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The Ideal Economic Model for Third World Countries: Open or Closed

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The Colonial Period

As colonialism was gradually disbanded in the Forties and Fifties many colonial countries were bequeathed with independence, provided with democratic constitutions for governance and allowed to rule themselves. The fundamental aims of the colonial regimes was to maintain law and order, the collection of taxes and to restructure the economies so that the colony would make a contribution to the mother country. The economic system imposed was to produce raw materials for export to the mother country and other Developed Countries and purchase manufactured items from the mother country. This system enabled the mother country and other Developed Countries to sell their manufactures, helped to keep their people employed and also enabled the creation of wealth in manufacturing goods. The colonies were exploited to the maximum with wealth flowing to the mother Superpower.

The Post Independence Period

When the countries became independent they commenced various types of programs to enable its people to become productive, to manufacture all that they need, thereby to provide employment for their people. Land was distributed and irrigation schemes were constructed. Extension departments were established to offer advice to the people to become productive contributors to the economy by producing what was required. They followed a policy of import substitution aimed at self sufficiency. They built up administrative systems to control the foreign exchange they earned from exports and used it in the interests of their countries. They were all moving fast towards being developed-finding employment for their people and enabling production.

To get into detail re Sri Lanka: A Department of Rural Development and Cottage Industries was commenced in the early Fifties and rural development societies were established in the rural areas. The people were collectively attending to the development of the rural areas and small grants were given to enable them to build their own roads, community centers etc.. Cooperatives were established and they attended to the sale of essential food. The aim was to compete with the traders who would otherwise jack up the prices. The cooperatives provided the necessities for handloomers to get involved in making textiles and also sold the products. Handloom Centres were established in rural areas where the womenfolk were provided training in handloom and other small industries. The cooperatives also provided micro finance.

In the Sixties rural industries were developed further by the establishment of cooperative powerlooms, which provided textiles of high quality to the people and simultaneously enabled employment to the people. Sri Lanka was self sufficient in textiles by 1970. To enable farmers to obtain quality seed, the Department of Agriculture established seed farms and sold certified seeds to the farmers.

To enable the farmers to obtain a reasonable price for their produce a Marketing Department was established. This Marketing Department established a network of purchasing centers in the rural areas to compete with traders and buy produce at a reasonable rate. It was also charged with ensuring that the people in cities could obtain essential goods at reasonable prices and therefore retail centers were established in the cities where essential commodities like flour, sugar were sold at reasonable rates. The vegetables and fruits collected in the rural areas were brought to Colombo and other cities overnight and sold at these retail depots the very next day. The aim was a price check on the private sector retailers. When goods were available at the Marketing Department Depots the private sector merchants could not charge more. When eggs were imported a floor price was offered for eggs and eggs were purchased from producers. In a few years Sri Lanka became self sufficient in eggs.

The Marketing Department also had a Canning Factory which experimented and was successful in producing jam, cordials etc.. A floor price was given for oranges and all oranges were purchased. The Canning Factory enabled the purchase of the total production of pineapples and red pumpkin which was manufactured into jam and even exported. The Marketing Department had a Bakery and this ensured that private bakeries had to sell quality bread.

For the development of paddy cultivation a Department of Agrarian Services was established. It was charged with the purchase of paddy from producer farmers, providing them with credit and all necessary supplies like fertilizer. It also provided farmers with crop insurance, i.e. insurance for crop failure. Further all paddy was purchased at a guaranteed price which was well above the market price. The paddy was milled at Government owned Rice Mills and at private sector rice mills. The Food Commissioner had stores where rice was stored; food security was ensured by stocking food-rice and flour. Minor irrigation schemes were built and maintained at first by the Government Agents of the Districts and later by the Department of Agrarian Services. Land was distributed to the people. Ancient reservoirs (tanks) that were neglected were rebuilt and people settled. The Irrigation Department and the Land Development Department was in charge of this sector.

Having served as an Assistant Commissioner of Marketing and Agrarian Services and later as Government Agent I can state that the work was very demanding. At Ratnapura as the Assistant Commissioner of Marketing my day started at four in the morning on at least three days a week- visiting producer fairs at Embilipitiya, Pallebedda, Godakawela, supervising the purchasing staff to ensure that they did the purchases correctly, studying the availability of produce and prices- details which I had to relay to the Tripoli Market in Colombo, the headquarters for vegetable and fruit purchases. I also had to visit all producer fairs and ensure that the traders offered reasonable prices. If I found that the prices offered were not reasonable I had the ability to arrange to purchase produce. This enabled us to control the prices offered by traders.

I also worked as Assistant Commissioner of the Triploi Market for a year when I had to study the prices offered by traders and the availability of vegetables and fruits in Colombo, fix the prices at which the Departmental purchasing centers will buy the next day and also accept the vegetables and fruits that had been dispatched to Colombo and sell them at the Depots in the city. Another Assistant Commissioner was in charge of the Canning Factory. All this was demanding, exacting but the cake was at the monthly conference of all Assistant Commissioners when the profit and loss of each center was looked into.

Our aim was to buy from producers at the highest possible price and sell at the lowest possible price to the consumers in the city and if we had incurred a loss of over 10% or a profit of over 10% we were pulled up for not pricing properly. The ideal was not to incur a loss or get a profit. Many a time I succeeded and at times I failed. The authors of this scheme were Commissioners Basset and B.L.W.Fernando. This was a unique system which has no parallel in any other country. A small loss was incurred but the benefit lies in the infrastructure that was provided for production and how imports were thereby obviated.

I can recall how as Deputy Director of Small Industries I was in charge of all private sector small industries. I registered the industries, provided them with allocations of foreign exchange to enable them to import the necessary goods to enable them to manufacture items that were required in the country. As the Government Agent I had a vast staff for development- of land, development of small industries and rural development. I was also held responsible for food security- had to have flour and rice in my stores and also check the prices of essential items under price control. Today many discount the work of the public sector. I can vouch for the fact that we officers did work hard and provided an efficient service. Public servants that erred were corrected while those that were corrupt were ruthlessly eliminated.

This effort brought results and Sri Lanka was fast developing. It was almost reaching self sufficiency in rice production by 1970. We almost reached full employment. This was the case with other countries too. They were fast developing- through the policies of import substitution aimed at self sufficiency. The Governments controlled the inflow of foreign exchange and used it very carefully, regulating it in the country’s interest. The Mixed & Regulated Economy they followed brought results.

Developed Countries resort to Neocolonialism

The Developed Countries were feeling the pinch. They could not sell their manufactures and could not obtain the raw materials to keep their factories going. They found that their people were unemployed. Let me quote the findings of “The Report of the Independent South Asian Commission on Poverty Alleviation(1992):” *The industrial countries for the first time since World War II are in need of markets for their products and services just as their economies are made vulnerable by the international debt crisis. So they have put into effect the Structural Adjustment Programme….*

The Developed Countries had to find a definite method of selling their manufactures, keeping their people employed and enabling incomes for their economies and the Structural Adjustment Programme was their method. The economies of the Third World had to be opened up and for this purpose they had to gain control over the countries. They enforced the Open Economy on the Third World.

This they did in a very devious manner by first making them indebted. The World Bank under Robert McNamara commenced issuing loans to the Third World Countries on a liberal basis. Before this loans were provided only for investment purposes- never for consumption purposes and a requirement of every loan was whether the income created by the loan will repay the loan. This requirement was dropped and funds were freely made available. Robert McNamara is no more and so are most of the politicians who drew the loans but the countries became indebted and the debts have come to stay.

Cheryl Payer states of what happened to Tanzania: *"The IMF advised Tanzanian leaders that their reserves were embarrassingly large and might lead the country's Aid donors to reduce their contribution.. They persuaded the Government to abolish the foreign exchange budgeting system and lift controls on imports. By the end of 1978 Tanzania had only reserves for ten days worth of imports. Then the IMF imposed its Structural Adjustment reforms"*(from "Lent and Lost")

Let me quote Professor Jeffery Sachs on Africa: *"Western Governments enforced draconian budget policies during the 1980s and 1990s. The IMF and the World Bank virtually ran the economic policies of the debt ridden continent recommending regimens of budgetary belt tightening known technically as structural adjustment programs… By the start of the Twenty First century Africa was poorer than in the late 1960s with disease, population growth and environmental degradation spiraling out of control"*.(from "The End of Poverty")

The result of the machinations of the Western Superpower through the IMF and the World Bank is best given in "The Human Development Report of 1996:" *"The stabilization measures of the IMF aimed at reducing budget deficits and usually involved cutting public spending, reducing wages and increasing interest rates.. Although these policies reduced deficits in some countries they often did so at the cost of inducing recession. In short, they often balanced budgets by unbalancing peoples' lives"*

Enforcing the Open Economy on Sri Lanka

The newly elected Government of J.R.Jayawardena in 1977 wholeheartedly accepted the advice of the IMF and implemented the provisions of Structural Adjustment as they thought that that was the method of developing Sri Lanka. Up to then the IMF and the World Bank had been very progressive and no one doubted their motives. The World Bank helped with loans for investment and consumption. The country was opened up for foreign investors; state ventures were sold- privatized. Foreign Exchange was deregulated and freely allowed irrespective of its availability. The shortfall was met with foreign loans at high interest readily made available and by the sale of paying assets.

In detail re Sri Lanka: The Marketing Department which offered a floor price for vegetables and fruits was closed down. The Bakery was closed down and the Cannery was privatized. Shortages of vegetables and fruit became common. The Cannery was not concerned with offering floor prices for local produce. The Paddy Marketing Board that offered a guaranteed price for rice was closed down. Producers stopped producing for the market as they could not sell at a reasonable price. The Rice Mills of the Government- once the show pieces of development were sold for scrap.

In the Nineties I once gazed in veneration at the ruins of the Rice Mill at Ambalantota, my home for a year, when that was one of three State of the Art Rice Mills in Sri Lanka. Then it was a guarded asset. The infrastructure that was in place for the sale of yarn to handloomers was stopped and 96,000 handloomers lost their incomes. The Powerlooms that turned out quality textiles were disbanded. Velona that provided infrastructural support to the powerlooms was closed down.

While subsidies that were offered to the producers was stopped and scaled down more money was spent on providing incentives for foreigners to come, invest (exploit) and take the profits away. The import and milling of wheat into flour was handed over to a private Singaporean company, Prima. Henceforth food security for flour was in their hands. Earlier as Deputy Food Controller, if I had failed to have ample stocks of flour, rice and sugar I and my Assistant Food

Controller would have been sacked. The newspapers have reported how Prima failed in having stocks of flour and also how they sold flour to the Maldives when there was a shortage in Sri Lanka.

Under Structural Adjustment many Government ventures were privatized and in many cases the foreigners and locals that purchased them sold the machinery for scrap and sold the land and made money. Tulhiriya Textile Mills, once the showpiece of Asia was sold to Kabool of Pakistan who made money and left leaving behind unpaid loans and unpaid wages to employees. The Tyre Factory which was established with great effort with Aid from Russia was privatized first to a local and has now ended in the hands of a multinational. Seed Paddy Research Stations were leased out to foreign multinationals. Multinationals have come to control many areas of the economy.

Instead of developing milk products ourselves and becoming self sufficient like India, we have scaled down our efforts and have handed over dairy development to Nestles and other Multinationals.

In the past ten years attempts have been made to sell the Eppawela phosphate deposits to an American multinational that has a record of causing environmental degradation in Indonesia. The plan was to excavate and take away the phosphate paying around thirty dollars per ton to Sri Lanka when the world price was over three hundred pounds. It was to exploit the full deposit in 30 years, when the phosphate could supply our requirements for over a century. This could only be stopped by an order from the Supreme Court. This illustrates how the assets of Sri Lanka were planned to be handled in a manner that brought wealth to the investors of Developed Countries.

The result of this Open Economy-Import and Sell cum Privatization of Assets cum Deregulation cum Free Trade Policy has left Sri Lanka in ruins. A country that was indebted only to the extent of $ 750 million in 1977 and that only on development projects (not on consumption) became indebted to the extent of $ ten billion. The sale of paying assets and the cost of servicing the debt ballooned to such an extent that our incomes could not meet our expenses. Sri Lanka last had a positive balance of payments in its foreign exchange budget only during the period 1970-1977- in 1976, $58 million and in 1977, $ 117 million. Now we are in deficit by around $ 1,000 million ($ 1 Billion) every year. The IMF answer is to privatize more assets and find the money or to obtain loans. This makes the country more indebted. The huge budget deficits have caused cuts in public spending on health services, on education; subsidies have had to be reduced or stopped. In health the hospitals are starved of funds while a booming private health system has emerged for the rich. In Education a two tier system of education has emerged- one for the rich-private education and education at foreign universities while the middle grades and the poor have to be educated in under funded schools and universities.

This is what the open economy did to Sri Lanka.

Currently the Developed Countries and the IMF are telling us that they will give $ 5 billion as loans to develop our country if we further economic reforms-privatize and that includes public utilities like the Electricity Board and the State banks- the two banks are running at a profit and are not allowing the foreign banks to rule the foreign exchange that comes in. Due to the fact that everything is imported there is high unemployment and the only method of finding employment is by creeping into the Developed Countries as asylum seekers. The Developed Countries fail to understand that they are economic migrants, caused by their own policies of Structural Adjustment which they do not follow but apply only on the Developing Countries.

The process of Structural Adjustment has reduced the value of the local rupee from Rs 15.50 in 1977 to around Rs 190.00 to the pound in 2005 marking a drop of around 1,000 %. As all goods are imported the prices of goods has increased while the incomes and wages of people are stagnant and this lack of purchasing power has caused poverty. Before 1977 a family could live with around Rs. 700.00 a month; in 2005 prices have spiraled and a family needs Rs. 20,000.00 or more in a country where the average income is around Rs 10,000.00. Inequalities in incomes have increased. The bottom 20% of the people by income have had their share of the total national income reduced from 7% in 1975 to 4% while the top 20% of the people by income have had their shares of total national income increased from 43% of total national income in 1975 to 55%. Poverty has been caused by implementing the Structural Adjustment policies of the IMF.

Other countries have fared worse:

Turkey: had its currency- the Lira trashed in value from 336 lira to the pound to 2,395,000 lira in the period 1983 to 2003 a drop of 712,000%. Poverty is endemic and people have no purchasing power with their earnings. There are vast motorways (like the ones proposed for Sri Lanka). Foreign companies built them and were paid with money borrowed on loans. They took the money and went leaving Turkey indebted. There are no cars on the roads. People cannot afford to travel. They suffer in silence.

Ghana: Once an acclaimed showpiece of the IMF has had its currency trashed from 5.7 Cedi to the pound in 1983 to 15,711 Cedi to the pound in 2003 marking a drop of 275,000 %.

All other countries like Nigeria, Indonesia, Chile that followed the IMF advice have all had their currencies trashed. The poverty that would be created in Sri Lanka if the IMF succeeds in taking us further on its path by enticing us with further loans is clear when one realizes that the value of the Rupee will dwindle to Rs. 1,352,800 to the pound if the value of the Rupee goes down to the extent of the Turkish Lira. I have traveled widely in Turkey. It is a great country with resources far more than Sri Lanka. But the economy of Turkey is ruined beyond repair by the IMF.

Sri Lanka’s 2001 Budget, which was hailed by the World Bank and the Asian Development Bank as the ideal model included provisions to reduce/abolish all subsidies, the reduction of tariffs on imports, the reduction of taxes levied on companies, offer of concessions and incentives to foreigners investing in Sri Lanka, privatization of all state assets, allow foreigners the freedom to buy assets in Sri Lanka without paying the 100% tax levied so far, etc. In short it was a total sale of Sri Lanka to the foreigners to enable them to exploit the country further. It was based on this that the $ 5 billion package of Aid was promised at the Oslo Conference of donors. According to my thinking, Sri Lanka owes a great debt to Ven. Atureliye Ratana for his speech at the 2005 Kandy Conference of Donors questioning the validity of giving Aid with strings resulting in the country getting more indebted.

Do Developed Countries follow the Open or Closed Economy?

It is also of interest to note that other than the countries that were compelled to follow the Structural Adjustment by the IMF, there are no countries that follow the Open Economy. The USA follows certain policies of the Open economy when it suits them. There is regulation of a high order which is not allowed in Open economy countries. Every petrol pump is checked annually to ensure that it pumps the correct amount of petrol. Regulations are strictly enforced to ensure that no consumers are hoodwinked by errant and profiteering private shops.

California deregulated and privatized its electricity supply companies only to find the companies profiteering unduly and re privatized the utilities that were privatized earlier. In order to save steel manufacturing President Bush clamped a 30% tariff on steel imports. USA pays heavy subsidies to its farmers.

In the EU agriculture is heavily subsidized to enable farmers to enjoy high incomes. Japan pays three times the world market price to its rice farmers to maintain food security and to enable its people to be employed. Japan strictly controls imports. France controls imports and all essential utilities are done by State run companies. In Singapore too all essential utilities are run by the State. In fact there are regulations to ensure that sales and movements of residences are limited to the same ethnic community to ensure that like in the case of Colombo, the city is not taken over by ethnic minorities. All these Developed Countries are not following the Open economy. They are closed or open only when it suits their own national interest. The only Developed Country that is near an Open economy is the UK where the privatization of gas, water and electricity has sent prices skyrocketing, where the privatization of the national rail network has ruined the railways. The company to which the rail track was privatized bled the company to death, paying lavish salaries and high dividends, without using technologically advanced safety devices (used in Europe) resulting in rail crashes that took its toll in terms of flesh and blood. The UK reprivatized the rail track but the damage done is difficult to correct. The story of privatization in California and the UK proves that the road of privatization leads to disaster but this is the ruinous path that is imposed on the Third World countries by the IMF. The UK’s open policies have meant that manufactures have had to close down. UK was easily, the premier car manufacturing company in the Fifties. Today it does not manufacture a single car. It is said that China and India have embraced the Open Economy. Far from it they like the Developed Countries have opened their economies when it suits their interests. Thus the Open economy has never brought any development to any country.

What has to be done?

Firstly all our leaders have to realize that the IMF’s Structural Adjustment Policy- with its policies of Open Economy, Liberalization, Privatization of Assets, High Interest Rates, Opening the doors to foreign investment etc have not succeeded anywhere. It is only countries like India that have succeeded because they avoided the IMF’s Structural Adjustment. India has succeeded in maintaining the value of its Rupee at Rs. 77 to the pound by 2003 from Rs. 15 to the pound in 1983, marking a drop of only 400%. Comparatively Sri Lanka that commenced following the IMF in 1977 has had its Rupee trashed in value from Rs. 15.5 in 1977 to Rs 190 to the pound by 2003 - a drop of 1046%.

Our leaders stand mesmerized by the influx of money in loans that will enable them to continue on the supposed development path. This will only lead to further indebtedness.

Our leaders have to understand that the IMF policy of deregulating the use of foreign exchange- allowing anyone to do anything with our foreign exchange using it freely and to find funds for this lavish spending spree by privatization and loans is nonsense and will only result in further indebtedness.

Following the open economy dictates we have allowed foreigners to come in on tax holidays and make money. They do not pay any tax to Sri Lanka but they have to pay taxes when the profits are taken to their own countries. The open economy has meant that the Western Superpowers use our resources to create wealth for their companies and their people. We have to follow self reliant policies to produce what we need and keep our people employed and retain the wealth within our country. We must not forget that it was only Malaysia that could emerge from the East Asian Financial Crisis of 1997 and that this was done by doing the opposite of the measures advocated by the IMF. The economies of all the other countries like Thailand were given massive doses of Aid-in billions and kept on track with a temporary reprieve leading to their becoming more indebted later. The IMF used the opportunity to open up their economies more and more for further exploitation by foreign multinationals.

The public service needs a rude awakening to get back to work. This is not impossible. It is easier a task than begging for Aid. It is only an efficient public sector that can bring about the economic development of the country. The Public Sector and the Private Sector have to work together and incentives have to be offered by the Public Sector to enable the Private Sector to get moving.

Our leaders tend to think that a regulated economy would mean to go back to the problems faced in 1970 to 1977. During that period the development that was brought about in production was marred by the nationalization of private estates over 50 acres in extent and the rental laws- which put off the private sector. The Divisional Development Councils Programme was a success and created employment for 33,000 persons and many new industries were created. These industries should have been developed upon. The government of 1970-1977 had to face massive increases(almost doubled) in the prices of essential foods- flour, sugar and rice and also find funds to meet the price of oil that doubled in the early Seventies. Yet the fact remains that that Government managed to limit the indebtedness of the country to $ 750 million. It also managed to keep the value of the Rupee intact at Rs 15.5 to the pound. The value of the Rupee got trashed only after the IMF's Open Economy policies were followed.

Communist Russia and China were Command Economies. Ours in 1970 to 1977 was not a command economy. It was a mixed, regulated economy like what was followed by earlier governments from 1948 to 1970. The only difference was the policies of rental laws and take over of estates over 50 acres in extent.

Let us remember that the IMF belongs to all countries and that the remedy lies in making the IMF realizing their mistakes. Professor Joseph Stiglitz the chief economist of the World Bank was forced to leave his job after he told the IMF that their Structural Adjustment policies in Indonesia would only be dousing the fires with gasoline. He was right. The country erupted in flames. The IMF has at some stage to realize its mistakes and change.

The only path to development for the debt stricken countries of the Third World is to totally reject the IMF's Open Economy and instead follow a regulated economy like what the USA, France, the UK, Switzerland does. They all have regulations that look after the interests of their countries and their consumers. They all carefully look after the infrastructure for development and offer subsidies to their producers. The IMF got us to dismantle the infrastructure that we had carefully developed because that was the one method of ruining our industries and enabling the Developed Countries to sell their manufactures. If we are to go ahead we have to build up the lost infrastructure to enable our people to become productive, get away from the Open Economy, control our foreign exchange. And this is exactly what Mahatir Muhhamed did to get Malaysia out of the 1997 financial crisis. Sri Lanka earns sufficient foreign exchange to enable it to get cracking on a path to achieve self sufficiency. Luxury spending has to be stopped till the country can afford it.

The Private Sector needs to be given a firm assurance that their ventures will not be nationalized. India has decided that foreign multinationals cannot open retail trading. For every hamburger or pizza sold at a KFC, a McDonald or a Pizza Hut, profits flow to the USA. This wealth has to be retained in the country.

If Sri Lanka gets down to provide all the necessities of its people there will be employment for all and prosperity. I can recall how the private rice millers rallied to get paddy milled in the Fifties. The Government called for investors (not foreigners) to open up rice mills. Advice was offered as to what mills had to be imported and how the mills should be constructed. The Government promised quotas of rice for milling for which the millers would be paid. I was one of the officers in the thick of this- inspecting and advising. Rice Mills sprang up overnight and we could mill our paddy. That was before 1977. After 1977 when we needed flour milling we contracted with a Singaporean company- Prima and gave it a monopoly. Its profits end up in Singapore. There is little difference between rice milling and milling wheat into flour. Our rice millers have shown that our private sector can stand up and attend to any task.

If we continue on the path of accepting further foreign loans and accept the $ 5 billion offered by the Donors we will become further indebted. The Donors want us to step up economic reforms which will only enable foreigners to exploit us more. Then we are going on the path that Somalia took. Once Somalia was a country that had agriculture, dairy farming and industry. The decrepit leaders at first got loans from Russia and then enticed by the USA's loans they changed sides. This increased the debt but because money flowed in easily they gave up agriculture and industry and imported all requirements. When Russia was lost, the USA loans and Aid dried up. The Somalians were then helpless- the country disintegrated into bits. The rich migrated to the Developed Countries as asylum seekers while the poor keep fighting- half dead in malnutrition and poverty. Let Sri Lanka be spared this ordeal.

Post your comments

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