free occupation of environmental spaces to deposit wastes such as greenhouse gases. “Those who abuse the biosphere, transgress ecological limits and enforce unsustainable patterns of resource extraction of a range of natural resources must begin to discharge this ecological debt”.
The ecological debt is thus accumulated through unequal terms of trade, the appropriation of traditional knowledge for example, of seeds and plants on which modern agri-business and biotechnology are based, contamination of the biosphere through the emission of toxins, the production and testing of nuclear and chemical weapons in the South, and the dumping of toxic wastes.

The current system of a neo-liberal, globalized market economy they believe, maintains and augments this ecological debt through mechanisms such as structural adjustment, FDI, unequal terms of trade, forcing Southern nations to produce export goods to redress financial debts, and through trade related intellectual property rights within the WTO that protects patenting rights without compensation for the original guardians of the biodiversity of the South.

To provide some idea of these historical debts, these researchers use two examples. First, they consider food and agriculture. Many tradable varieties of food today have their origins in Mesopotamia, India, China and Latin America. They have been appropriated by the North, the researchers state, through a process of ecological imperialism based on the colonial plunder of gene pools. Through the technological perfection of such plundered gene pools, the share of neo-Europe in international trade in the world’s vitally most important foods is much greater than the Middle East’s share of petroleum products. For example:

- Out of a total export of food worth US $ 210 billion in 1982, the share of the US, Canada, Australia and New Zealand was US $ 64 billion.
- Out of a total of US $ 18 billion in wheat, the share of neo-Europe was US $ 13 billion.
• In soybeans, the share of US and Canada was US $ 6.3 billion out of the total trade of US $ 7 billion.

• Russia leads the world in the production of wheat, oats, barley, rye, potatoes, milk, mutton and sugar. China out-produces every other nation in rice, millet and has the maximum number of pigs. The productivity of these nations is great but per hectare yield is not very impressive. These regions lead the world relative to the amount locally consumed. However, in 1982, the USA produced only a minuscule percentage of the world’s rice but it accounted for one fifth (20%) of the grain, more than any other nation, making it a major exporter. (Dobson, 2003 – OECD Conference on Changing Dimensions of the Food Economy).

The researchers thus argue that even though the South has historically produced most of the world’s food and continues to be mostly agricultural, the low level of agricultural productivity prevents it from making the profits it deserves.

The second example used concerns the environment. These researchers firmly believe that the South is acting like a “sink” for the emissions of the North. If the “polluter pays principle” is applied from 1950 they say, the North would have to pay an enormous amount to the South for providing these ecological sinks.

Forests for example, are designated as a global resource by the North but if present day forests are a global resource to be shared equally by all countries, then the same should apply to “geological forests or the oil pools”. The researchers feel that calculations should be made of the debt owed by the North for using the “global
commons”, the forests of the world and the proportion of oil used by the North. Further, they propose that the same criterion should be applied for all natural resources, keeping in mind that 23% of the world’s population in the North consumes 80% of the world’s resources.

In his prologue to “Ecological Imperialism: The Biological Expansion of Europe” (900-1900), Alfred W. Crosby asks: “Perhaps Europe has triumphed because of their superiority in arms, organizations and fanaticism, but what in heaven’s name is the reason that the sun never sets on the empire of the dandelion?” He provides an answer: “Perhaps the success of European Imperialism has a biological and ecological component”. Crosby’s book provides some very valid arguments in favour of ecological debt.

The argument for the concept of ecological debt probably holds good for one natural resource that has been highly abused. In fact, a UN report claims that water, not oil, will be the next cause of war among nations. Between 1940 and 1980, worldwide water use doubled. Today, 70% of all the water used is for agriculture (to grow food and animal feed). In the next decade, forecasters predict that an additional 25% to 30% more water will be needed to keep pace with the increase in agricultural land under irrigation (UNDP, 2000).

What About Oil?

“Americans love energy” Secretary of Energy Spencer Abraham declared in July 2001. “In particular, Americans love cheap, convenient, energy provided by liquid petroleum”. Well, so does the rest of the world but there are some crucial differences.
Every year, Americans consume more oil than the year before and more oil than any other nation. Their appetite for oil shows absolutely no signs of abating. Convincing people to consume less is proving to be a near impossible task. Automakers for example, reported an increase in sales of SUVs (sports utility vehicles) in early 2004, despite high gas prices and the Iraq War. Changing these habits would effectively require nothing less than a paradigm shift; a complete rethinking of this critical issue. What is true for the US is also true for the rest of the world with both China and India showing a monstrous appetite for oil consumption.

In the meanwhile, unlike water, the conflict over the control of oil resources is already underway. Robert E. Ebel’s comments on the subject perhaps reveals why the US is pursuing its Iraq policy so desperately. “Oil fuels more than automobiles and airplanes; oil fuels military power national treasuries and international politics. It is a determinant of well being, national security and international power for those who possess this vital resource and the converse for those who do not” (US Department of State, 2002).

Ebel’s comments can be further substantiated by taking a glimpse into the distribution of this precious resource; nations with the world’s most significant reserves stack up as follows: Saudi Arabia 25%, Iraq 10.7%, UAE 9.3%, Kuwait 9.2%, Iran 8.6%, Russian Federation of States 7.4%, Venezuela 7.4%, USA 2.9%, all others 29.9% (BP Statistical Review of World Energy, 2003).

"Except for religious conflicts and the petty wars of feudal lords, wars are primarily fought over resources and trade. President Woodrow Wilson recognized that this was the cause of World War I: 'Is there any man, is there any woman, let me say any child here that does not know that the seed of war in the modern world is industrial and commercial rivalry?’” (J.W. Smith, Economic Democracy: The Political Struggle for the Twenty-First Century, Institute for Economic Democracy, 2005).
The South’s Challenge: Coping with Globalization - Balancing Opportunities and Equity

Among the biggest dilemmas for developing countries is whether they should open themselves to the globalization process in the hope of obtaining some benefits or to take a more cautious approach to avoid risks (with a chance of being left behind). The challenge is whether developing countries can take advantage of the liberalization process, (which to a large extent is pushed on them externally) while minimizing the disruptive consequences on their societies and economies. At the present time, the danger is that most developing countries, under great pressure from the WTO, IMF and the World Bank, will go along with the trend and institute rapid liberalization policies, without a clear idea of the conditions needed to successfully implement the process.

The UNCTAD Report (1996) outlines the risks stating that: “the process of globalization and liberalization can give rise to a number of negative consequences and challenges to development”. It highlights three problems: The loss of policy autonomy; financial openness and the risk of instability and disruption to development by being subject to external investors; and the phenomenon of marginalisation.

The least developed countries have additional problems such as debt and low commodity prices and infrastructures that are too weak to develop industrial exports. At the same time, there is the risk of local companies being overrun by foreign firms. The income of the producers in the South is appropriated by the rentier economies of the North through a network of wholesalers, distributors, retailers, as well as through transfers that go under the guise of research and development, royalties, etc. A shirt
produced in Bangladesh for example, sells at 20 times its cost in the North and coffee at 10 times. Potatoes that are available in the retail market for Rs. 7 –9 a kilogram, are sold in India by multinationals as precooked finger chips, ready to be fried at Rs. 120 (US $ 4)! In the former examples there is the cost of freight and insurance in bringing products from the South to the North, but in the latter, it is just the cost of investment and marketing know how!

Even the stronger developing countries find it difficult to manage and balance the cost and benefits of globalization as is evidenced by the case of India. Privatization (the means to attract FDI) requires the legislation and every institution built up by a developing nation must be reordered on the lines of Northern institutions. This overlooks the starkly different economic conditions in the North versus the South. For example, Jhunjunwalla (2001) points out: “Today it costs Rs. 32,000 to install a telephone line in India. Taking 15% as finance costs and 15% as operation, maintenance cost requires 30% of Rs. 32,000 per year from each line for the operator to break even. This amount is Rs. 800 per month and less than 2% of the population of India can afford this amount. At current costs and even with cross-subsidy, not more than 3% of the population can afford telephones in India. The cost of installing a telephone in the North is US $ 1000 and 30% of that amount (US $ 25) goes on overheads. Telephone lines can be afforded by 95% of the population”.

The Indian private sector depends on the support of public financial institutions, not only for debt but also for equity. The powerful industrialists of India take from the Indian banking system through unpaid debts that have amounted to over US $ 12.5 billion. Bimal Jalan (Governor of the Reserve Bank of India) pointed out: “despite the
growth of capital markets in India in 1980, the total capital issues raised in 1998-1999 were Rs. 26.1 billion, of which equity and preference capital was only Rs. 5.04 billion. Capital raised in a whole year was only 1.1% of the assets of the public sector enterprises owned by the Government of India”. There is no Indian private capital to buy the public sector which opens the way for MNCs to negotiate public sector enterprises and take over their assets.

The above can be put in the perspective of global financial flows. World-wide capital flows were much larger proportionately before the First World War than in recent years (1870-3.8%; 1913-4.9%; 1992-2.61%). If China is excluded, net capital inflow in developing countries, as a percentage of GDP during 19980-1988 was 4.22%, which was significantly lower than the period 1975-1982 when it was 5.45%. If the FDI inflow into China is included, at more than US $ 150 billion a year, the total flow of capital amounts to no more than 2.65% of the GDP of developing nations. Although it has been argued that FDI does not create problems of debt servicing in the same way as external debt loans do, yet FDI has direct foreign exchange costs. The foreign exchange repatriation by way of profits and other such payments increased from US $ 37 million in 1993 to as much as US$ 7 billion in 1998. Additionally, the boom in cross-boarder mergers and acquisitions has gone from US $ 342 billion in 1997 to US $ 544 billion in 1998. If this included FDI inflow into developing countries, it is obvious that a large part of the FDI is in the form of mergers and acquisitions. Thus, the whole process of privatization of the assets of the South becomes a critical part of the arsenal of the globalizing process (Harvey, 2003; Dowlah, 2004).
Globalization has often been described as “global social Darwinism” by Ulrich Beck who sees it as increasing the wealth of the few and the impoverishment of the many. Fred Scholz introduces the term “New South” as a universal social category to describe “the rest of the world”, and hence the mass of the world’s population who are excluded from globalization. He describes the following scenario for the New South: “It can act as a dumping ground for all kinds of used goods and cheap products, and may sometimes be the recipient of alms and disaster aid and the target of military peace-keeping exercises……But this marginalized left-over world, the New South, will generally be doubly out of touch and left largely to its own devices. It will fret out its own internal contradictions and fragment through its own morbidity, and it will suffer from violence, poverty and backwardness”.

**Rethinking the South’s Strategy for Globalization:**

In considering their options in the globalized economy, developing countries have to seriously review the liberalization experience. One area that would require close attention is finding the right balance between the roles of the state and the market. Bhaduri and Nayyar (1996) state that both market and the state have key roles. They believe that a unbridled economic role for the government in the name of distributive justice is a recipe for disaster. On the other hand market solutions are often ruthless to the poor.

Their study warns against fundamentalism in opting for the state or market. The proper functioning of the market needs the support of the state and the state cannot do without markets.
Experience from the second half of the 20th century suggests that the guiding and supportive role of the state has been the foundation of successful development in countries that are latecomers to industrialization. The state can create the initial conditions for industrialization through investment in infrastructure. This is what is lacking in the South where the capacity of the state is weak. Greater collaboration among regional institutions of the South (for example, ASEAN, SAARC, SADC) are avenues that could be further explored.

To create the right international atmosphere, it is vital that the role of the United Nations is maintained and enhanced. The UN is one of the few institutions that can continue to promote the rights and interests of the South.
Chapter Eight

A New Direction For the South

The Notion of De-globalization:

Even as cooperation between North and South becomes more necessary in an ecologically fragile world, there are disturbing signs that the North intends to tighten its control over the Third World economies and over global resources. The 1990s has witnessed the intensification of conflict inherent in North-South relations. What is needed instead is a new era of international partnership. Walden Bello (2005) recommends the idea of an alternative. It is one that he has been formulated for the Third World, and specifically in Southeast Asian, context. He calls this alternative route to the future “de-globalization”.

De-globalizing does not imply withdrawing from the international economy but suggests reorienting economies from production for export to production for the local market; drawing most of our financial resources for development from within rather than becoming dependent on foreign investment and foreign financial markets; carrying out the long-postponed measures of income redistribution and land redistribution to create a vibrant internal market that would be the anchor of the economy; de-emphasizing growth and maximizing equity in order to radically reduce environmental dis-equilibrium; not leaving strategic economic decisions to the market but making them subject to democratic choice; subjecting the private sector and the state to constant monitoring by civil society; about creating a new production and
exchange complex that includes community cooperatives, private enterprises, and state
enterprises, and excludes transnational corporations (TNCs); enshrining the principle
of “subsidiarity” in economic life by encouraging production of goods to take place at
the community and national level if it can be done so at reasonable cost in order to
preserve community (Bello, 2005).

Moreover, Bello talks about a strategy that consciously subordinates the logic of the
market, the pursuit of cost efficiency to the values of security, equity, and social
solidarity. In short, he speaks about re-embedding the economy in society, rather than
having society driven by the economy.

De-globalization or the re-empowerment of the local and national, however, can only
succeed if it takes place within an alternative system of global economic governance.
What are the contours of such a world economic order?

The answer to this is contained in our critique of the Bretton Woods cum WTO system
as a monolithic system of universal rules imposed by highly centralized institutions to
further the interests of corporations and, in particular, U.S. corporations. To try to
supplant this with another centralized global system of rules and institutions, though
these may be premised on different principles, is likely to reproduce the same Jurassic
trap that ensnared organizations as different as IBM, the IMF, and the Soviet state, and
this is the inability to tolerate and profit from diversity.
We are not talking about something completely new. For it was under such a more pluralistic system of global economic governance, where hegemonic power was still far from institutionalized in a set of all-encompassing and powerful multilateral organizations and institutions that a number of Latin American and Asian countries were able to achieve a modicum of industrial development in the period from 1950 to 1970. It was under such a pluralistic system, under a General Agreement on Tariffs and Trade (GATT) that was limited in its power, flexible, and more sympathetic to the special status of developing countries, that the East and Southeast Asian countries were able to become newly industrializing countries through activist state trade and industrial policies that departed significantly from the free-market biases enshrined in the WTO.

What developing countries and international civil society should aim at is not to reform the TNC-driven WTO and Bretton Woods institutions, but, through a combination of passive and active measures, to radically reduce their powers and to turn them into just another set of actors coexisting with and being checked by other international organizations, agreements, and regional groupings. These would include such diverse actors and institutions as the U.N. Conference on Trade & Development (UNCTAD), multilateral environmental agreements, the International Labor Organization, the European Union, and evolving trade blocs such as Mercosur in Latin America, SAARC in South Asia, SADC in Southern Africa, and a revitalized ASEAN in Southeast Asia.
More space, more flexibility, more compromise - these should be the goals of the Southern agenda and the civil society effort to build a new system of global economic governance. It is in such a more fluid, less structured, more pluralistic world, with multiple checks and balances, that the nations and communities of the South and the North will be able to carve out the space to develop based on their values, their rhythms, and the strategies of their choice.

To quote British philosopher John Gray: “It is legitimate and indeed imperative,” he says, “that we seek a form of rootedness which is sheltered from overthrow by technologies and market processes which in achieving a global reach that is disembedded from any community or culture, cannot avoid desolating the earth’s human settlements and its non-human environments.” The role of international arrangements in a world where toleration of diversity is a central principle of economic organization would be “to express and protect local and national cultures by embodying and sheltering their distinctive practices.”

In keeping with Bello’s chain of thought Kishore Mahbubani (Singapore’s Permanent Representative to the UN) believes: “To avoid losing the next century, the South must resume the learning process they have aborted for centuries. They have to ruthlessly analyze their past. They have to understand, for example, why so many Asians allowed themselves to be colonized by so few Europeans. What went wrong? They must further determine what went right in the West”.
Mahbubani suggests three key principles for any meaningful success. The first is "meritocracy." When capitalism destroyed feudalism in Europe in the 19th century, it moved away from aristocracy towards meritocracy. Capitalism, with its essential ingredient of "creative destruction," generated new elites. Democracy provided another institutional process for flushing out old elites and churning out new ones. Both capitalism and democracy were therefore not purely ends in themselves (even though they are ideologically worshipped in many Western minds). They were also functional instruments that enabled (at most times) new talent to emerge while simultaneously preventing the encrustation of old elites (which has been one key reason for Asia's failure). If societies allow their best minds to emerge, flourish and provide leadership, the South could well take off. But conservative social and political forces resist change. And a great deal of talent is wasted.

The second principle is "peace". Peace, of course, was in short supply during much of Europe's growth. It took two debilitating world wars, where many of the best European minds were lost in mindless battles, for that continent to give up centuries of antagonism. One simple explanation for those two wars could be the time lag between changes in mental and physical environments. In the first half of the 20th century, vestiges of a 19th-century feudal mindset that saw war as a legitimate instrument for expanding power persisted in Europe, even though the instruments of war had increased dramatically in their power of destruction. Nuclear weapons, paradoxically, may have finally removed this time lag.

Some Southern minds, including those of key policymakers, still linger in the feudal era. They see international relations as a zero-sum game. They have yet to learn the
lessons that Japan and Germany absorbed after World War II: Power and prosperity can be acquired peacefully. The political dynamic of West Asia, South Asia, Southeast Asia and Northeast Asia would become more comfortable if their leaders realized that peace is an essential condition for growth and prosperity in the modern world.

The third principle is “honesty”. This sounds trite, but it is a polite way of drawing attention to one of the South’s most shameful aspects: Corruption. Successful societies have functional elites. They add more value to their societies than they take from it. Unsuccessful societies have corrupt elites. As a result of feudal attitudes, they become easily entrenched, even though they survive as parasites. Corruption exists in both the democratic and non-democratic societies of the South (and indeed in other parts of the world). To successfully root it out, the rule of law has to be more firmly embedded in Southern societies. Corruption is a particularly pernicious problem because it is so difficult to document, except in the most egregious cases like Ferdinand Marcos. It thrives at all levels. And the costs are not purely economic. They are also social and spiritual. They breed cynicism and disenchantment, sustaining a vicious circle that has held societies down: When there is no hope for change, why try? Kishore Mahbubani is Singapore's Permanent Representative to the United Nations and author of the book “Can Asians Think?”, 2002).

"One cannot separate economics, political science, and history. Politics is the control of the economy. History, when accurately and fully recorded, is that story. In most textbooks and classrooms, not only are these three fields of study separated, but they are further compartmentalized into separate sub-fields, obscuring the close interconnections between them" (J.W. Smith, The World's Wasted Wealth 2, Institute for Economic Democracy, 1994, p. 22).
Some Key Issues:

In the economic sphere of North-South relations, one could also argue that there have been no fundamental changes in the architecture of economic power. The relative share of the global GNP of US and Western Europe remain about the same as the 19th century. Accurate statistics are hard to come by. But it is clear that today the G8 countries dominate global economic decisions. Most of the world's research and development is still being done in OECD countries (which remains essentially a Northern club). Equally importantly, the most important multilateral economic agencies - the IMF, the World Bank, the BIS, the WTO - are dominated by the North. This is the main premise that the previous chapters have attempted to establish and despite the global economic imperative, the North-South imbalances are still a reality.

As we move into the political sphere, we move from the realm of “hard” power to “soft” power, partly because the exercise of political power has become more subtle. In the 19th century, during the colonial area, most of the countries of the world were mere pawns on a chessboard while the players were European. In the 21st century, with the creation of the UN, all countries are nominally equal. This nominal equality should not be dismissed. It has enhanced the sense of self-worth and dignity of many people around the world. But when it comes to making hard decisions on how and when the world's resources will be deployed, we should have no illusion that all capitals are equal. Just as in the 19th century, a handful of capitals make the big decisions. Today, the key capitals are Washington DC, Berlin, Paris, Moscow, London (and gradually Tokyo and Beijing). The 19th century list may not have been very
different. And where the decisions are made makes a huge difference in the deployment of real resources. The Minister of State for Foreign Affairs of Uganda, Amama Mbabazi, captured this reality vividly with this statement: “When it is Kosovo, you are there in one minute and spend billions. When it's East Timor you are there. When it is Africa, there are all sorts of excuses.” This statement accurately captures the consequence of unequal political power.

Power translates to trade and technological presence in the world economy. In the age of information and information-technology, there are two key dimensions of our world today. Those who control the flow of information determine what content enters into billion of minds who have access to radios, TV sets or even Internet access. Today, all the sources of information with a global reach whether it be CNN or BBC, the Wall Street Journal or Financial Times, Time Magazine or Economist - are all Northern-controlled. And it is Western minds that determine what news is significant and worth airing globally and what is not. This makes a crucial difference.

The North also dominates in many other areas: in education, in research and development, in Nobel prizes for science, in release of new technology. Virtually all the cutting edge work in any field of science, perhaps even in social sciences, is done in the North. Equally important, in the important discussions of philosophy and human values, the great outpouring of writing and books are generated in the West. In short, what we take for granted in the world is a certain imbalance of power relationships that we take to be a normal and perhaps eternal feature of the human landscape. What we take to be normal and eternal may be changing.
These imbalances of power are disguised within the globalization agenda. While information and communication technologies successfully convey the idea of a “global village”, the reality is quite different. Throughout the chapters of this thesis, the true state of affairs in the South has been emphasized and examples like India, serve to establish the premise that a stark reality lies behind the “myth of prosperity” that has been created. However, in an increasingly interdependent world, it becomes harder to separate myth from reality.

**The Question of Interdependence:**

The main engine of change in the 21st century is the force of globalization. UN Secretary-General, Kofi Annan, put it well when he expressed: “The cure does not lie in protesting against globalization itself. I believe the poor are poor not because of too much globalization, but because of too little - because they are excluded”.

Globalization is an irreversible force. It has been unleashed by rapid technological change. We cannot turn the clock backwards. As a result of rapid technological change in many dimensions, the earth has shrunk. We have gone from being planet earth to spaceship earth. All of mankind has begun to be woven together in a complex web of interdependence. The consequences for the future of mankind are enormous.

The first consequence of interdependence is that we have a common stake in the economic well being of each other. The Asian financial crisis demonstrated this vividly. When the Thai bhat collapsed on 2 July 1997, the major economic capitals paid little attention. The big global economic decision-makers of that time decided that this little crisis on the other side of globe could be ignored. The Thai bhat crisis spread
to other countries in Southeast Asia. From there it shook Korea. This in turn affected Russia. From Russia, it leapt to Brazil and then, in an important leap, it began to rattle American markets. This recent episode demonstrates vividly how interdependent the world had become. The financial flows around the world - US$1.5 trillion a day - have become so large that no one can control them. With the global integration of all economies into one system, the strong economies now have to worry about the weaker economies because, as Claude Smadja has observed: “In an increasingly integrated world, the resilience of the global economy is only as strong as the weakest of its components”. Another vivid example of global interdependence was demonstrated by the rapid spread of the "I Love You" virus from a single computer in the Philippines to the whole world in a matter of days.

The interdependence in the economic field is also apparent in the environmental field. Chernobyl taught us a valuable lesson; environmental disasters don't respect borders. Neither do new infectious diseases, which can be immediately transported from one corner of the world to the other. All Western populations, like the rest of the world, have an economic stake in the level of emissions that China and India produce as they industrialize and progress.

There are also spectacular changes in demographic disparities. The developed world's share of the global population will shrink from 24 % in 1950 to 10% in 2050. In 1950, six of the twelve most populous nations in the world were Western. By 2050, there will be one, the United States. In 1950, Africa's population was less than half of Europe's (including Russia's). Today, it is roughly the same. By 2050, Africa's
population will be three times larger. It is hard to believe that such huge demographic shifts will have no serious social and political consequences.

**The Need for Inclusion and Good Governance and Global Action:**

The South is in the grips of a multifaceted crisis extenuated by the poor quality of governance and its inability to grapple with the challenges of population explosion, poverty and deprivation, social exclusion, rapid urbanization, and environmental degradation caused by the very forces of development.

With a population of 1.3 billion or around 22% of the world population, the challenge to governance in South Asia for example is immense. The task ahead is made more complex by the regional diversity borne out of its multi-racial, multi-religious, multi-linguistic and multi-cultural composition. Furthermore, around 550 million or about 45% of the world’s poor people are to be found in South Asia and have yet to fully enjoy the fruits of democracy and development. The poor are either out of the mainstream of development as chronically marginalized people or face the hardships on account of anti-poor policies, priorities and institutions (Ghosh, 1990).

Lord Ripon, Viceroy of India, a lone visionary in 1882 said: "If local government is to have any vitality then it should evolve out of local circumstances. If it has to be created artificially, at least it should be planned in detail by local administrators and not be imposed readymade by the state government". The same ethos could apply to the machinations of the donor communities, which has been described by some to be a
new form colonialism, that of "aid colonialism" (Rana, 1984). The system of “guardianship” whether by the Governor Generals in British India or by the Foreign Ministries of Donor Countries or the Boards of Governors of International Monetary Fund, World Bank and Asian Development Bank remains, in essence, similar in spirit if not letter to what Lord Ripon had perceived in 1882 (Panadiker, 2000). Poverty eradication it is insufficient, albeit it necessary, to simply rely on the efforts of non-governmental organizations (NGOs) no matter how innovative and dynamic they may be. This is because they cannot substitute the efforts of governments and are seen to be excessively reliant on foreign aid and so face the challenge of sustainability.

Experience has shown that their self-reliance is dependent on their capacity to transform themselves as commercial organizations at which point in time they could lose sight of their mission as agents of civil society. Hence the lead role of the State is so vital for the success of social mobilization and the participation of the poor based on their own organizations.

This does not mean that NGOs have no role in civil society. On the contrary, they have a new role to play as neo-cosmopolitan agents of global change who mobilize human, technical and financial resources internationally and preach and practice globally just as TNCs engage in their business globally.

In this vision, NGOs are seen to be the harbingers of globalization through “glocalization” and the protectors of human rights and cultural pluralism. The South
should closely examine the genius of Mohammad Yunus who now seeks an expanded mission, namely to transfer micro-credit know-how and technology worldwide in the developing and developed countries alike.

The success of this model can have great lessons for the developing and developed world in their search for community participation and meaning. Similarly, Ela Bhat’s Self-Employed Women’s Association of India, and Jaya Arunachalam’s Working Women’s Forum inspire all women in the region and outside to organize for their rights of gender and to unleash their entrepreneurial talents. Like Grameen, they too should think of going regional and global with the support of the international community. It is their wisdom and technology that should be directly transferred around the world and not packaged as this donor or that donor’s success project for “replication” elsewhere with their personnel. Greater diligence should be shown in respecting the intellectual property rights of the South by donors.

Just how much reform is possible and likely in the South given the political, economic and social scenario painted by the HDR (1999) is a question worth asking? Ideally, a “first order reform” must target the root cause of poverty, namely “targeting the economic and political structure that breeds and sustains poverty”, as identified by Mahub ul Haq (HDR,1999). Who is to bell the cat? How long do we wait for this to happen?
Economic growth must be made more broad-based and rapid the South is to solve the multiple crises that it faces if democracy is to survive the onslaught of mal-governance. For this to happen, social mobilization of the poor is a must in the interest of the larger public good. Only through the creation of organizations of the poor can democracy and development be meaningful for the poor.

“Humane governance” is what has been conceptualized by Mahbub ul Haq as the new requirement for dealing with the crisis of governance in the South (UN, 1999). Governance is said to be humane if it is “good” in all of its three dimensions concomitantly, namely (a) political, (b) economic, and (c) civil.

The South cannot blindly replicate western models of governance as the historical evolution of the South Asian states is unlike that of Europe. The South consists of “nations-within-states” as opposed to Europe’s “nation-states” born from the fragmentation of empire. In the South, nation-states arose not from the ashes of empire but from their departure.

**Concluding Comments:**

This research has attempted to encapsulate the dilemmas of the Global South associated with the quest for development and modernity, particularly in the era of globalization. Development and modernity have gone hand in hand and modernity has often been envisaged as “catching up” of emulating the West.
The contents of this research analyses this dilemma highlighting the complex and burgeoning interconnections of economic, political, cultural, social and technological changes that have contributed to the imbalances of the global system.

Development has generally been viewed as a process of continuous growth and abundance, facilitated by free markets and trade. It is in this context that this thesis has endeavored to provide a critical appraisal of whether or not the recent economic surge (spurred by globalization) in countries like India and China, have actually led to prosperity across the general population and not just among the privileged few.

To return to the first premise of the goals of this thesis, it is very apparent that the impact of globalization on Southern nations is far from desirable. We live in an era of unprecedented prosperity—and staggering poverty and inequality. The combined wealth of the world’s 225 richest people is now over $1 trillion, which is equivalent to the yearly income of the poorest 2.5 billion people (United Nations, 2001). This crucial economic gap is the second premise that the previous chapters have attempted to highlight.

There is a view fashionable in the media that the world is being taken over by huge multinational corporations, accountable to no one. Governments are reduced to playing the role of servile lackeys to big business. Globalization does not mean the impotence of the state but the rejection by the state of its social functions in favor of repressive ones, irresponsibility on the part of governments and the ending of democratic freedoms. Big oil, like big weapons manufacturing and big agribusiness, has always
been as one with the occupants of the White House and the US government; they are interchangeable. Without government patronage, some of the greatest corporations would fail. The Cargill Corporation, which dominates the world trade in food grains, would not enjoy its monopoly, were it not for years of big subsidies to American agribusiness, as well as US government policies that used “food aid” to subvert the agriculture of developing countries.

Unfortunately, newly liberalizing economies like India are copying the same model but in a society that fails to provide its citizens with basic needs, social services are obliterated and the poor marginalized even more. Imagine the fate of the average Indian if India unwisely attempts to keep liberalizing to meet Northern economic prescriptions. The ideology that has emerged at the end of the twentieth century to justify this unhappy state of affairs is the belief that the unregulated free market is the essential precondition for the fair distribution of wealth and for political democracy. This is precisely where the globalization process has successfully generated a myth of prosperity for the Global South.
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