CHAPTER - V

INDIA'S STAKE AND ROLE IN NIEO
"Entrenched power structure can frustrate enlightened reforms".

William H. Draper III

5.1 INTRODUCTION

Our brief review in the preceding Chapter shows that India's development performance in the 1980s has been rated to be better than its own performance earlier but has been lagging behind several groups of countries including some of its neighbours. However, it should be noted that India's experience in development planning has been not only marked by several vicissitudes in the career of its development strategy but by a host of uncertainties in its domestic and international environment. Accounting for nearly 16 per cent of World's population, 2.4 per cent of world's geographical area it hardly accounts for 1 per cent of world's income and 0.5 per cent of world's trade. Therefore, underdevelopment is the root cause of India's poverty and poverty-related problems. Indian leadership before and after the dawn of Independence has been striving to promote international peace and understanding by dialogue and discussion. 1 Its

B) ____________, "The Discovery of India", Oxford, New Delhi, 1981.
own system of development planning has attracted worldwide attention because it struck a compromise between the two contending ideologies of capitalism and socialism and evolved a mixed economy model under a democratic framework. In the words of Chakravarty "dominant ideas of contemporary development economics influenced the logic of India's plans, and correspondingly, development theory was for a while greatly influenced by the Indian case". Even before the dawn of Independence, India has been actively associated with the establishment of several multilateral agencies such as the ILO, IMF, IBRD and the UNO itself. India's role in NAM, UNCTAD, G-15, SAARC, among others, has been widely recognised. In this chapter it is proposed to outline a few aspects of India's stake and role in NIEO in the context of the fast changing international structure and relations. It needs hardly to be stressed that the issues covered and the problems discussed are highly selective owing to the vastness of the domain of study.

5.2 THE CHALLENGE OF POVERTY ALLEVIATION

Even after four decades of development planning India

remains one of the poorest countries of the world, in fact probably the largest single country contributor to the pool of world's poor and her population below poverty line is almost equal to the total population of the USSR.³

Removal of poverty has been a central concern of planning in India. The Five Year Plans, especially the Sixth and Seventh Five Year Plans envisaged an expanded coverage for both labour utilisation and provision of basic services under a variety of anti-poverty programmes. As a result the poverty ratio has been projected to decrease from 37 and 26 per cent in 1984-85, 1989-90 to 5 per cent by 2000 A.D.⁴ This is the major challenge confronting India's leadership in general and development planners in particular. The several barriers — institutional, attitudinal and ideological to alleviation of poverty elaborated by Myrdal are ubiquitous in the contemporary setting, and his call for radical reforms in the underdeveloped countries for launching a real attack on mass poverty is as urgent as it has been at the time of


the launching of the international development decades in the 1960s and 1970s. Due to its high stakes in this sphere, India has reoriented its development strategy and made significant strides in the alleviation of poverty, which may become a model for other over-populated underdeveloped countries.

One of the basic explanations for the persistence of absolute poverty in the rural areas of the Third World and more so in the South Asia is the dependence of nearly 70 per cent of labour force on agriculture but contributing to about 30 per cent of GDP. For groups of countries assembled into World Bank categories the averages for share of agriculture are incorporated in Table 5.1.

In accordance with the theory of Colin Clark changes in occupational structure are expected to follow economic development. This is what has happened in industrial market economies and to some extent middle-income economies. In the low-income economies in mid-1980s, 72 per cent of labour force has contributed to 32 per cent of their GDP. It is this persistence of a high proportion of

### TABLE - 5.1

SHARE OF AGRICULTURE IN GDP AND LABOUR FORCE IN MID-1980s

<table>
<thead>
<tr>
<th>GROUPS OF COUNTRIES</th>
<th>PER CENT SHARE OF AGRICULTURE IN</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>GDP</td>
</tr>
<tr>
<td>Low-income Countries</td>
<td>32</td>
</tr>
<tr>
<td>Middle-income Countries</td>
<td>15</td>
</tr>
<tr>
<td>Industrial Market Countries</td>
<td>3</td>
</tr>
</tbody>
</table>

labour force in agriculture contributing to a declining share of GDP that is responsible for the stubborn persistence of rural poverty in low-income economies. India has nearly 70 per cent of labour force in agriculture contributing to 30 per cent of its GDP. How to launch a strategy of industrialisation which could accelerate not only the rate of growth but also absorb surplus labour from agriculture is the major challenge that confronts India as much as the low-income economies.

Many of the Asian countries have a structural predisposition in favour of immiserising growth. Major reasons for this are, first, the concentration of productive wealth, particularly landed wealth, in a few hands, second, partly as a consequence of the first, a high degree of inequality in the distribution of income; and third, the control by a small segment of the population of the instruments of the state and this use of this control to further their own economic interest. Griffin favours a reformist or radical strategy of rural development to alleviate or even eliminate rural poverty. In India, a combination of technocratic and


reformist strategy is being pursued and hence the persistence of rural poverty.

5.3 **HUMAN DEVELOPMENT IMPERATIVES**

As competitiveness, productivity and management capabilities are becoming key factors for success in market orientation, investment in people, namely in human development is acquiring primordial importance.\(^8\)

It is presumed that advances in science and technology could benefit all humanity. But it is not a foregone conclusion that benefits will be equally spread and shared. In fact, for that to happen, a dramatic reorientation of investments and institutions is required.\(^9\)

The concept of human development is to enlarge the range of the peoples choices to make development more democratic and participatory. These choices should include access to income and employment opportunities, education and health, and a clean and safe physical


9. ibid., P.362.
environment. Each individual should also have the opportunity to participate fully in community decisions and to enjoy human, economic and political freedoms. 10

The modified human development index (HDI) leads to many interesting conclusions. Among the industrial countries Japan still enjoys the highest rating and Romania is at the bottom. Among the developing countries Barbados leads HDI ranking, with Sierra Leone in the lowest position. 11 For 26 countries, the HDI rank is 20 or more places lower than the per capita income rank, showing that they have considerable potential to improve their human development levels by spending their national incomes more wisely. 12 A human freedom index (HFI) for 88 countries indicates that high levels of human development tend to be achieved within the framework of high levels of human freedom. 13 The human expenditure ratio — the percentage of national income devoted to human priorities concerns may need, at least to be 5 per cent if a country

11. ibid., P.3.
12. ibid., P.3.
13. ibid., P.3.
whishes to do well on human development. For aid donors as a whole, the aid human expenditure ratio is 0.026 per cent of their combined GNP. This is a tiny figure. A global compact for human development should be based on the recognition of the need for a new human order. And if we can mobilise political base for action, the future of human development is secure. 14

Among the developing countries, India ranks 123 in the HDI ranking. In the case of HFI ranking of selected countries India is placed in the medium group and occupies 14th rank. India's human expenditure ratio was 2.5 per cent of her GDP and per capita expenditure was US$9 for the year 1988. 15 Figures 5.1, 5.2, and 5.3 show GNP per capita, human expenditure per capita and human expenditure ratio respectively. Therefore, India has a high stake in the progress towards human freedom and human resource development.

5.4 CONCERN FOR DEVELOPMENT ASSISTANCE

Net inflow of external resources to the public sector plan has been estimated at about 10 per cent in respect of

FIGURE 5.1
GNP PER CAPITA - 1988

<table>
<thead>
<tr>
<th>Country</th>
<th>GNP Per Capita (in thousands)</th>
</tr>
</thead>
<tbody>
<tr>
<td>KOREA</td>
<td>3.6</td>
</tr>
<tr>
<td>MALAYSIA</td>
<td>1.94</td>
</tr>
<tr>
<td>COSTA RICA</td>
<td>1.69</td>
</tr>
<tr>
<td>JORDAN</td>
<td>1.5</td>
</tr>
<tr>
<td>ZIMBABWE</td>
<td>0.85</td>
</tr>
<tr>
<td>ARGENTINA</td>
<td>2.52</td>
</tr>
<tr>
<td>CHILE</td>
<td>1.51</td>
</tr>
<tr>
<td>INDIA</td>
<td>0.34</td>
</tr>
<tr>
<td>TANZANIA</td>
<td>0.16</td>
</tr>
<tr>
<td>PAKISTAN</td>
<td>0.35</td>
</tr>
</tbody>
</table>

(US $ in thousands)
HUMAN EXPENDITURE RATIO - 1988

Figure 6.3

(%)
the Sixth and Seventh Five Year Plans. To that extent the success of the development plans in India has been intertwined with the flow of foreign resources India hopes to get on a concessional basis. She hopes to get these by making a common cause with poorer countries. She is poor but large and proud. She needs concessional resources but can't obtain them adequately because she is industrialised. With NICs, India shares their concerns about access to western markets, technology and capital.

5.5 EXTERNAL DEBT MANAGEMENT

The biggest problem confronting today's world economy at large is international indebtedness. Mexico, Brazil, Poland, Romania and many other countries are indebted at record levels and they have so far escaped having to default only through a precarious rescheduling of debts. Given the lack of precedence of such enormous borrowings, no one knows what will be the exact consequences of a bubble burst. By the end of 1990, the highly indebted Latin America countries had over


US$423 billion in long-term loans outstanding, and they paid out almost 5 per cent of GDP (or 24 per cent of export receipts) in debt service (and even this did not cover all interest due). Although the total debt that African countries owed is much less (US$70 billion, or less than that of Mexico alone), the relative burden there is even more severe. The total debt of the low-income African countries is typically five times their annual export income. For ten of these countries, it is ten times that income and scheduled debt service averages 80 per cent of their export. Despite several debt relief schemes envisaged and implemented including that of Brady Plan debt management is a major problem for many developing countries especially the SICs as external debt of the developing world has doubled over the past decade. India's medium and long-term external debt amounted to Rs:80,135 crores (about 18 per cent of GDP) at the end of 1989-90. Including outstanding NRI deposits the country's aggregate debt stock stood at Rs.97,966 crores at the end of 1989-90 amounting to over 22 per cent of GDP. There has also been a notable change in the composition of debt stocks. External assistance has declined from 90 per cent

of debt stock at the beginning of 1980s to less than 70 per cent in 1989-90. Debt service ratio to exports and gross invisible has gone up from 9.4 per cent in 1980-81 to 23.3 per cent in 1987-88. Therefore, India is induced to borrow from the IMF and other agencies to meet her debt servicing obligations. It is likely to benefit in the liberal flow of multilateral and other official development assistance.20

5.6 TRADE NEGOTIATIONS AND FINANCIAL FLOWS

The Uruguay Round of Multilateral Trade Negotiations launched in September 1986 to bring about further liberalisation and expansion of world trade cover a wide range of issues which were not part of earlier Rounds held under the auspices of the General Agreement on Tariff and Trade (GATT).21 They include a wide ranging area of commercial polity instruments as well as new areas, viz., trade-related investment measures (TRIMs), trade-related aspects of intellectual property rights (TRIPs) as well as trade in services. The persistence of protectionist stance by the developed world has been a subject of world fora and resolutions by the Third World groups; the developing


21 ibid, p1790
countries have a stake in the reduction of tariff and non-tariff barriers in the industrial market economies. India has taken a general position that the standards for intellectual property rights have to respond to the levels of economic and technological development of individual countries and cannot be set at a uniformly high level for all of them. India's stand is not altogether different in the case of trade in service. The stakes of the South are indeed very high.

With regard to international reserves and balance of payments position, India's external sector came under pressure of a crisis proportion during the fiscal year 1990-91 and the first quarter of 1991-92 and this was reflected in a massive payments situation. Several factors were at work the global slow-down in world trade following recessionary conditions in industrialised countries and the economic disruption in Eastern Europe including the USSR had an adverse impact on India's exports and in the face of rising imports, contributed to


widening deficit on merchandize trade, the Gulf crisis which began in August 1990, had increased the POL import bill and disrupted the external balance position; there was a shrinkage of invisible receipts; and a temporary loss of confidence which, among others also eroded the country's credit rating; all the factors cited above coupled with the general shortage of liquidity in the international financial markets, tended to dry up commercial borrowings both long-term and short-term sources of finance. This explains India's vulnerable position in international markets of money and finance and its decision to approach IMF for a big loan. This initiative had come under some attack on the ground that consequences of conditionality and structural adjustments would act in a manner which would not benefit the domestic economy and it would hamper the interests of the poor people.

25. Ibid., P.104.
The threat of protectionism still looms large. The success of Japanese exports, and then of exports from the newly industrialising countries (NICs), produced pressure for changes in the older industrial nations. Such changes are painful when unemployment is high. Attempts to avoid the pain are the main cause of today's protectionism in the industrial countries. Trade in textiles was the first victim, followed by footwear, leather goods, steel, shipbuilding, cars and consumer electronics. 28

The tariff barriers are buttressed by a wide array of non-tariff barriers. If protection in the industrial countries increases still further, it will be hard for the developing countries to expand their exports. 29

India's technology, diversification of its export basket claim the rank next to NICs. Hence, the market access in industrial countries constitute an important factor than its dependence on aid. India shares with NICs the concerns about the access to western markets 30 and the threat of protectionism which is becoming more pervasive, with voluntary export restraints (VERs) and anti-dumping

29. Ibid., P. 133.
investigations now being directed even against very small countries with marginal markets\textsuperscript{31} — affects India's export prospects as well. It is, therefore, imperative on the part of India to participate in Uruguay Round of GATT's multilateral trade negotiations (MTNs). However, the Uruguay Round of negotiations do not, at present, inspire optimism as far as the weaker trading partners are concerned.\textsuperscript{32}

5.7 INDIA'S ROLE IN NICO

India's role in institution-building of UN, its affiliates and its leading role in NAM, G-77, G-75, Commonwealth, and SAARC, which are among others, aimed at paving the way for the movement of new international economic order, are of considerable magnitude. Its farsighted vision is reflected in many issues of interest to Third World Countries.\textsuperscript{33}

India is one of the founder members of the United Nations Organisation (UNO) which came into existence on

\textsuperscript{32} Ibid., P.7.
India holds permanent seat in ILO because of its industrial importance, its active role in UNESCO is visible in the fact that one of Science Cooperation Offices is set up in New Delhi. World Health Organisation's regional office for South-East Asia is headquartered in New Delhi. Similarly, it has been playing active role in the other special UN agencies.

With respect to GATT, India is one of the original parties of the twenty three countries to sign way back in 1947. India's role in UNCTAD is noteworthy. Its active role mirrors from the fact that India hosted UNCTAD II in New Delhi where the issues of trade and development concerning the Third World were discussed.

36. Ibid., Pp.15-16.
37. Ibid., P.16.

October 24, 1946.
India's role at the time of formulating the IMF's Articles was quite unambiguous. India was the only vocal representative of the LDCs, pushing hard for some "specific reference to the needs of economically backward countries". The Indian delegates stated:

"Our experience in the past has shown that international organisations have tended to approach all problems from the point of view of the advanced countries of the west. We want to ensure that the new organization which we are trying to create will avoid this narrow outlook and give due consideration to the economic problems of countries like India". 40

The Indian delegation proposed an amendment to the Fund's Articles that would have required the Fund "to assist in the fuller utilisation of the resources of economically underdeveloped countries". The proposal was supported by Ecuador, but was opposed by the United Kingdom and the United States on the grounds that the development of underdeveloped countries was a matter for the Bank rather than for the Fund.

No special reference was made to "economically underdeveloped countries" or "economically backward countries" as the Indian delegation had sought. The principle of uniformity was applied regardless of the stage of development, peculiar characteristics and problems. Only later did the Fund find it possible to adopt decisions, such as compensatory financing for fluctuations in export receipts, that were intended to be of special benefit to developing countries without confining the benefits of the decisions to them. The central interest of non-aligned movement is peace and cooperation. According to Nehru, non-alignment, for India, was a policy and strategy to survive and negotiate with a world that was getting dragged into the politics of cold war. India adopted a policy of non-alignment to promote peace and cooperation with all nations in order to devote its energy and resources to national development and social progress. The role of India in the Bandung Conference of Afro-Asian states during 1955, its support to freedom struggles in Afro-Asia, its vehement opposition to...

41. ibid., P.16


to racism and apartheid have enhanced India's stature and gave impetus to the policy of non-alignment.  

There is a gradual shift in the emphasis of NAM from political order to economic order. The newly independent Afro-Asian Countries recognise that their strength lies in unity and solidarity; and, therefore, they collectively plead for the reduction of existing imbalances in the world economy in a manner that the world promote the interests of developing countries. The origin of Group of 77 (G-77) at UNCTAD mirrors the urge of the Third World Countries to collectively work for fundamental changes in the world economy through NIEO.  

India had continued to play a key role in 'Action Group' of the Third World like Group of 15 (G-15) which had its first summit meeting in Kuala Lumpur to begin the process of South-South cooperation and to achieve common positions on issues involving trade, money and debt, and on actions in international fora. The G-15 had agreed on consulting Group of 24 (The Third World Group in the IMF/World Bank Institutions at Washington) regarding

45. Ibid., Pp.403-405.
modalities for assisting Third World countries in their dealings with multi-lateral financial institutions and in advising Third World countries on the possible effects imposed by the institutions for taking their loans.\footnote{46} India has exhibited a balanced position on South-South and North-South issues which were the items of the agenda of the second summit of G-15 at Caracas in November 1991.\footnote{47}

Recognition of India's active role in the Commonwealth is reflected in the fact that the largest-ever meeting of the Commonwealth Heads of Government was held, for the first time in New Delhi from 23 to 29 November, 1983. The final documents issued by the summit brought out the essential unity of approach and purpose in matters connected with peace and development.\footnote{48} India's development goals are in consonance with development\footnote{49} advocated by the Commonwealth.


\footnote{47} The Economic Times, Bangalore, November 29, 1991, Pp.7-16.


As a part of its efforts to promote and enhance economic and technical cooperation with developing countries in the spirit of South-South cooperation, India is providing bilateral assistance to developing countries through the Indian Technical and Economic Cooperation (ITEC) programme, in addition to providing assistance under multilateral schemes such as the Colombo Plan and the Special Commonwealth African Assistance Plan. 50

5.8 SOUTH-ASIAN ASSOCIATION FOR REGIONAL COOPERATION (SAARC)

India has played a significant role in the promotion of SAARC. The regional cooperation among developing countries constitute an important element of South-South cooperation. 51 Though there were some problems in the implementation of SAARC, the prospects are bright. 52 However, there is not much awareness of the existing, let alone possible, prospects for economic and trade


cooperation in SAARC. Panchamukhi opines that "India should take the initiative for making offers to other countries in purchasing their goods, services, technological know-how, etc., with a view to ensuring more equitable sharing of benefits of trade". Therefore, India, being a bigger partner, is expected to play a crucial role in SAARC.

India has influenced other developing countries in other fields as well. One such area is development planning. Beginning with India's creation of a Central Planning Commission in 1950, many other developing countries followed suit, desiring the prestige of having a development plan. Governments of emergent nations commonly turned to national planning as if this were itself a precondition for development. For many poor countries, economic planning became a matter of necessity rather than a choice.


5.9 ECONOMIC REFORMS IN EAST EUROPE AND THE USSR

In almost all East-European economies, over the past few years, there has been a move towards economic reforms and market-oriented economic system. These economic reforms in East-Europe require new inflows of financial resources in convertible currencies on an unprecedented scale. Many OECD Governments, have already formulated programmes in support of their economic reforms. There are apprehensions in the Third World that the flow of financial resources to their economies may upset, at least in the short-run from the DAC. In the long-run, however, there is a speculation that the "peace dividend", i.e., the reduction in arms expenditure following the relaxation of East-West tensions, would result in additional aid flows. Developing countries may also get new opportunities for trade in countries of Eastern-Europe. They have to face of course, competition from the EEC. The developments in the USSR also appear to be revolutionary and are tending towards a market-oriented economy. They have far reaching consequences for 'peace dividend' and the new global order. India, with its special economic and trade relations with the socialist

world has a great stake in the wake of sweeping economic reforms and political changes that are taking place in Europe and the USSR. If she can shape her economic destinies with a vision and a foresight she may emerge as a major economic power and possibly a counter-vailing power to that of the Europe on the one hand and that of America on the other. Like development — either economic or human — India's evolution as a world economic power is a long drawn out process and she may succeed in the international arena if she can successfully formulate and rigorously implement structural reforms in its domestic sphere. The urge for a new economic order is as much internal as it is international in the context of India as perhaps in the context of any country in the world.

As the former Prime Minister of India stated, "so far as we the independent developing nations are concerned, economic development has only just begun. We have our failings. We allowed our growth to be inhibited by structural and other difficulties — an outmoded social system and attitudes of mind, an administrative machine which was divided by foreign rulers for their own purposes. Many other difficulties are inherent in underdevelopment. But our biggest impediment has been the attitudes of the strong nations, the kind of terms which
they have set for financial out flows to the developing countries and the manner in which the poor nations are shut out from their markets. It will be difficult for our endeavour to succeed so long as technological neo-colonialism persists. 57 The 1990s began with a great surge of hope. Democracy swept across Eastern Europe and the Soviet Union. The Berlin Wall came down. Germany was reunited. One-party systems were on the retreat in Africa. A new era of human rights and political freedom seemed to be dawning. 58 These hopes were dashed with the onset of the Gulf-war. The Third World countries also fear that with the collapse of the USSR, which has hitherto provided an alternative model and a protectorate, the US domination in world affairs might increase paving the way for greater entry of direct private investment by transnational corporations of the USA ultimately accentuating the process of immiserising growth. The near collapse of the Socialist economy in the USSR and the emergence of EEC as a single market accounting for 37 per cent of global trade in 1992 are developments of critical


importance to the Third World and it may be hoped that these developments may benefit the world as a whole and contribute to peace and sustainable development which are the necessary conditions in the progress of the new international economic order.