

Of the Record**Backward Countries And One World**

THAT the world was one, had never become part of the consciousness of mankind when saints preached the universal brotherhood of man. That realization has been knocked into the heads of people more effectively by such calamities as the great war and the great depression that preceded it. If the war was a global war and war strategy had to be global strategy, we are apt to forget that the depression, to all intents and purposes, had been as wide in its ramifications. We are apt to forget, that it spreads its tentacles to almost the whole of the earth's surface except a few sheltered pockets in which men still lead a primitive existence depending on barter and had neither to sell nor to buy outside their own restricted domain. But economic forces, almost as free as the wind, blow even into the nooks and corners, gradually reducing a number of sheltered pockets, and steadily but: inexorably narrowing down the boundaries of the regions which are still immune from their operations.

In short, we all know, and have known it ever since the Suez Canal was opened, that the world has become one market, that the self-sufficient, village economy is a thing of the past and that whether we like it or not, we have to fit into the world economy. And yet, while no one would dream of questioning the validity of these assumptions which are accepted as axiomatic, neither self-sufficiency nor nationalist economic policies ever lack advocates, or fail to arouse enthusiastic response. No one seems to pay any heed to the

inherent contradictions involved in this duality and divided allegiance. On this point not only we, but even the Western world have abandoned Aristotle and stuck fast to the postulate Indian logic which does not accept the law of contradiction. We can remain in this world and yet be out of it—it presents no problem to the Indian mind not reared on Aristotle. That is how we have lived through the ages, having our being in the phenomenal world, running after the false gods of the market place with as much zest as other people, and yet never quite believing that the world of senses was real. We have gone on living another life in another world which can neither be perceived by the senses nor comprehended by thy. intellect. Both these worlds exist for us side by side, in perfect peace and harmony; there is no conflict at any stage. It is the same about the world being one and each group of people shifting for itself., trying to insulate that small bit of the globe which has fallen to its lot against, the winds and currents coming from beyond the borders, resisting the microbes that threaten to probe through such defences as it can put up.

The depression, as we said before, knocked some sense into us, and a lot more into the heads of those who had been riding on the crest of a wave of prosperity in the industrially advanced countries of the West. The latter realised, as they had never done before, that prosperity, like peace, was one and indivisible. No part of the world could expect to remain rich and go on adding to its

wealth so long as other parts of the world remained sunk in misery, poverty, and destitution. It was the problem of over-production, the difficulty of selling goods and finding buyers which acted as the eye-opener. For., even to the meanest intelligence it was obvious that until the poorest Llotentol lived like the Fifth Avenue millionaire, there could be no over-production in the sense of production beyond the capacity of some people or other to consume. Since then, much has been heard about the undeveloped areas, the so-called backward countries of South East Asia, which need capital, equipment, and technical knowledge to raise the standard of living of their people, so that, they too could buy refrigerators, radio sets, fertilizers and fineries which the industrially developed countries can produce by the million and must produce by the million in order to keep up employment, in their own countries, to maintain profits and to guarantee a progressively rising standard of living to their own people. This is the off-repeated refrain of the song which may presently gather sufficient momentum and move on to a crescendo.

Fear, unfortunately, still remains the most powerful of motives that stir the minds of men and move them to action. That the fear of the growing strength of Soviet Russia should drive the Anglo-American powers into swift action is not, therefore, surprising or unexpected. Considering the many checks and balances which safeguard the American constitution, the speed with which the

Marshall Aid was passed through the U. S. legislature was remarkable indeed. That President Truman's fourth point and his proposals for economic aid to backward countries have not made such rapid progress, should not, however mislead us into the belief that they will end up in smoke. The move is only waiting the pressure of circumstances to mature, and it may get going any moment, now that China has gone beyond any hope of redemption.

There are, however, internal strains and stresses also which may hold up progress, with Britain wanting to develop her colonies in her own way, and primarily to serve her own purposes, and the United States having other ideas about how things should be done.

By extending welcome to foreign capital India has also moved into the orbit of the world economy of the future. We did not wait for ideas now in the air to crystalline and take more concrete shape. And it is not only in extending an invitation to foreign capital that we have moved ahead. Long before this was even thought of, we had participated and given our consent and sanction to the programme of international economic development contained in embryo in the twin institutions of the International Monetary Fund and the International Trade Organization. These two, between them, outline a definite pattern of world economy into which India, along with the other backward countries, have to fit in. Though the obstacles in the way of the removal of trade barriers and the resumption of international movements of capital are still too formidable for these bodies to show an impressive record yet, there is no room

for doubt about the broad lines of policy which they intend to pursue, nor is there much room for deviation from the path chalked out for us, or for the other Asian countries which are similarly placed and have to face more or less the same problems. The backward countries will be admitted to paradise if they throw their doors open to the free inflow of foreign capital and foreign goods. The burden of the song in the Truman programme is the creation of those conditions which will attract both foreign capital and technicians by offering them reasonable security. Both can be had and will have to be obtained on their own terms.

In the sphere of foreign policy, we have taken our stand on complete neutrality and disentanglement from the quarrels and conflicting interests of the warring blocs. The facts of history and the facts of geography, if nothing else, have conspired to push India into a position in which she caw and is wanted to take the leadership, not only of South East Asia but also of the other undeveloped and backward countries of the world. India can fulfil this role if she takes an independent stand in the councils of the nations, a stand in which she is independent not only because it is different from and may run counter to, the line we are now asked to toe. It has to be a stand which would offer a reasonable chance for the solution of those basic problems which we, along with other backward countries, have to face. And besides, it will have to be sufficiently inspiring to bring a new hope and confidence into the hearts of those who have waited for their chance for centuries. To fulfil the demands of such leadership, India will have to rise to the occasion. Nor can our problems be solved in

isolation; The destiny of India lies in the South East—a well thought out line of action which we can place before the other Asian countries, which will command the ready and willing support of those who are in our camp, can yet wrest the powers and privileges hitherto exercised unjustly by others, can call a halt to exploitation, and fashion a new world in which we, along with others, will have a place under the sun.

In more concrete terms, no plan of world economic collaboration can possibly be acceptable to us or can be recommended to others in the same boat with us unless it promises to meet the requirements of the undeveloped countries on their own terms. The history of the last 150 years has been a monotonous and unvaried repetition of economic exploitation for the furtherance of which every conceivable means have been employed by the Western powers,—threats of force, veiled or open, naked violence, chicanery and fraud, legal casuistry, and extra-territorial rights; all the arms that could be stolen from the devil's workshop had been pressed into service. The backward countries need capital, admittedly, but the terms on which this capital is obtained must not be such as to allow history to repeat itself; they must be proof against possibility of abuse and not weighed unjustly in favour of the one and to the detriment of the other. The needs of the poorer countries must not be exploited for a fresh penetration of foreign enterprise under the guise of technical skill.

Replying to the criticisms of his budget speech, Dr. Matthai made some tentative suggestions regarding the form in which, foreign capital would be most welcome to us, What he was

thinking aloud then has since been worked up in greater detail in the last issue of the *Tata Quarterly*. Of the three forms in which foreign capital has been employed up till now viz.: (a) direct investment, *i.e.*, investment by foreign firms in their own branches in outside countries, (b) equity investments, and (c) fixed interest investments, the element of risk and venture involved is the greatest in the first category and the least in the last. The degree of effective control over the management and operation of the enterprises financed by it, which the foreign capital seeks, varies directly with the magnitude of the risk involved. The *Quarterly* falling into line with Dr. Matt's tentative explorations into the subject, favours the first, two as against the third.

The difficulties experienced by the agricultural and primary producing countries during the years of depression brought into lime light the inherent incompatibility of fixed interest borrowing with the fluctuating returns of agriculture and of primary producers. But opinion against fixed interest grew in strength during the inter-war period not only because of the transfer problem it creates in international lending. There was a general reversal of opinion against fixed interests because of the rigidity it imposes on the structure of costs. The late Lord Keynes took a lead in sponsoring this as in many other new doctrines popularized during his time and launched a frontal attack against the whole conception of bond rates and fixed interest borrowing, which had become an anachronism in a world subject to wild economic fluctuations.

In fact the distress of the debtors was so great and so universal during the years of depression

that it offended the newly awakened social conscience which was no longer prepared to uphold the sanctity of contract as inviolable. This overnight change of faith was forced by the practical need of finding out a *via-media* to adjust costs to changing prices. In the U.S.A., regarded as a stronghold of individualism, which had traditionally rested on the twin pillars of freedom of contract and its inviolability under all circumstances, holders of mortgages fared badly in the courts. The existing legal theory was thrown overboard and precedents were brushed aside. Not only the Government but also the courts were on the side of the debtors, and between them virtually connived at dissolving and preventing foreclosures and enforced compounding and scaling down of debts and in extended easier terms of repayment to the borrowers.

The inherent incompatibility between fixed interest and fluctuating returns on the capital invested still remains unresolved. On its successful solution in the field of international investment depends the furtherance of foreign borrowing on terms and conditions which will avoid the transfer problem which arose in the past and which will inevitably arise again, as long as the economic system remains exposed to ups and downs. This is a problem which faces not only India but all the undeveloped countries. If India sponsors a scheme which provides for the necessary flexibility in the terms of foreign borrowing, it could be placed before the International Trade Organization and agreement sought on it on the highest inter-governmental level.

The main features of such a scheme, which will meet our

needs for capital and yet not obstruct developments on the lines which we want to follow, can be worked out fairly precisely. To begin with, the bulk of the foreign loans will have to be on an inter-governmental level. This is the only way in which we can retain complete control over the direction of their investment. The administrative side of the arrangements should not present any great difficulties. Even if we may not care to have a Planning Commission, Investment Boards and Financial Corporations sponsored by the State are now tested institutions and the technique of employing funds through them is well understood. The programme of borrowing *i.e.* both the volume and the timing of the loans will have to be decided by negotiation aimed at securing the best possible compromise between our estimated needs and the availability of resources on the other side. Movements of foreign capital in the past never rigidly followed the market estimation of profits and losses. Whenever an undeveloped country has negotiated for loans, the lenders could hardly have been provided with the data necessary for assessing the risk or for estimating the profitability or the future returns of the undertakings, in which the capital was going to be sunk. Foreign lending was part of the general phenomenon on development. It moved in broad sweeps and cycles rather than in the narrow grooves along which capital is supposed to flow in text-books of economics. The large scale foreign investments which alone can bring ready succour to undeveloped countries must go by some other criterion. Largely it will have to go by faith and political judgment, and let us hope, now that there is a lightened awareness of the world being

(Continued on page 24)