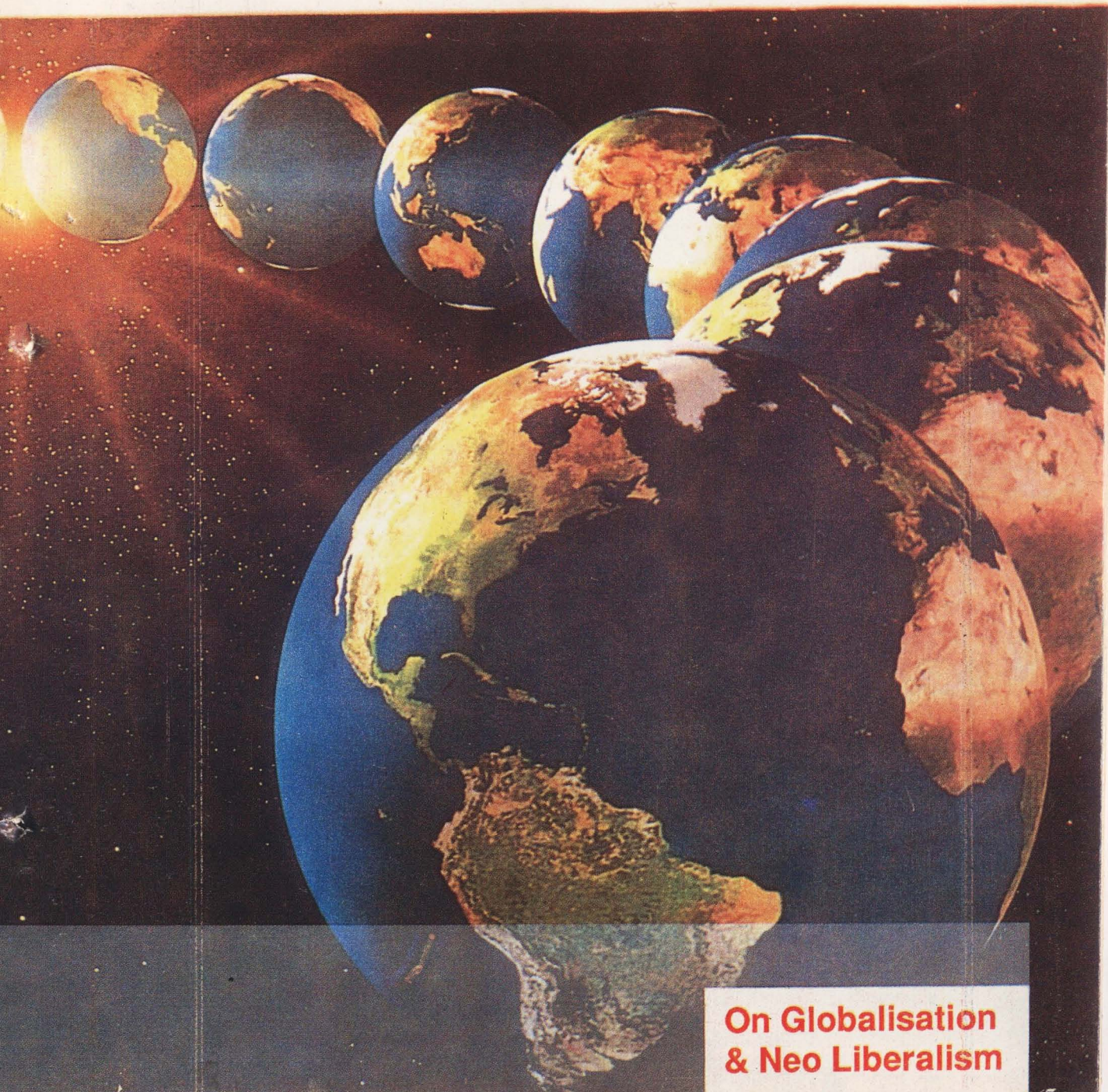


Supplement to June, 1998 Issue



THE WORKING CLASS

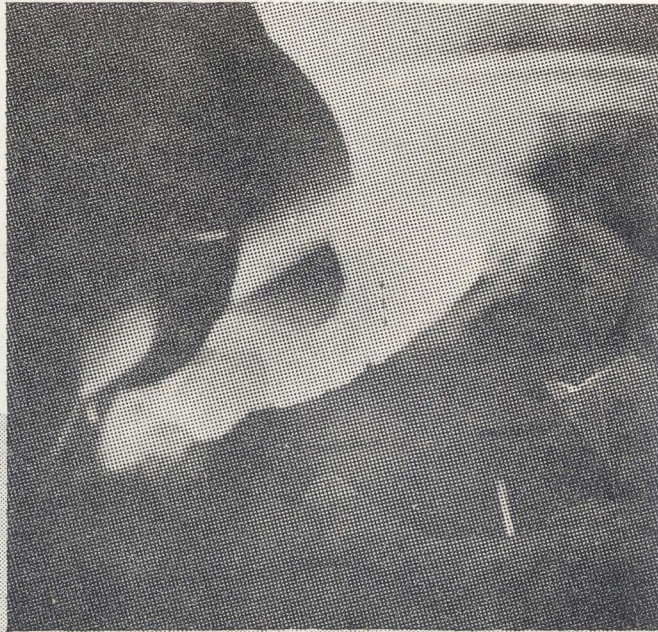
MONTHLY JOURNAL OF THE CITU



**On Globalisation
& Neo Liberalism**



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GLOBALISATION AND NEO-LIBERALISM

'The Working Class' presents this Special Issue on Globalisation and Neo-liberalism to all those interested in building cooperation and solidarity against the global offensive of the international finance capital, which is driving the Governments of all the countries of the world, towards globalisation and neo-liberalism.

Under globalisation, it is claimed:

- * Production and consumption of goods and services are organised on a global scale;
- * Individuals, Governments, Companies, Trade Organisations, Political, Social and Cultural groups etc. of the world are increasing their links and interdependence economically, socially and politically;
- * National states are getting together in enlightened self-interest forming regional economic blocks;
- * Governments, Trade and Industry circles, Unions and Organisations in every part of the world are increasingly getting impacted by global forces;
- * A global culture is getting entrenched all over the world;
- * In short the whole world is reduced to a global village.

But, in substance and reality, the global economy is dominated by a few rich, industrialised advanced capitalist countries. Arrayed before them are the poor countries of the world, described as developing countries or the 'third world'.

This domination is ensured by finance-capital and investment. The trio of World Bank, International Monetary Fund and World Trade Organisation play the most important role and wield unlimited power-power of money.

These international institutional arrangements for finance and trade, operating through the mechanism of 'aid', loans and trade agreements, occupy the driving seat in the global financial markets. They ensure that the neo-liberal economic strategies, which serve the interests of the few advanced capitalist countries, are ingrained in the economic programmes of the Governments of the day, throughout the world.

Though it is claimed that globalisation and neo-liberalism would bring down on the earth prosperity, for all, in reality, its fall outs have been disastrous

for the workers and their families all over the world. It brings prosperity only to the fewer rich both in the advanced capitalist countries and in the developing ones, but deepens poverty among the common people. It has led to worldwide increase in poverty and inequality, amongst nations, the richer countries are no exception, and within nations with a few getting richer and richer and vast majority of people becoming poorer and poorer. It is an attack against labour and trade unions and also against the humanity.

But, we need to sit up and ponder.

Globalisation is not an inevitable process against which working people have no power, although its patrons claim that to be.

No denying that globalisation has raised new and difficult issues for the workers and the trade union movement. Its ideologues and the hired penpushers of the international finance capital and their agencies are projecting its irreversibility on the one hand, and glorifying its consequences with a false promise of a bright future for all, on the other. The media worldwide is carrying the campaign to confuse masses and to spread illusion.

But we can take on it and we must take on.

The way out is, more enlightened, united and broadbased, strong working class action against globalisation and neo-liberalism.

This special issue, in a series of articles contributed by eminent persons in their own fields, dealing with the multi dimensional aspects of Globalisation. We trust that this will help the trade union movement to devise an overall strategy to fight the menace of globalisation and neo-liberalism.

We thank all those, who responded with their valuable contributions.

Editorial Board

The Working Class

(This special issue is a supplement to June, 1998 issue of 'The Working Class'. In view of the special issue, May, 1998 issue has not been published - Editor)



उत्कृष्टता की ओर अग्रसर...



भारत हेवी इलेक्ट्रिकल्स लिमिटेड भोपाल इकाई
की ओर से अपने सभी कर्मचारियों, अधिकारियों, शुभचिंतकों
को आजादी के 50वें वर्ष में
गणतंत्र दिवस पर हार्दिक शुभकामनाएं...



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1050 करोड़ रु. के लक्ष्य (97-98) की प्राप्ति की ओर बढ़ते कदम...



WORLD CAPITALISM TO-DAY UNDER GLOBALISATION

M K Pandhe

Various international Conferences on developmental issues talk several noble things but no progress is visible. Rio de Janeiro, Cairo, Copenhagen and Beijing meets talked lot of wishful thinking about the poor people in the world but the advanced capitalist countries refused to implement any of these commitments.

The World Summit for Social Development in Copenhagen in 1995, with 117 heads of state present and 185 countries represented, made commitment to eradicate poverty "We commit ourselves to the goal of eradicating poverty in the world through decisive national action and international co-operation as an ethical, social, political and economic imperative of mankind". The summit also accepted to set national goals, to prepare strategies geared to reducing overall poverty substantially in the shortest possible time, to reduce inequalities and to eradicate absolute poverty by a target date to be specified in each country in its national context.

However, during the last three years the international experience shows that the poverty has grown and inequalities have increased substantially. The number of billionaires in the world has increased from 358 to 447 with the value of their combined assets now exceeding the combined income of the poorest 50% of the world's population, up from 45% the year before. It is also reported that 160 million children are malnourished, 840 million people live without secure sources of food and 1.2 billion lack access to safe drinking water, in the world.

By 1991, the share of richest 20% in the global economy was controlling 85% of the world income while the poorest 20% stood at only 1.4%. In 1994, however, the share of the richest 20% had soared to 86% while poorest 20% had further declined to 1.1%. Thus the ratio of the richest and the poorest was 30 to 1.35 years ago, while in 1991 it increased alarm-

ingly to 78 to 1 in 1994. The ratio continues to go up in the later years making the condition of the poor worse and worse.

The cost of eradicating poverty in the world would be much less than \$ 797 billion spent in the world on armament expenditure. The total amount spent on military by the world powers works out to \$ 1.5 million. Capitalist society, however, will prefer to spend on armament than for eradication of poverty. Survival and progress of armament industry is much more important to capitalism to-day than eradication of poverty.

"Globalisation has its winners and its losers" says the Human Development Report of the UNDP for 1997. Who are the winners? of course the advanced capitalist countries who reap maximum advantage of the GATT agreement. The income of these financial sharks is likely to go up by an estimated \$ 212 to \$ 510 billion between 1995 and 2001. The same estimate points out that the least developing countries stand to lose upto \$600 million a year and sub-Saharan Africa by \$ 1.2 billion.

The share of the advanced capitalist countries in the world trade is increasing very fast while the share of poor countries is declining. The least developed countries with 10% of the world population have only 0.3% of the World trade. Twenty years ago the same share was about 0.6%. While for the world as a whole the ratio of trade to GDP has been rising for the last decade, for 44 developing countries with a population of more than a trillion people, it has been falling in the same period.

The Human Development Report for 1997 has pointed out how the developing countries



lose heavily on account of adverse terms of trade with the developed countries. It says:

“Even when globalisation reaches poor countries, it often arrives on very unfavourable terms. Since the early 1970s the least developed countries have suffered a cumulative decline of 50% in their terms of trade. For developing countries as a group, the commutative terms-of-trade losses amounted to \$290 billion between 1980 to 1991. Much of this catastrophic fall was due to the decline in real commodity prices - in 1990 they were 45% lower than in 1980 and 10% lower than the lowest prices during the Great Depression in 1932. But decline in prices were not confined to commodities. Developing countries terms of trade for manufactured goods also fell - by 35% during 1970-91”(Page 84).

As a result of capitalist exploitation, the social deprivation of the people in the developing countries is increasing at a rapid speed. The UN study revealed that around 17 million people die each year from curable infections and parasitic diseases such as diarrhoea and tuberculosis. Of the world’s 18 million HIV-infected people, more than 90% live in developing countries 130 million children at the primary level and 275 million at the secondary level are still out of school. About 500 million people in developing countries are chronically malnourished. At 384 per one lakh live births, maternal mortality is nearly 12 times as high as in OECD countries. More than one third of the children in the developing countries are malnourished. Mortality at 97 per thousand live births is still nearly 6 times as high as in industrial countries. About 200 million people are severely affected by deforestation. Every year some 20 million hectares of tropical forests are grossly degraded or completely cleared. At the end of 1994, there were more than 11 million refugees in the developing world.

This official data speaks volumes of the shocking conditions imposed by the advanced capitalist countries on the vast majority of the population of the developing countries. This gives a lie to the argument that foreign in-



vestment leads to the generation of jobs and improvement in the living standards of the people in the third world countries. On the contrary the foreign investments and loans have squereed the economy of the developing countries to augment profitability of the multi-national corporations.

The enormous power the transnational corporation have acquired as a result of globalisation can be seen from the fact that the combined sales of the 350 largest transnational corporations totaling nearly one third of combined GNPs of leading capitalist countries and exceeding aggregate GNPs of all developing countries including China.

GROWING INDEBTEDNESS OF THE DEVELOPING WORLD

As a result of growing dependence of the developing countries on the advanced capitalist countries, the indebtedness of the third world countries is increasing fast. The total external debt of the developing countries which was \$777 billion in 1980 went up to \$ 2200. 9 billion in 1994. Thus, it has become nearly 3 times during the period of 14 years. Some of the major countries with extreme levels of indebtedness are as below.

	1980	1994	Debt service as % of exports (\$ million)in 1994
Brazil	72,920	151,104	35.8
Mexico	57,378	128,302	35.4
India	20,582	98,990	26.9
Indonesia	20,944	96,550	32.4
Russian Fed.	4,477	94,232	6.3
Poland	8,297	60,991	14.3

As a result of globalisation, the indebtedness is mounting every year while a large part of the national exports are to be pledged for repayment of the old debts. The country thus goes into the debt trap from where it is difficult to extricate itself. The countries whose repayment liabilities are very high are as follows: Burundi (41.7%), Kenya (33.6 %). Nicaragua (38.0%0, Congo (51.5%), Algeria (56%), Hungary (53%), Argentina (35.1%).

On the whole, the external debt of the developing countries was 13.2% of the exports in 1980 but it went upto 16.6% in 1994.

Though the data for later period is not available, the repayment liabilities of the developing countries have gone up substantially after 1994. The countries will be forced to export more and more by reducing domestic consumption in order to repay the past burden. Moreover, the adverse terms of trade is making the developing world to export at cheaper prices. These countries thus enter in a vicious circle from where it is difficult to come out. The talk of eliminating poverty thus becomes a mirage for the developing countries and the living conditions continue to deteriorate while the profit of the MNC continue to mount higher.

The Human Development Report 1997 has, therefore, noted: "The highly indebted poor countries need debt relief now - not at some indeterminate point in the future. Providing effective relief to 20 worst affected countries would cost between \$ 5.5 billion to \$ 7.7 billion - less than the cost of one stealth bomber and roughly equivalent to the cost of building the Euro-Disney theme park in France. The meagre financial costs contrast with the appalling human costs of inaction" (Page 93)

The lack of unity among the developing countries is reducing their assertiveness. This helps the advanced capitalist countries to take their pound of flesh from the developing countries. The question of moratorium on debt payment has been raised in an isolated manner from time to time. If, however, developing countries come together, reduce their competition to sell at cheaper price to advance capitalist countries and take a firm stand against depredations of WTO, it is possible to achieve moratorium on debt payment without which the economies of developing countries cannot advance in any meaningful manner.

The people in the advanced capitalist countries have also become victims of capitalist countries have also become victims of capitalist exploitation and their deprivation is also on the increased. According to UN study nearly 2 million people are infected with HIV. More than a third of adults have less than an upper secondary education. The total unemployment rate in the advanced capitalist countries is now more than 8 per cent and is likely to continue or increase in the forthcoming period. The rate among the youth is nearly 15% while the number of jobless person

has exceeded 30 million in these advanced capitals countries women continue to suffer from the paugs of inequality and the wage rate for women is still only two thirds that for men.

More than 100 million people in these advanced capitalist countries live below the official poverty line and more than 5 million are homeless. The crimes are increasing day by day and nearly 130,000 rapes are reported annually in the age group 15-59 years. Each year damage to forests due to air pollution leads to economics losses of about \$ 35 billion.

INABILITY TO USE NEW TECHNOLOGY

As the feudal society was incapable of developing productive forces after the advent of machine production, the present day capitalism is unable to develop productive forces to their full capacity. despite advent of introduction of automation and computerisation in production process. The technological advance has been so powerful and widespread that its use in production process can revolutionised the productive forces and the consumers goods can be produced manifold to satisfy the human needs. However, this development cannot take place under capitalist mode of production. When the technological advance has been so fast the capitalist system is suffering from acute stagnation and GDP of most of the advanced capitalist countries is almost stationary. The growth of GDP per annum for the last 25 years in major capitalist countries clearly indicate this aspect as follows:

USA 1.5%, Canada 0.7%, Germany 2.5%, UK 1.8 %, Italy 1.3%, France 1.4% Switzerland 0.7%, Australia 1.3% Japan 2.7%, Russian Federation -1.8%.

The above data clearly points out the failure of the capitalist system to develop productive forces by utilising to the fullest extent the modern technology. The capitalism can produce but not sell due to its own contradiction. The growing poverty and unemployment is a direct product of capitalism, which results in shrinking of market for the products produced by capitalist enterprises.

Therefore the multinational companies give more emphasis on maximisation of profit



and not on production. If higher production leads to fall in prices of commodities capitalism sees that production is curtailed. The call given by oil producing countries recent meeting to reduce the production of oil to maintain the high price level is indicative of this trend. The growth of speculative activities has resulted in diversion of funds from industrial production to speculative activities has been a prominent phenomenon of present day capitalism. This has prevailed upon some economists have also called the behaviour of multinational companies and IMF as vulture capitalism.

The individual ownership of means of production is coming in open conflict with more socialisation of production process. The entire purpose of production becomes profit for the individuals and not social good. Even the World Labour Report 1997-98 published by the ILO has to say the following:

“Even in most industrialised countries, jobs and worker protection are becoming increasingly insecure. The diversity of situations and interests seriously undermines internal cohesion of national societies, causing or risking the marginalisation of sections of the population. Many key figures are expressing indignation, stating that man is not a machine or a commodity - and emphasising that the laws of the market, left to operate unhindered, may well give rise to a society which favours the strong and marginalises the weak.”

The depredations of market economy under globalised capitalism has given rise to unprecedented social inequalities at a global level which has practically frozen social development.

RUIN OF THE SMALL SCALE AND TRADITIONAL INDUSTRIES

In their reckless search for market the globalised monopoly capital is hitting hard at the small scale and traditional sectors of developing countries. There are not leaving a single product whichever they can

capture in the domestic market. In India they are entering even the manufacturing of pickles or selling of spices to earn profit and throw out of market the indigenous in-

dustries.

In developing countries small scale industries provide jobs to a large segment of population. The closure of these units is naturally creating a serious crisis in the domestic industries with the spectre of unemployment looming large before them. The agricultural sector also is not free from their clutches. As a result of this, there is practically a planned deindustrialisation of national economies is taking place in the developing countries which in the long run will spell disaster in the economies of developing countries.

THE DISMANTLING OF PUBLIC SECTOR

The World Bank and the IMF have made public sector and financial sector as a major target of their attack. The role this sector plays in building a self reliant economy is the main cause of this desperate attack by the IMF. With public sector out of the their way the multinational companies will be having their sway over the national economies. In India the national economy is receiving a severe set back due to drive towards privatisation. The disinvestment of public sector at throw away prices ultimately enables the multi-national companies to control the core sector of economy. The profit hungry private sector is out to grab the precious national industrial base on a platter.

Capitalism under globalisation has certainly intensified the exploitation of the working class and the poor people all over the world. The structural adjustment is objectively in favour of monopoly capital. As noted by the Human Development Report 1997, “The principles of free global markets are nevertheless applied selectively. If this were not so the global market for unskilled labour would be as free as the market for industrial country exports or capital. Global negotiations are moving rapidly towards a free world market in foreign investment and services. But intervention in agriculture and textiles an obstacle to developing countries, remains high. Lacking power, poor countries and poor people too often find their interests neglected and undermined.” This admission by a publication of United Nations Development Programme (UNDP) underline the fallacy of the claim that capitalism provides answer to all the worlds problems. The Report further notes, “with expansion of trade and foreign invest-



ment, developing countries have seen the gaps among themselves widen. *Meanwhile in many industrialized countries unemployment has soared to levels not seen since the 1930's, and income inequality to levels not accorded since the last century.*" (Page 82) (Emphasis added)

This ghastly situation created by globalisation is throwing the entire world into a new unprecedented crisis. The exponents of free private enterprise cannot hide this hard reality from the world to-day.

GLOBALISATION IN CULTURE

The imperialist offensive in Cultural field is necessary for the globalised capital. The rapid changes in information technology and growth of electronic media has considerably helped the monopoly capital to spread decadent ideology among the mass of people. With 1.2 billion TV sets all over the world the Monopoly capitalists are in a position to divert the attention of the people to escapist ideas and sway them away from the struggle against monopoly capital. Sex, crime and anti-struggle ideas are sought to be propagated through the electronic media. U.S. exports more than 120,000 hours of television programming a year to Europe alone and the global trade in these programming is growing by more than 15% a year.

The UNDP has noted in World Development Report 1997-98:

Even crimes -whether relating to drugs, abuse of women, embezzlement or corruption - transcend frontiers and have become similar everywhere" (Page 83)

CHALLENGE BEFORE THE WORLD T.U. MOVEMENT

The Globalisation of economy thus poses a powerful challenge to the Trade Union movement all over the world. The trade union movement is sought to be marginalised in all the continents. In Europe and USA the monopoly capital has now decided not to recognise the trade unions are directly deal with the unions. Undertakings without unions have already emerged in some of the advanced capitalist countries.

The present sorrowful division in the international trade union movement is a big factor that is being used by the globalised monopoly capital to advance their selfish interests. Some of the ICFTU unions in

the world have openly come out in support of globalisation.

The march towards globalisation can be halted if the trade union movement rises to the occasion and fight an international struggle against the depredation by the globalised capital. It is possible to work out alternative methods of international economic co-operation keeping in mind the interests of the people all over the world.

However, the offensive of globalisation is so powerful which has got new teeth after dismantling of socialism in USSR and Eastern European countries, that world capitalism has been able to impose additional burdens on the working classes and the toiling masses. This has resulted in situation changing in favour of the monopoly capital round the world.

The resistance of the working class and the people has not been commensurating with the serious nature of the offensive - the lack of sufficient class consciousness among the working class has resulted in creating illusions among the sizable section of the working class.

The working class in different parts of the world through their experience have come in the arena of struggle to resist the offensive of globalisation. These local struggles should be properly co-ordinated. The unity of the world working class will definitely have sufficient strength to defeat the offensive of the globalised capital. The last year's International T.U. Conference against globalisation held in Havana was no doubt a beginning of the international working class coming together in the common struggle against globalisation and neo-liberalism.

Indian working class can play an important role in the worldwide developments against globalised capital. Let us strengthen our struggle against the policies of globalisation in India and make our honest contribution to the worldwide struggles. It is this path alone that will save the world against the threat posed by the offensive of globalisation.

If the working class of the world unites against globalisation it will definitely lead to the final doom of the globalisation itself!



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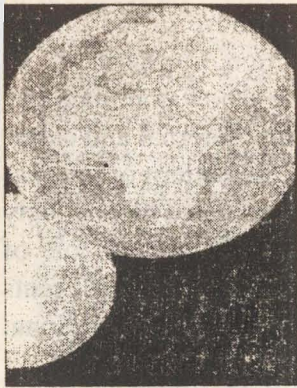


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Globalisation and national economic policy: Myths and responses

Jayati Ghosh

The very term "globalisation" has achieved the status of a dogma in current discourse. It is now axiomatic that the world economy is more integrated than ever before, that this has meant a substantial erosion of the policy autonomy of national governments, and that the changes in technology and in organisational methods of production and distribution have rendered this integration irreversible. It is often further assumed (by those who believe that this process is a benevolent and progressive one) that this globalisation implies that there will be a universal tendency towards material betterment in conditions of living, a general convergence of incomes and living standards, and to achieve this more rapidly and effectively, developing country governments in particular should seek to liberalise their domestic economies in order to integrate more completely with world capitalism.

This perception of globalisation is a flawed one, and that the process is at once less radical and more complex than is generally assumed. This in turn means that the implications for national economic policy-making are different, and require a completely different approach to the process of engagement with international economic forces. These arguments are developed below.

In the first section, I try to situate the current ongoing process of economic globalisation in its historical context, in an attempt to show that this is not a "new" phenomenon, is in many respects a repetition of certain patterns of the late 19th century. However, certain important aspects of the current process do mark significant departures from the past, and these are noted.

In the second section, I consider specifically the nature of international capital flows, and their effects.

The third section deals with some of the observed effects of the most recent phase of globalisation, in relation to the claims that are generally made for it. The final section is concerned with reactions, in terms of the pressures for accelerated international economic integration that emanate from developing country elites, as well as the particularist responses that this has generated. It is suggested that there may be alternative ("nationalist") strategies of engagement with the international economy, that may allow for more democratic and sustainable patterns of development for most of the citizens of the developing world.

I HISTORICAL CONTEXT

There are at least three crucial senses in which the world economy today is actually less integrated than it was a century earlier. This suggests that much of the emphasis on the novelty and revolutionary nature of the current globalisation process is exaggerated, despite some obvious ways in which the international economy has changed in the past few decades. Yet, as argued below, there are changes which are significant, but they have meant a slightly different pattern of globalisation than what is generally presumed.

EXTERNAL TRADE

Consider first the growing importance of external trade. This is frequently cited as one of the more significant manifestations of globalisation, and it is certainly true that for many economies the share of external trade in GNP is greater today than, say, half a century ago. Yet, when the



yardstick of comparison is the relative importance of foreign trade during the late 19th century, the current period appears as much less remarkable. Thus, the share of external trade in the GNP of the United Kingdom in 1870 was nearly 30% that is one and a half times the ratio prevailing more than a century later; while for the US the ratio was roughly the same as today, at around 7%. The ratios of trade to national income were much higher for the African and Asian colonies, where trade shares typically ranged from one-fourth to one-third of national income, whereas for most countries in these regions today (barring the high-exporting East and Southeast Asian countries) they are around half their earlier level. This is equally true for the Latin American countries.

The feeling that international trade has grown substantially comes about because of the massive decline in such trade after the collapse of the Gold Standard and the restrictions of the inter-War years, after which they have recovered slowly in the post-war period. It is true that for the past decade, world trade growth has been faster than world output growth, but this was also true of the late 19th century. Indeed, it is noteworthy that particular relationship has been reversed in the past two years : since January 1994, when the World Trade Organisation was officially set up, world trade has decelerated to half of its previous rate, and this slowing down has occurred despite the slight recovery in world output. Moreover, international trade which is supposed to equate prices across countries through international goods arbitrage, leads today to a degree of correspondence in price movements which is actually significantly lower than it did a century ago. Some of this is in fact a result of the greater volatility of exchange rate movements, which makes companies and traders less willing to react to short-run changes in nominal exchange rates unless they are assured that these are parts of secular trends. This also reflects a

change in the internal structure of most capitalist economies which makes them less responsive to international price linkages and more prone to pricing to particular

segmented markets, largely because of the importance of oligopolies in production. Furthermore, an increasing share of world trade is now dominated by multinational companies in their internal and external transactions. This shift in the pattern of international trade apart from being dominated by relatively homogenous products towards the greater role of product differentiation means that oligopolistic rents absorb much more of the "gains" from international trade than ever before.

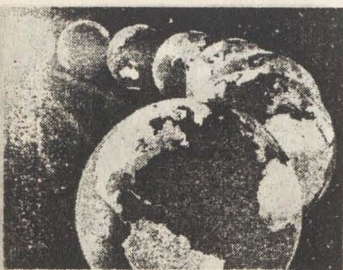
PEOPLE, THE IGNORED LOT

The second sense in which the world economy is less integrated today relates to the variable that is all too often ignored in economic discussion - people. The 19th century was marked by great waves of labour migration which transformed not only the economies of different societies but also, and utterly, their societies. The earliest began well before the 19th century but was still significant until then, that is, the transportation of slaves from Africa to the Western hemisphere to work in plantations and elsewhere. Then came the movement of white Europeans to the euphemistically named "areas of white settlement" (a terminology which effectively ignores all the claims to existence of the indigenous populations) such as North and South America and Australasia. Finally, there was the movement of indentured labour and other migrants from the Indian sub-continent to the West Indies, Fiji and other islands, and to Africa.

Contrast this to the so-called "global village" of today, with its elaborate controls on the movement of labour. One of the significant features of the international economy today is precisely the restricted extent of labour movement, even as capital flows of all descriptions are being deregulated and provided much greater freedom of operation. It must be borne in mind that in the recently concluded GATT negotiations and in the newly-constituted WTO, the "movement of natural persons" remains the single area which is still subject to the greatest degree of national control, and where the freedoms given to people to migrate are pitiful in the extreme. This has substantially affected the bargaining power of workers in relation to domestic and international capital.

CAPITAL FLIGHTS

The third indicator of globalisation is the one that is



the most frequently cited and possibly the least understood - international capital movements. Much is made of that fact that these flows have increased substantially over the past fifty years and now dominate the world balance of payments in terms of accounting for over 95 per cent of the value of all international transactions today. This, therefore, appears to be the most definitive indicator of increasing global integration. Yet a reading of history calls into doubt some of the current perceptions regarding the novelty of this pattern. In fact, the more substantive (that is, long-term) international capital flows of the recent past are relatively minor when compared to the enormous and prolonged flows that marked the late 19th century, especially when these are considered in relation to the national incomes of the time.

Thus, today there is much talk of how major external imbalances between the important industrial countries are maintained by flows of international capital. Yet the most prominent deficit, that on the US external current account which is said to have sucked in so much of the rest of the world's savings, at its height in the period 1985-89 amounted to just 3% of US GNP. The major capital exporter of the recent past - Japan - has run current account surpluses amounting to not more than 4% of GNP. By contrast, the most important economy in the heyday of the internal Gold Standard (1875-1914) ran current account surpluses of more than 5 per cent, and sometimes as high as 7 %, for more than three decades. The US in the 19th century ran substantial current account deficits of around 5% of GNP for nearly half a century, while some countries like Canada showed very high defi-

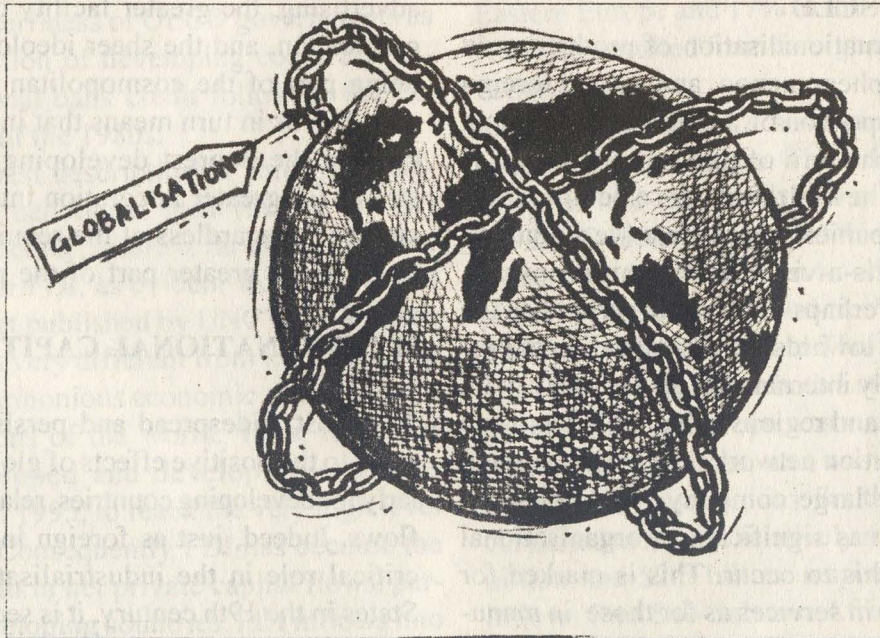
cits in the first 15 years of this century, often as high as 13% of GNP. The large - and sustained - capital flows which such surpluses and deficits entail in relative terms would be simply unimaginable today.

These historical flows were primarily long-term in nature (even when they were portfolio investment in developing country infrastructure sectors) and therefore, their ability to transform the productive structures of recipient countries was correspondingly greater. The US of the 19th century is a prime example of how industrialisation was effected largely with

the catalyst and facility of continuous net capital inflows. By contrast, the greater share of international capital flows today is of the short-term speculative type, and this has much more in common with another phase in history : the inter-War years, and particularly the 1920s, when

destabilising "hot money" flows were the order of the day among industrial countries. These were not responsible for growth as much as destruction, and they ended up being more divisive than integrating of the different economies that constituted the world at the time.

However, there are ways in which capital mobility has become fundamentally more international in nature and integrative in effect than in the past. These relate to the enhanced mobility of finance capital and the internationalisation of production through multinational firms. It is true, as noted above, that earlier periods in his-



tory have been marked by a commanding role of finance, the most recent being the inter-War period of this century. The difference is probably in the sheer scale of operations of the largest players, and the highly concentrated and oligopolistic structure which allows a few agents to influence the course of currency and capital markets worldwide, independent of the desires of even the most powerful governments. The spread of finance capital, and its fundamentally footloose nature, are such that no country can afford to ignore it altogether, without precipitating capital flights or harming its own development.

MNCs FLEX MUSCLE

Similarly, the internationalisation of production in itself is not a new phenomenon, and indeed foreign ownership as a proportion of domestic was more in most countries at the turn of this century than it is today. But what is new is the sheer scale of today's multinational companies, and the relative autonomy they can maintain vis-a-vis developments in any particular economy. Perhaps in no other period has the oligopolistic thrust towards the centralisation of production been as truly international as it is today, with different countries and regions being pulled into one production/distribution network through the vertical integration of one large company. Technological changes have been as significant as organisational ones in allowing this to occur. This is marked for companies dealing in services as for those in manufacturing, and has a number of implications. The globalisation of operations gives a greater flexibility and more bargaining power to MNCs in dealing with various national governments, and allows them to circumvent particular laws by a simple transfer of operations elsewhere. It also means that production, distribution and pricing in national markets are insulated to a significant degree from exchange rate fluctuations. A further implication is that multinational capital now requires global fora for lobbying,

bargaining and leverage, rather than a multiplicity of different national fora. The institutional construction of the World Trade Organisation reflects this changed re-

quirement.

In a related way, another qualitative change concerns the way the recent globalisation has affected people. It is true, as mentioned above, that the actual flows of labour migration today are a pale shadow of the huge migrations of the 19th century. However, unlike then, when the working classes moved, today it is the elites and what are fuzzily known as the "middle classes" who are the most affected. Never in history has the international demonstration effect been so pronounced as it is today, with the spread of television and other media, the transnational reach of advertising, the greater facility of travel and communication, and the sheer ideological attraction of being part of the cosmopolitan aristocracy of the world. This in turn means that in every country, including the poorest developing nations, the elite strives for greater integration into the international economy, regardless of the requirements or aspirations of the greater part of the population in their countries.

II INTERNATIONAL CAPITAL FLOWS, EFFECTS

The most widespread and persistent myths which point to the positive effects of globalisation, particularly for developing countries, relate to foreign capital flows. Indeed, just as foreign investment played a critical role in the industrialisation of the United States in the 19th century, it is seen today to provide hope, for rapid industrialisation to the developing world. Thus, it is argued that FDI provides essential supplements to domestic savings and investment; it raises rates of growth of output and employment in host countries; it provides much needed access to new technologies of production, organisation and marketing; it is a handmaiden of not only growth but also trade, creating further integrative links between countries; it spreads the world's investible resources more efficiently, thus reducing waste and slack; and so on. In short, the solution for all poor (and not so poor) developing countries is to attract as much FDI as possible, which will set in motion a virtuous cycle of expansion, higher investment, and higher standards of living.

MYTH OF FOREIGN INVESTMENT

This is a myth of fairly recent vintage: even three decades ago, the dominant attitude within develop-



ing countries towards multinational investment was one of mistrust and suspicion, and the multinational companies themselves tended to preserve low profiles and not broadcast their activities, even as they continued to expand into developing countries. The recent veneration of multinational investment as the crucial (if not only) hope for development is related to a number of other changes: the revival of substantial long-term cross-border capital flows, measures towards liberalisation of such flows as well as of current and capital account transactions in both developed and developing countries, the reduced access of developing countries to official foreign aid due to greater miserliness of OECD governments as well as the reduction of developing countries' access to transnational bank credit following the external debt crisis of the 1980s.

However, the barest description of foreign investment in its most "beneficial" form (that is, in FDI) suggests that the actual picture is far more complex. Recent patterns of FDI, as evident from the World Investment Report published by UNCTAD, suggest that FDI has been very different from the equalising force ensuring harmonious economic growth across the various regions of the world. Thus, total FDI flows into developed and developing countries surged by 40% in 1995, to reach the very high level of \$315 billion. Consequently FDI has become the single largest item in net private capital flows, particularly into developing countries. FDI inflows into developing countries increased by 15% in 1995. In the period 1991-94, FDI flows increased at an average rate of 12.7% per annum, well above the annual average increases in total gross fixed capital formation at 4% and in exports of goods and non-factor services at 3.8%.

REVEALING FACTS

However, these figures suggest a much higher rate of asset creation through FDI than actually occurred, for a number of reasons. First, the dominant share of all FDI in 1995 (73%) was accounted for by mergers and acquisitions, which do not represent new investment or asset creation but simply result in changes in the ownership of existing assets. The share of mergers and acquisitions was especially high for FDI into the industrial countries, particularly in Western Europe but also in the US. In the develop-

ing and formerly socialist world, most FDI similarly was concerned with acquisition of existing assets rather than the creation of new ones. Thus, privatisation programmes in several formerly socialist and developing countries, in which public assets have been sold (often preferentially) to foreigners, have boosted figures of aggregate FDI and created an illusion of much more new investment than has actually occurred.

This has also led to the "lumpiness" of FDI figures in such countries, with some years when major assets were privatised showing very high inflows. In the period 1991-94, 49% of the FDI into Central and Eastern Europe and 17% of the FDI flows into Latin America, resulted from foreigners' purchases of privatised assets.

Second, even this FDI has been very unevenly distributed across regions. Thus, developing countries received less than one-third of total world FDI in 1995, at \$ 100 billion, and of this, 34% went to China alone. Another 31% went to other Asian countries primarily the four "second-tier" NICs of Indonesia Malaysia, Philippines and Thailand. The spotty and relatively low FDI into both Latin America and Central and Eastern Europe was mainly related to privatisation programmes, and was highly concentrated even within these regions. South Asia and West Asia continued to receive relatively modest inflows at \$2. billion and \$2.5 billion respectively in 1995. FDI inflows into Sub-Saharan Africa were less than \$ billion, with 60% going to resource-rich Nigeri alone.

Thus, only a handful of countries in the developing world experienced FDI inflows of any significance while most countries received capital inflows that are negligible in per capita terms.

Third, these FDI flows may have more than doubled over the past five years, but their share of total capital formation remains very small, at 4% for developed countries and 7% for developing countries. It is only in the newly-industrialising economies of Asia that both inward and outward FDI flows have become substantial in



relation to domestic formation. In this region they are also linked with changes in trade patterns, through an investment-trade nexus that reflects the spatial diversification of some export-oriented production. However, in most developing countries such flows have hardly involved any addition to new capital formation.

Finally, the sources of most FDI - the large multinational corporations - have become even more dominant in the control of international production and distribution. The top 100 MNCs, which are all from the developed industrial countries, have approximately \$1.4 trillion worth of assets abroad and account for around one-third of global FDI stock. Their assets, sales and profits have all increased substantially in the past five years, but the same is not true for their total employment, which has stagnated.

DOMESTIC INTEREST SACRIFICED

These features simply express the limited nature of the FDI that has been taking place in the recent past. But there are other important questions about the desirability and effectiveness of such flows in general for developing countries. Earlier assessments of the role and impact of FDI in developing countries were based on questions which had a basis in economic theory but also involved a lot of common sense. Thus, it would typically be asked whether such investment constituted a net addition to the country's investible resources or simply substituted for domestic investment. The next question would relate to the foreign exchange flows resulting from such investment. Since most FDIs result in subsequent repatriation of profits and dividends which usually wipe out the original inflow within about five years, the issue of how much foreign exchange would be generated (through exports) or saved (through import substitution) in FDI-based production would be analysed. If net foreign exchange outflow is viewed as a cost, then it would be asked to what extent this would

be balanced by the benefits of increased access to new technologies, additional employment generation, and so on. The effects of MNC entry on domestic market

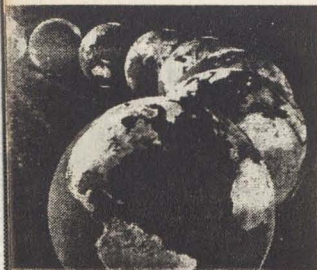
structure and the possibility of increased industrial concentration would also be considered.

The very fact that these issues are largely ignored in today's discourse indicates how far elites in developing countries are willing to sacrifice basic domestic interests in return for the insidious attractions of foreign capital. This is even more marked when other forms of foreign investment, such as portfolio capital flows, are considered. Such flows registered a marked increase to developing country "emerging markets" in the 1990s, as a result of a combination of factors. These included the wave of financial deregulation that has swept the developing world since the mid-1980s; the increasing need of international asset managers, including pension funds which have been growing in size, to diversify their portfolios in order to assure larger returns; and the economic slump in rich industrial countries, which reduced rates of return on capital investments made there and forced mobile capital to seek alternative avenues for investment. This wave has already diminished in strength, and most developing country equity markets have experienced the negative effects of decelerating net inflows of foreign portfolio capital.

SPECULATIVE OPERATIONS

Because the focus in these investments is on capital gains rather than the predicted income stream, they are essentially speculative in nature, and therefore as potentially destabilising as other explicitly speculative forms of capital flow. These short-term flows now dominate all international capital flows, which gives rise to misgivings about the efficacy of such capital market integration as a means of transferring resources internationally. Not only are international capital markets today very hierarchical, oligopolistic and skewed, they are also notoriously imperfect in their operations. And their behaviour over the past decade suggests that they are clearly not efficient in any sense of the term.

This is evident in two important areas. While the mobility of capital internationally has increased considerably over the past fifty years and especially in the past decade, it has not resulted in equalisation of rates of return or rates of wages across countries. There is no indication that capital typically moves from capital-rich to capital-poor countries; rather, the evidence all along points to the geographical and in-



come-wise concentration of capital. Similarly, the growing capital flows have not resulted in a substantial transfer of savings from high-saving to low-saving countries, even among the group of industrial countries (except for the much-publicised example of Japan's capital exports to the US). This is clear from the fact that while savings rates across countries show very wide variation, the range of differences in the ratio of current account to GDP is much narrower, so that variations in investment rates are not much different from those in savings rates. Ultimately, therefore, the past decade and more have shown very little of the kind of sustained transfer of investible resources that characterised some parts of the world in the latter part of the 19th century, and the nature of capital flows themselves indicates that they have not at all been efficient distributors of international resources. Thus, this most convincing of indicators of globalisation is not all that compelling in terms of establishing its advantages.

III GLOBALISATION: CLAIMS AND EFFECTS

Advocates of the current pattern of globalisation suggest that it is particularly meritorious because it provides an opportunity for the vast bulk of the world's population, many of whom still live in conditions that barely ensure survival, to "catch up" materially with the more privileged richer minority. Yet the evidence that we already have suggests that this pattern of growth is one which is fundamentally inequalising. The process of global economic integration that we can observe thus far, has been one which concerns and benefits large international capital in its various forms, and increases worldwide economic concentration as well as greater inequality in incomes and in access to resources. This is evident from some of the data relating to patterns of growth in the past two decades (as presented in the Human Development Report 1996).

PATTERN OF GROWTH

The first point relates to just how limited growth has been for large section's of the world's population. Purely in terms of geographical distribution, around 1.6 billion people (more than one-fourth of the world's population) live in countries in which average incomes have actually fallen over the past decade or more. By contrast, the number of people liv-

ing in countries where average incomes have risen in real terms is slightly less than that, at below 1.4 billion. In 70 countries per capita incomes are less than they were in 1980, and in 43 countries (many of which are in the continent of Africa) such incomes are less than they were in 1970. In just the four year period 1990-93, average incomes fell by a fifth or more in 21 countries, mostly in the formerly socialist countries of Eastern Europe and the CIS. Countries like Russia have experienced historically unprecedented declines in average living standards, which have in turn precipitated a social disintegration and a collapse of demographic indicators which point to crisis. Even in several countries in which average incomes have risen, including those in Asia, worsening distribution has meant that there are many more poor people in terms of absolute number than two decades ago.

The inequalising and therefore "ruthless" nature of the growth process currently in operation is revealed most dramatically in the worldwide gaps between rich and poor, which have widened even faster in the recent past. The gap in per capita income between industrial and developing worlds has more than tripled, from \$5,700 in 1960 to \$15,400 in 1993. Between 1960 and 1991, the income share of the richest 20% of the world's population rose from 70% to 85%, while the income share of the poorest 20% of population fell from 2.3% to 1.4%. In fact, the income shares of more than 85% of the world's population actually fell over this period. The ratio of shares of the richest to the poorest groups doubled from 30:1 to 60:1. This has also been reflected in the growing concentration of assets. Thus, today the net worth of the world's richest people, the 358 dollar billionaires, is equal to the combined incomes of the poorest 45% of the world's population, that is 2.3 billion people, who are likely to hold assets worth even less than this.

UNEMPLOYMENT, OPEN AND HIDDEN

One of the important reasons why economic growth related to the globalisation process has been so iniquitous



is because it has effectively been "jobless", in that the employment generation involved in income-generating activity has been insufficient to meet the needs of the growing world population. Labour requirement per unit of output value has actually fallen not just in most activities, but for gross production. This has meant very high rates of open unemployment in Europe and disguised or unrecorded unemployment in countries like the US and Japan, high unemployment rates despite rapid economic growth in some Asian countries, and absolute falls in aggregate employment in parts of Latin America and Africa. The tremendous human and social waste involved in the unemployment of labour is one that is simply not calculable, and the presence of such unemployment in most areas of the world is a major indictment of the nature of this economic growth.

In addition, much of the current high growth is also "voiceless", in that it comes from countries which deny democratic voice to large sections of the population. Indeed, the unfettered functioning of markets in their desired "ruthless" fashion would actually require some degree of lack of democratic voice. The denial of social and political participation goes hand in hand with the economic disenfranchisement of marginalised groups - and this is a process which is not confined to authoritarian polities, but is spread across many so-called democratic societies in both developed and developing worlds.

Similarly, the growth pattern has been "rootless" in its largely unthinking elimination of various forms of social, cultural and economic identity. This is related to its celebration and encouragement of the market-driven "homo economicus", working out all costs and benefits in rational choice-theoretic terms. One of the saddest and yet most frightening aspects of recent capitalist growth is precisely this. Thus it reduces human nature to its most narrow and self-seeking aspect, and defines its goals in the most individualistic and ultimately non-creative way. As a result it is able, through the sheer force of the economic incentives offered and pressures created, to mould societies and

individualistic and ultimately non-creative way. As a result it is able, through the sheer force of the economic incentives offered and pressures created, to mould societies and

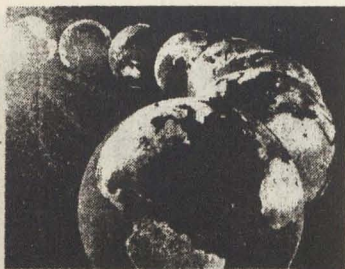
people in this restricted image, where potentially vast motivations are squeezed into the straitjacket of purely material and commercial aspirations. Thus it is that paradoxically, the process of capitalist globalisation becomes simultaneously the celebration of economic self-interest; and inequalities are sought to be justified and made acceptable by holding out the slender hope that every individual has a chance to gain by winning out over his or her peers.

IV TOWARDS DEMOCRATIC, SUSTAINABLE DEVELOPMENT

The real globalisation occurs in the mind. Posterity may recognise that the most critical globalising force of the closing years of the 20th century has been not necessarily in the realm of economic policies, but in dominant ideologies and in the intellectual approach of the elite in different countries. There has been in recent years a disturbing sameness and lack of imagination about the ways in which economic policy makers in different countries have approached the task of economic transformation, in terms of embracing free market ideology. But it is quite evident that the actual operations of integrated and "globalised" markets do not necessarily unify and homogenise the world (except in the most trivial sense) but instead tend to aggravate and perpetuate inequalities.

DANGEROUS TENDENCIES

The tragic irony is that the response of those across the world who are affected adversely by this new international regime has not been an alternative internationalist vision, but the rediscovery of local, particularist loyalties along with a greater fracturing of and conflict within previously accepted national units. This is true, of course, of resurgent fundamentalism in the Third World - whether Islamic, as in much of Africa and Asia, or of the Hindutva variety evident in India. But it is also true of revanchist and neo-fascist forces which have gathered strength almost everywhere in Europe, or the religious-based militaristic extremist groups in the US. All of these right-wing tendencies articulate the insecurities, both economic and cultural, of people whose governments have succumbed to the lure of globalisation. And their vocabulary increasingly echoes concepts such as "self-reliance", "neo-colonialism" or "cultural imperialism" usually associated with the Left. But, by attacking minorities and existing trade union move-



ments more vehemently than anything else, these tendencies are essentially divisive and ultimately weaken the ability of people all over the world to withstand the inequalising march of today's globalisation.

One real danger of these right-wing tendencies is that by donning an explicit and exclusive majoritarian garb in each country in which they operate, they seek to appropriate the mantle of "national sovereignty" and in doing so they sour the concept itself. Yet, much as it may be misused by the dangerous forces of reaction and ridiculed by the mouthpieces of international capital, "national sovereignty" remains an important concept. The politics of nation states, espe-

cially democratic ones, is still one arena in which the collectivity of people can hope to fashion some resistance to the onslaught of international capital. This is particularly so given that in the present conjuncture, economic globalisation has integrated almost everything except, most crucially, workers and people, who increasingly have nowhere to go but where they already are. This suggests that it is necessary to be nationalist not so much because there is any intrinsic value in such perceptions of nationhood and the nation-state, but because the nation remains the only feasible terrain in which struggles against large multinational capital and its allies can be waged. The perception that pits nation against nation in an economic war is fundamentally false particularly in the current conjuncture, since the major victories in the international arena are being won today not by countries, but by large capital in its various manifestations against working people across different nations.

BATTLE AGAINST INEQUALITY

This is as true of the relevant features of the GATT agreement which ease all restrictions on the cross-border movement of industrial and trading capital as it is of the ability of free-moving financial capital to impose its "discipline" on countries such as Mexico. Economic nationalism, which limits the sway of such capital within particular national boundaries and allows for patterns of growth and development which are more favourable to workers, is required therefore as a weapon in the flight against the spreading powers of large multinational capital. To that extent, nationalism is critical because it lays the basis for a broader and more potent internationalism.

For this to be successful ultimately, those battling against inequalities in their own countries must forge bonds with similar groups in other parts of the world. The word "international" was once a necessary prefix to all socialist and communist movements. Reclaiming that space from global capital is the real task which now confronts those who truly want to reform the unacceptable nature of the new world order.



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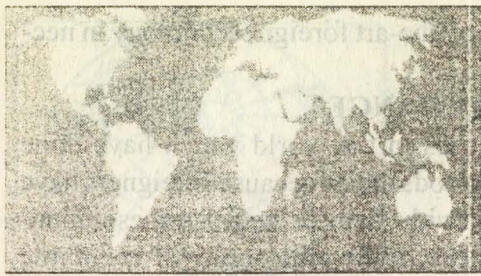


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No Alternative?

Ashok Mitra

The capitulation on the part of the Narasimha Rao government in the mid-summer of 1991 to external pressures, leading to acceptance of the Fund-Bank Structural Adjustment Programme, was not in consonance with any well-conceived economic design. It was a panic reaction, and the panic was the product of a fear psychosis induced by the pro-Western establishment in the country.

What exactly was the problem? It was sought to be explained at the time of the great surrender that our foreign exchange reserves were exhausted, so that the country was in no position to meet past commitments on account of external debt, short, medium and long-term: in case we failed to obtain fresh financial accommodation, we would have to default on our payments, which was supposedly not a greater sin in international economic relations. Those goading the nation to fall in with the Fund-Bank prescriptions argued that since we had at that point of time reserves which were barely equivalent to a fortnight's imports, there was no alternative to a comprehensive surrender to the terms and conditions set by the U.S. dominated international financial institutions if the economy were to be saved from total ruination.

SAME PRECARIOUS CONDITION

Is the situation qualitatively any different today though? Our foreign exchange reserves are now of the order of 24 billion dollars, which would cover roughly eight months of imports. But the components of these exchange reserves are worth noting. As much as 10 billion dollars represent deposits placed with our banks by Non-Resident Indians, 7 to 8 billion dollars are investment in our stock exchanges by foreign institutional investors and the rest represent the accretion from a number of short-term borrowals by both the government and the private sector. If, for whatever reason, the rupee weakens in the international currency market and this weakness

persists for some while, our exchange reserves would once again come under pressure: the NRIs as well as foreign institutional investors might almost overnight pull out that money.

We, therefore, remain in as precarious a position as we were in 1991. Despite the so-called reforms a re-enactment of the drama of a sudden disappearance of exchange reserves is not at all a remote possibility. What has happened during the past year in South Korea, Thailand, the Philippines and Indonesia provides a clear warning signal to all developing countries: once a group of speculators start playing nefarious games in the foreign exchange market, our exchange reserves may suddenly go down the drain in toto.

Have there been any other gains from our embracing the Structural Adjustment Programme? The answer once again has to be a vigorous no. Consequent to the injunction set by the Fund-Bank masters, public investment has shrunk. There has, however, been no corresponding increase in private development outlay including in the form of foreign direct investment. As a result, capital formation is down in both industry and agriculture. It is, therefore, no surprise that the rate of growth in both industry and agriculture in the nineties is lower than what it was in the eighties. Thanks to the official policy of denying budgetary assistance and bank credit to industrial units in distress, including public sector undertakings, many factories have either closed or are operating under great strain.

Unemployment has grown by leaps and bounds. In the absence of land reforms, demand has tapered off, which too has affected economic growth.



STANDARD, NEGATIVE RESPONSE

The political leadership, who had no faith in themselves and the nation, have allowed the situation to deteriorate from year to year. Their standard response to queries, why the disastrous policies and measures of the 'reforms' have not been reversed, is that no alternative is in sight.

Is that at all a correct proposition? Our rulers have opened up the system in the hope that foreigners will help us in capital formation activities as well as in absorbing a part of the goods we produce. Actually, following liberalisation, our exports have barely improved while imports have advanced rapidly resulting in an enlargement in the deficit in the country's balance of trade.

Suppose we abandon the 'reforms': what sort of calamity can then befall the nation? A little analysis will show that the circumstances are not as bleak as they are made out to be. Our dependence on foreigners is currently to the extent of 4% of our gross domestic product. Should we decide to go back on the 'reforms' and reintroduce some minimum controls, such as on the flow of imports and the outflow of foreign exchange, the worst scenario would be that foreigners might stop sending their money to us. In other words, we would, henceforth, have to do without the equivalent of 4 per cent of gross domestic product which is made available to us currently by foreigners in the form of goods and services.

Is such a contraction in our demand for foreign goods beyond our capability? In rupee terms, the contraction will mean cutting back national demand for foreign goods by something like Rupees 12,000 crore. In case we set restrictions on the import of luxury goods and inputs for luxury manufacture, that itself would contribute to a substantial saving of foreign exchange. May be to the extent of as much as Rupees 8,000 crore or thereabouts. A saving of another rupees 4,000 crore is achievable by selectively economising both in consumption and in the pattern of investment expenditure so that the demand for foreign inputs declines. This is achievable even without affecting the in-



duction of state-of-the-art foreign technology in necessary areas.

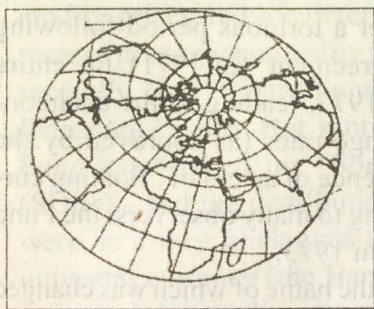
MINDSET TO CHANGE

There are countries in the world which have done without foreign goods either because foreigners have refused to trade with them or because these countries firmly believe in the philosophy of economic self-sufficiency. What they have done—and we have very much in mind countries like Cuba—can also be accomplished by us if only the ruling class can be persuaded to change their mind-set. India is a country which has a huge reservoir of natural and mineral resources of various descriptions. It has already a deep and wide industrial and agricultural base on which further progress can easily be achieved. The country also possesses a skilled technological and scientific manpower base, the size of which is second only to that of the United States of America.

To get away from being subjugated by the forces of imperialism and neo-colonialism would call for a policy of restraint, particularly in consumption. It would mean a deliberate policy designed to cut down the import content of both investment and consumption. Should we succeed in our effort, there would be no question of our facing economic disaster. The major impact on the economy of the changes ushered in would be a forced lowering, in the often vulgar conspicuous consumption levels currently flaunted by the affluent set. What is remarkable is that once we introduce this shift in policy, that would simultaneously imply a reduction in the inequality of incomes within the system.

To put it in simple terms, at the moment we are enjoying a living standard equivalent to 104. The alternative policy frame will mean only bringing this down to the level of 100. Those who suggest that to do so is an impossibility are the real enemies of the country.

A point may be made that in the event of our forsaking the Fund-Bank path of 'reforms', our outstanding foreign debt being in the neighborhood of 100 billion dollars, foreign creditors could try to be nasty with us. But we are a sovereign nation of one hundred billion people; in case we stand resolute, these foreign creditors will come to the negotiating table and agree to re-schedule servicing of past loans. In fact, it is they who will be without an alternative!



IMF AND WORLD BANK: GENESIS, FUNCTIONING AND ROLE TODAY

ARUN GHOSH

The IMF and the World Bank - the Bretton Woods twins as they are called - were conceived at the United Nations Monetary and Financial Conference held in July 1944 at the sleepy village of Bretton Woods, New Hampshire, USA. (Hence the title, the Bretton Woods twins).

The inter-war period had been characterised by 'trade wars' between the industrial countries, and the situation could only be described as chaotic. By mid-1944, Allied victory in the war seemed to be a matter of time; and John Maynard Keynes initiated a discussion among the highest policy makers as to the matter of organisation of world trade after the war. In the USA also, Harry Dexter White - with the experience of the Great Depression of 1929 and its aftermath - was concerned about how best to go about organising the smooth flow of trade after the war.

TO AVERT TRADE WARS

Keynes was primarily concerned with the problem of exchange rate fluctuations which disrupted trade and which during the inter-war period - had forced countries to impose diverse kinds of trade restrictions which evoked similar responses from countries affected by these restrictions. How could one find a solution to the problem of temporary external payments deficits (which had led, in the inter-war period, to competitive trade wars)?

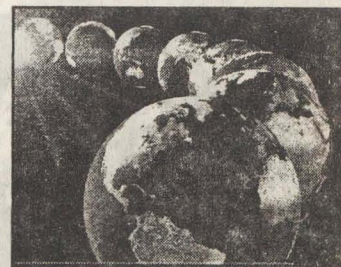
Keynes proposed the setting up of an international (banking type) institution which would provide 'overdraft' facilities to members running a temporary payments deficit, and which would at the same time, avoid excessive credit or debit balances, the latter to be regulated in terms of 'quotas' to be assigned to different member countries. The 'quotas' were to be fixed on the basis of the value of pre-war world trade of different members; and these quotas would set limits to overdraft facilities.

Harry Dexter White proposed a slightly different form of organisation. He proposed creation of a Stabilisation Fund wherein members were to be, simultaneously, stockholders, customers (for purposes of borrowing) and depositors. The currency of all transactions was to be on a parity (of each currency) to gold.

THE FUND AND THE BANK

It was, finally, a combination of these two ideas which led to the creation of the International Monetary Fund, with 'quotas' of different member countries being based on a new set of criteria (including the GNP, the total external trade and other parameters), 25% of the quota being contributed by each country in terms of gold (to be held by the IMF), the balance of the contribution being in its own currency. The USA being the most important member, and the US dollar being the most coveted currency in the world at that time, effectively, the Fund's resources were limited to the gold subscription by members and the dollar subscription by the USA (for 75% of the value of its quota), augmented by whatever additional resources the Fund was able to raise in the financial markets.

While discussions on diverse parameters - and the rules of operation - of the Fund were being debated, Henry Morgenthau, then Treasury Secretary in the USA, proposed the simultaneous establishment of a Bank for Reconstruction and Development (IBRD for short) as a companion agency to the IMF. To Morgenthau goes the credit for looking ahead to the problem of rehabilitation of war ravaged Europe, and the need for long term financing of such development. Eventu-



ally, in 1948, 'Marshall Plan aid' took over the task of rehabilitation and repair of the extensive damage (during the war) to production facilities in Europe and Japan; and the IBRD, once set up, began gingerly to look at the problem of financing the economic development of hitherto less developed countries. Though the initial efforts of the IBRD were cautious - opinion in financial circles being that the first priority was to allow the private sector to "invest" - the IBRD gradually took up the task of financing infrastructure development in the less developed countries.

It is important at this juncture to emphasise two points. First, right from the inception, the IMF was somehow oriented to West European ideology - its Managing Director being by convention a seasoned banker from Western Europe - while the IBRD has always been a US dominated institution, its President being virtually nominated by the US President; and therefore, the policies of the IBRD have been dominated over the years by policies favoured by the US Administration from time to time.

Secondly, and this is an important point to note, both the IMF and the IBRD have undergone significant changes over the years, not only in the manner and pattern of financing but also in the matter of 'ideology' to be promoted through the power over large resources. (In a way, the 'Cold War' which characterised the world until the collapse of communism in Eastern Europe, commencing from 1989, very significantly affected not only the lending policies but also the ideology of the Bretton Woods twins).

Just two examples would suffice to illustrate the point made above, regarding the fundamental changes that have occurred over time in the character and role of the two institutions. Take the IMF: the Fund - as envisaged at Bretton Woods - was to determine, and to lend support for the par values of different currencies (which were initially fixed in relation to the price of gold, at \$ 35 per Troy ounce). But after the USA unilaterally announced (in 1971) the non-convertibility of the US dollar to gold at the parity price, that system

broke down; and after a tortuous period following the 'Smithsonian Agreement' (of 1971), the entire system collapsed in 1973, leading to the abandonment of fixed exchange rates (as approved by the Fund), and the emergence of an era of "floating currencies"; and according to many observers, the Fund lost its *raison d'être* in 1973.

Secondly, the IBRD - the name of which was changed to 'World Bank' during the early sixties - has also changed over time. In 1960, the then President of the World Bank, Mr. George Woods, proposed - and succeeded in getting approval to his proposal - the creation of an affiliate the International Development Association (IDA) for making soft loans for very long periods. IDA credits are usually for a period of 35 years, with only a small 'service charge' (and no interest); and these credits are to be given to poor developing countries which do not have the means to repay commercial loans, the resources being intended primarily for the development of infrastructure. (It would be only fair to record that India has been the largest recipient of IDA assistance thus far; but then, India has also been the largest political democracy in the world, struggling to break out of the syndrome of low income - low savings - low capital formation - low productivity of labour - low income).

During the 'Cold War' it was the clear policy of the US State Department to assist in 'capitalist development' around the world. Indeed, one has only to examine the level of US assistance - and the indirect encouragement accorded - to countries like Japan, South Korea, Taiwan province of China, and a whole lot of other countries. The IBRD (redesignated the World Bank) was essentially a policy instrument of the USA, for fostering 'capitalist development' in as many countries as possible; and it did not matter an iota whether the countries concerned were political democracies or run by dictators, as long as they subserved the US objective of capitalist development.

STRUCTURAL ADJUSTMENT POLICIES

The changes rung in by the IMF and the World Bank may be very briefly narrated. As far as the Fund is concerned, after 1973, it has steadily changed its sights and expanded the horizons of its activities. Two useful policies evolved even before 1973 were, first, the Compensatory Financing Facility (in 1963) to ease the problems arising from the decline in com-



modity prices and the deterioration of the terms of trade of primary commodity producing countries; and secondly, (in 1969) the Fund set up the Buffer Stock Financing Facility. But, more important, in 1969, the Fund established the 'Special Drawing Rights' (SDRs) - and the distribution of the SDRs - which were, in a way, analogous to Keynes' concept of a universal currency (the Bancor). In 1974, the Fund started giving medium term assistance to members with balance of payments problems arising from structural economic changes.

Indeed, it is from this point onwards that the IMF has very definitely changed its character. While giving such loans, the IMF evolved what has come to be known as Structural Adjustment Policies (SAP).

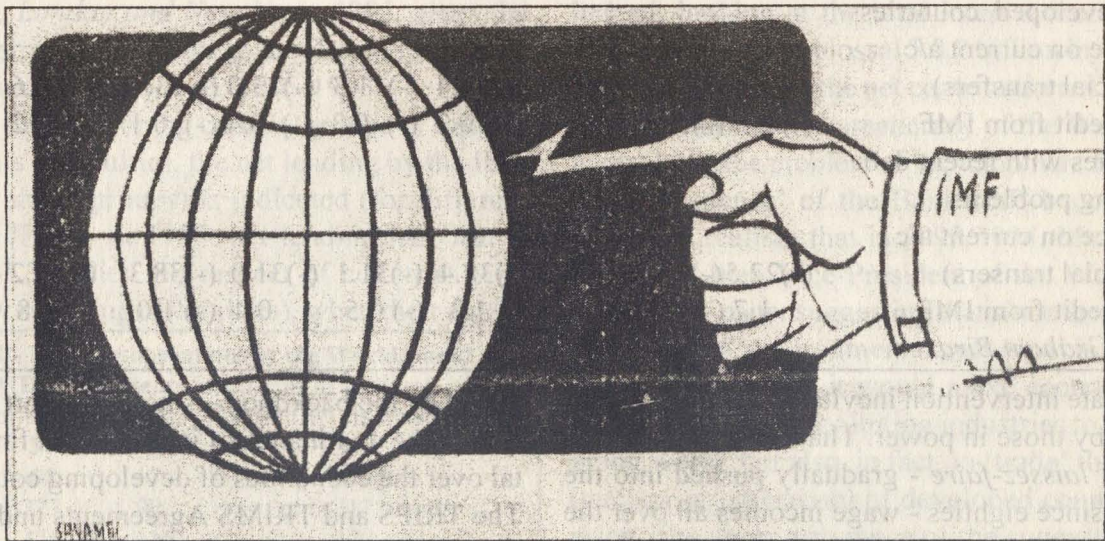
The SAP introduced very different 'conditionalities' on the borrowing countries, well beyond the original purposes of the Fund, beyond its jurisdiction, and intervening in a whole range of domestic policies wherein the Fund has neither the expertise nor the wisdom to devise separate policies for different countries.

CONDITIONALITIES

Indeed, the IMF has just two prescriptions for every country in balance of payments difficulties: deflation internally, and currency depreciation externally. That these medicines do not work in all situations, that its interventions with SAP are totally unwarranted - and indeed detrimental to the interests of the hapless borrowing countries - have been demonstrated by many eminent economists; yet, of late, the IMF has proceeded to impose its will - and its au-

thority - over developing countries in a manner that has been decried by even well-known votaries of the free market system.

Even the arch-conservative journal, the London Economist in an Editorial titled "new illness, same old medicine", (Vice, Economist, dt. 13 December, 1997) and Prof. Jeffrey Sachs, Director of the Harvard Institute of Development (in Time Magazine, New York, Dec., 1997) have decried the prescriptions of the IMF in the context of the recent currency turmoils in East and Southeast Asia, Prof. Sachs having described the IMF prescription as a part of "one-remedy-suits-all" philosophy.



If this approach were merely due to stupidity or ignorance, one could have successfully argued

with the protagonists of these policies. Unfortunately, the truth is a little more bitter. Ever since the Reagan-Thatcher era, the philosophy of the World Bank - and its junior cousin now, the IMF - has changed. From the philosophy of the IDA, namely, the need to extend long term assistance for infrastructure development, the guiding philosophy of the international lending institutions now is based on the so-called "Washington consensus", with the guiding philosophy being that the "market" - meaning thereby the financial market - is the best allocator of all resources under all circumstances. The State is seen as an "inter-



Table 1 - IMF Lending in relation to Balance of Payments Problems(In US Dollars Billion)

	1985	1986	1987	1988	1989	1990	1991	1992	1993
1. African developing countries									
(a) Balance on current a/c (excl. official transfers)	(-)5.1	(-)14.4	(-)10.4	(-)16.6	(-)14.4	(-)10.3	(-)12.1	(-)16.0	(-)15.3
(b) Net credit from IMF	0.1	(-) 1.0	(-) 1.1	(-) 0.3	0.1	(-) 0.6	0.2	(-) 0.2	-
2. Asia									
(a) Balance on current a/c (excl.official transfers)	(-)18.7	(-)1.1	14.8	2.6	(-) 8.1	(-)10.0	(-)10.2	(-)25.2	(-)31.2
(b) Net credit from IMF	(-)1.0	(-) 0.9	(-) 2.4	(-) 2.4	(-) 1.1	(-) 2.4	1.9	1.9	-
3. Small, low income countries									
(a)Balance on current a/c (excl.official transfers)	(-)12.3	(-)13.0	(-)14.4	(-)16.4	(-)17.3	(-)18.4	(-)18.8	(-)19.4	(-)19.5
(b)Net credit from IMF	(-) 0.2	(-) 0.9	(-) 0.6	(-) 0.3	-	(-) 0.6	0.4	0.2	-
4. Least developed countries									
(a)Balance on current a/c (excl.official transfers)	(-) 9.1	(-) 9.7	(-)10.3	(-)11.4	(-)11.3	(-)13.0	(-)13.1	(-)13.6	(-)13.6
(b) Net credit from IMF	(-)0.1	(-)0.3	-	(-) 0.2	(-) 0.3	(-) 0.4	(-) 0.1	0.2	-
5. Countries with recent debt servicing problems									
(a) Balance on current a/c (excl.official transers)	(-)22.5	(-)48.2	(-)31.3	(-)38.4	(-)31.1	(-)31.0	(-)38.3	(-)52.2	(-)50.9
(b) Net credit from IMF	1.7	(-) 1.0	(-) 1.8	(-) 1.3	(-) 0.5	0.4	(-) 1.0	(-) 1.8	-

Source : *Graham Bird*.

loper". State intervention inevitably leading to "rent seeking" by those in power. That, in fact, under the system of *laissez-faire* - gradually pushed into the forefront since eighties - wage incomes all over the world have declined, social security expenditures have been pared down, and the share of interest and profits (or rental incomes) have been steadily on the increase in nowhere pointed out forcefully.

NEO-IMPERIALIST DOMINATION

Indeed, of late the unholy 'triad' of the IMF, the World Bank and the WTO have been used relentlessly to impose a neo-Imperialistic domination, by the developed countries of the world, over all less developed countries. The penchant of the IMF/World Bank for capital account convertibility - and where that is not feasible, for 'financial sector reform' and opening up the domestic financial sector to foreign competition - leading to virtual capital account convertibility intro-

duced by the backdoor - is nothing short of imposition of the dominance of international finance capital over the economies of developing countries.

The TRIPS and TRIMS Agreements under the new GATT - overseen by the WTO - are calculated to impose the domination of the poor countries by the capital rich countries. The imposition of the 'Washington consensus' as the economic philosophy to be imposed on all countries is the means of imposing a neo-colonial era of exploitation of the resources of all developing countries.

Indeed, in an epochal study of the evil effects of the pattern of 'globalisation' now imposed on the world, two senior journalists of *Der Spiegel*, Hans-Peter Martin (Bureau Chief in Vienna) and Harald Schumann (Bureau Chief in Berlin) (*see The Global Trap, Zed Books, London and New York, 1997*) have powerfully exposed the inherent inequalities being perpetrated today, intensifying a world divide into a 20:80 society, with 20% of the workforce getting increasingly richer, with 80% to be dependent on 'tittytainment', a combination of nourishment (provided by charitable institutions) and 'deadly en-



tainment', calculated to introduce soporific stupor.

That is where the policies of the IMF and the World Bank, now aided by the WTO, is leading the world. Perhaps it may be useful at this juncture to produce two sets of data in regard to the volume of lending by the IMF and World Bank in recent years. These data would indicate how - with even negative net lending in recent years - these international finance institutions have yet exercised a wholly disproportionate influence on economic policy making in the developing countries.

Table 1 (see box above), extracted from *Graham Bird: IMF Lending to Developing Countries, Routledge, London and New York, 1995*, gives the data in regard to IMF lending in relation to balance of payments problems, over 1985-1993.

Taking all the developing country groups in balance of payments difficulties, the net lending by the IMF (to all the above groups) is indicated (for different groups) in Table. In 1985, net lending has been a meager \$ 1.7 billion (in respect of countries with recent debt servicing difficulties), when their aggre-

Table 2 - Lending operations of the World Bank/ IDA (Disbursements in Billions of Dollars)

	World Bank	IDA	Total of World Bank and IDA
1947-60	39	-	39
1961-70	64	17	81
1971-80	227	90	317
1981-85	354	116	470
1986-90	565	171	736
1991-95	592	255	847

Source: S.L.N. Simha: *Fifty Years of Bretton Woods Twins, IFMR, Chennai, 1996, p.356.*

Table 3 - Net Disbursements by the World Bank (In US Dollars Billion)

	Net Disbursements by Bank (i.e. minus repayments) of capital.	Interest Income	Net Bank Transfers	Net IDA Disbursements
1986	4.4	4.7	(-) 0.3	3.0
1987	5.7	6.2	(-) 1.5	2.9
1988	3.4	6.8	(-) 3.4	3.2
1989	1.9	6.7	(-) 4.8	3.4
1990	5.7	6.8	(-) 1.1	3.6
1991	2.1	7.8	(-) 5.7	4.3
1992	1.8	7.9	(-) 6.1	4.4
1993	2.3	8.1	(-) 5.8	4.6
1994	(-) 0.7	7.8	(-) 8.5	5.1
1995	0.9	8.2	(-) 7.3	5.2

Source: S.L.N. Simha, *op.cit.*, p.367

gate balance on current account was (-) \$ 22.5 billion. For the same group, when the current account deficit peaked to \$ 52.2 billion (in 1992), there was negative net lending by the IMF to the tune of \$ 1.8 billion.

Turning to World Bank/IDA operations, Tables 2 and 3 (see boxes) extracted from *S.L.N. Simha : Fifty Years of Bretton Woods Twins, IFMR, Chennai, 1996*, indicate, yet once again, that net disbursements together over 1986 to 1995 - were negative in all years except 1985, 1986 and 1990; and in fact, the World Bank had an enormous amount of negative net lending in all years, the amount being (-) \$ 8.5 billion in 1994.

Indeed, looking at the total interest income of the World Bank - at a colossal \$ 8.2 billion in 1995 - one is left wondering at the net contribution of the highly paid and 'insolent' bureaucracy of the World Bank, to resolving the problem of 'development financings'. (The 'insolence' of the Bank staff becomes clear when one realises that in 1993/1994, Mr Lawrence Summers, then Vice-President of the World Bank, published a paper suggesting that since the 'marginal disutility' of 'environmental pollution' is low in developing countries, it would make economic sense not only to transfer polluting industries to the developing world, but also, in fact, to 'trade' the 'wastes' (nuclear or otherwise) of developed countries for a price. The sheer arrogance of the suggestion defies all description in printable language).

MACHANISM FOR DOMINATION

To sum up, the recent activities of the IMF and the World Bank - of late assisted by the WTO, these international institutions have now become no more than mechanisms for the extension of the emerging neo-Imperialistic domination by developed countries over the developing countries of the world.

In India, these "pressures" have been patently obvious for some time. Indeed, as far back as November 1992, Hamish Hamilton - the New Delhi representative of the *Far Eastern Economic Review*, published from Hong



Kong - had reported the "kicking" of the Government of India by the World Bank and the Asian Development Bank, in order to speed up the privatisation of India's oil industry; and Catherine Caulfield (vide, *Matters of Illusion: The World Bank and the Poverty of Nations*, Macmillan, London, 1996) has even stated that the 1992-93 Budget of the Government of India - a 'Top Secret' document until placed before Parliament - was sent to the World Bank for approval and modification before presentation to Parliament.

We, in India, have no means to verify the above statement: but it is a view printed and published (by reputed publishers like Macmillan); and to date, neither the World Bank nor the Indian Government have thought it fit to repudiate the statement.

Finally, the attitude of the Bank (and the Fund) is nothing new. Bank assistance for projects/programmes has always been subject to the veto power of the rich and powerful countries. The promised World Bank aid for the Aswan High Dam in Egypt was denied in the 1950s because Gamal Abdel Nasser had the temerity (then) to recognise Communist China. (Never mind that the same Communist China is now an important trading partner of both the USA and the European Union. Economic interests of the Great Powers come first).

To end this story, one can ask with justification: What is structural about the Structural Adjustment Loans given by the IMF and the World Bank? The transformation of an agrarian economy to an industrial one, the raising of labour productivity, are structural changes. But, the objectives of SAP and of loans given on 'conditionalities' imposed under SAP are quite different. Obviously, perceptions vary. But, to an average Indian, the approach of the IMF/ World

Bank to developing countries would appear to be little different from the approach of the traditional Indian moneylender in respect of the poor peasantry in India.



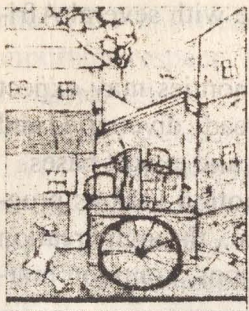
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ASSOCIATION,
MUMBAI
Elphinstone Building,
2nd Floor,
10, Veer Nariman Road,
Fort,
Mumbai - 400 001**

**Telephone: 204 04 11-14
Fax: (022) 283 26 11
Telegrams:
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International Trade, WTO and International Labour Standards: The Debate On Social Clause

Sukomal Sen



After the completion of the Uruguay Round of GATT negotiation and the formation of the WTO, a fierce debate between the developed countries and the developing countries has come on the surface.

Unfortunately, the trade unions of the developed countries and the developing countries are also divided on the issues. Even the left wing trade unions in the developed countries have taken stand in favour of the 'Social Clause', while most of the trade unions of the developing countries are opposed to it. This issue is closely connected with International Trade and International Labour Standards and the role of the WTO.

Now, ILO has also been involved in this debate. The Director General of ILO is taking a position in favour of the 'Social Clause' as appeared from his report of the last session of ILO in 1997.

This article seeks to trace the course of events leading to this debate as it affects trade unions also. CITU has taken a firm and unambiguous stand against the 'Social Clause'.

THE CHANGING ROLE OF DEVELOPING COUNTRIES IN INTERNATIONAL TRADE

The role of the developing countries in international trade has undergone a sea change over the years. Many of them are decreasingly dependent upon exports of raw materials to pay for their imports. They have themselves become producers of manufactured goods.

The output of many regions in the developing world has been growing over the last two decades at a significantly faster rate than that of developed countries. According to the estimates of the World Bank this trend is likely to continue. Already, the developing countries are close to reaching the output levels of the developed countries (about 45% of world output). The developing countries have also been

increasing share of manufactured goods in their exports by conscious policies, both for adding value to their exports and to promote employment opportunities. Share of manufactures in the total exports of developing countries has now increased to 60% from level of 5% in 1955. These trends apparently reflect increasing job opportunities in the developing countries.

The growth of overall output, manufacturing and exports of developing countries and their increasing transition from production of primary to manufactured goods have been feasible largely owing to transfer of technology, capital flows and transnationalisation of production. In the process, the employment profile of the working people in developing countries has also undergone transformation in terms of occupational shifts of the workers from low skilled to higher skilled jobs involving specialisation and use of technology. Access to higher skills and technology has implications for comparatively higher wages and better working conditions.

The driving forces of international trade have tended to transnationalise and multinationalise manufacture in preferred locations in developing world which offer comparative advantages.

The urge of the developing countries to expand production to avail of the export opportunities consequent on trade liberalization, combined with structural reforms has stimulated international flow of capital. It has been estimated that investment in Asia developing countries is over 30% of their GDP.

The search of capital-rich developed countries to maximize the returns on their capital is also reflected in this buoyancy of business



investment. This, in turn, enhances remittances of incomes earned overseas leading to further economic growth with the possibility of employment generation.

International capital flows into developing countries including through investments in portfolios, have also surged because of greater integration of the international financial markets. Enterprise-level cross-border operations and use of external financial markets have been facilitated by liberalization of trade in services.

URUGUAY ROUND TRADE LIBERALISATION AND IMPACTS

It is in this background that the Uruguay Round of trade liberalization negotiations were completed and the Agreement under the Round took effect from January 1, 1995. The outcome involves:

Non-tariff barriers to be phased out or reduced. (Multifibre Arrangement trade in agriculture etc.)
Progressive liberalization of trade in services (banking, insurance, financial services, telecommunications, and air transport) and commitments on market access.

Protection of Intellectual Property Rights (IPR)
- Computer Programmes - Trade marks - Industrial designs

Removal of restrictions on Trade Related Investment Measures (TRIMs).

According to an estimate of GATT: World trade in the year 2005 would be higher by US \$ 745 billion (by 12%) at 1992 prices, over what it would have been without the Uruguay Round. Significant increases are likely to be in the sectors of clothing (60%), textiles (34%) and agriculture, forestry and fishery products (20%).

Countries which are dependent upon primary commodity exports may not be in a position to gain advantages from the liberalism of trade in manufactures. The price and income elasticities of demand

for primary commodities are low. Trade barriers in respect of these commodities are also low already. In this sense also, primary commodity-dependent countries may

not gain. This would be the case with several African countries.

Latin American and Asian economies may expect some gainers because of their already diversified and fast diversifying manufacturing and export bases.

This new situation has set in motion various processes of economic integration i.e., through creation of free trade areas, customs unions, common markets, economic unions etc.

In the free trade areas, tariffs are abolished as between participating countries while customs unions maintain their own external tariff with non-participating countries. Common market permit the use of free movement of goods, labour and services. Economic unions, of course, would need considerable harmonisation of national economic policies. Total economic integration may mean unification of monetary, fiscal and social policies. But it is not an easy process as is seen in the current attempts for creating a common market and common currency in the European Union.

The scramble for markets has, indeed, spawned several regional integration efforts - the European Union, NAFTA (North American Free Trade Agreement), and APEC (Asia Pacific Economic Cooperation Forum). There have been regional integration efforts in Latin America (MERCOSU for example) and Africa also (COMESA - Common Market for Eastern and Southern Africa). The latest in the series of integration efforts is, ofcourse, the agreement to have by the year 2005 A.D. the Free Trade Association of the Americas.

WTO - A NEW ORGANISATION WITH NEW POWERS

The Geneva-based GATT has, after 46 years, taken a new name - the (WTO) - and acquired some new features. This is the ultimate result of the completion of the uruguay Round Trade Liberalization Negotiation.

"But every country maintains its right to say: so what'. The only difference here is that when you say 'so what', you know that the other party has the ability to force you to consider having to pay compensation and, alternatively, to be certain you will suffer retaliation, one U.S. official said. "So there will be a pain for saying no. But you don't lose the right to say no."



The WTO is different from the GATT in several important respects that will narrow the scope for unilateral action. First, the WTO will oversee rules in a much broader range of trade issues than the GATT - issues ranging from intellectual property and services to textiles and investment. Second, the WTO has much stronger dispute settlement procedure. Third, it provides a certain permanence that GATT - initially meant as a temporary replacement for the failed International Trade Organization following World War II - did not have. Fourthly, the new organisation, has the ability to tell a country that it violated a trade obligation.

Also, unlike the Tokyo Round trade accord concluded in 1979, when only a handful of countries signed individual codes of conduct in such areas as dumping, nations that joined the WTO must agree to accept automatically all the Uruguay Round accords without exception. For example India, a country that has long opposed more stringent rules on pharmaceutical patents,

will now be pressurized to implement the intellectual property accord which includes specific rules on patents.

Like the GATT, the WTO will facilitate the implementation and administration of the Uruguay Round accord, will provide a forum for future multilateral trade negotiations, will conduct periodic reviews of member country trade policies and will cooperate with the World Bank and the International Monetary Fund toward achieving greater coherence in global economic policymaking.

Also like the GATT, it will have a secretariat headed by a director-general. It will meet in ministerial session at least once over two years. During the interim

periods, the WTO will have a General Council composed of representatives of all WTO members, that will meet generally once monthly. The General Council will oversee the running of the dispute-settlement body and the trade policy review mechanism, under which the trade policies of individual WTO members will be examined periodically.

Under the General Council will be several subsidiary bodies, including a Council on Trade in Goods, a Council on Trade-Related Intellectual Property Rights, and a Council for Trade in Services.

The accord on the WTO also includes a non-application clause stating that a country that is currently a GATT member and that accedes to the WTO has the right not to apply Uruguay Round provisions to

trade with countries, such as China, that later may accede to the WTO.

In fact, the WTO is an US concept strongly supported by the developed capitalist countries and imposed on the third world countries. In final analysis it

will benefit more the developed countries than the developing ones.

FIRST-WORLD CONCERNS ABOUT PROSPERITY

While the Uruguay Round has been yet another major mile-stone in the liberalization of world trade, new concerns and apprehensions have come to be articulated: threat of low cost competition from developing countries and job losses in the developed; dampening of real wages and



THE CALF BORN OF A PATENTED COW WOULD BELONG NOT TO THE FARMER BUT TO THE COMPANY THAT BRED THE COW.



widening wage inequalities in developed countries on account of increased imports of labour intensive products allegedly produced under lower labour standards; likelihood of social issues like labour standards being wielded for protectionist purpose on alleged grounds of "social dumping", potential of unilateral national actions to neutralize disadvantages arising out of trade liberalization etc. It is these concerns and apprehensions that lead to the issue of the social clause.

The controversy of the social clause, in fact, arises out of the linkage between international trade, investments and jobs. The debate in Europe, particularly, has centred around job-threats on account of apprehended "delocation", that is, translocation of enterprises in developing regions, especially asia, on consideration of low wage. In this context, an understanding of the comparative cost implications of off-shore investments and dynamics of international division of labour would be of help:

About half of all foreign direct investment in developing countries is in mining or services which cannot be exported from developed countries and so involves little relocation of jobs.

A significant part of international trade takes place within the multinational corporate world. The processes of production are spread across units of the same enterprise with multinational locations. Consequently, international trade on the products becomes intracorporate. Loss of jobs, if any, in the process get more than offset in such circumstances by exports of capital goods, components and marketing and financial services to the intracorporate units.

The propensity to translocate production bases and jobs would also be dependent upon the size of the advantage in cutting down cost of production. It has been found that in many industries, the share of labour cost in total production cost is rather low. So cost saving may be unattractively low in such industries.

The urge for translocation is also a function of the net cost advantage. The savings in labour costs may often be more than offset by disad-

vantages on account of factors like inadequate infrastructure, vulnerability to bottlenecks etc, which are general features of developing economies.

Comparatively lower manpower skills in developing countries do inhibit translocation of industries based on higher skill needs.

In the area of services, as distinct from manufacturers, in any case, manpower could be hired transnationally without actual translocation. Example is the area of computer software.

Above all else, accordingly to the data of UNCTAD, though foreign direct investment in developing countries has escalated from U.S. \$30 billion in 1990 to U.S. \$80 billion in 1993, investments in developed countries continue to remain larger. Nor would assessments of the implications of changing directions of foreign direct investment be realistic if apparent volumes alone are seen. What is crucial is the net outflow of investment. It has been estimated that since 1990, the capital stock of the rich countries has not been reduced by more than half a per cent, if the net investment outflow is clearly seen.

THE WAGE FACTOR

One argument universally raised is that the wages per hour are incomparably higher in the rich countries than in the developing ones causes unfair trade disadvantages for the former with consequent job loss and wage-depression. But such comparisons could be misleading because purchasing power of national currencies varies from country to country. The exchange rates do not capture the purchasing power of these currencies in the respective countries.

While the wages in rich countries may be higher, they are also linked to higher productivity levels which, in turn, are linked to application of higher technologies by better skilled manpower.

Fall or stagnation in wages, nominal or real, is also caused by low rates of productivity increase in the developed countries.

By and large, imports of low wage goods are also low technology. So, job losses in importing countries, if any, may happen in production of goods involving low skill application. Compensatorily, manufacture may shift to goods requiring employment of more skilled manpower. As this happens, wages of skilled manpower would increase too, though this may cause wage inequalities as between skilled and



less skilled workers in the developed countries. Studies on the ratio of skilled workers in developed countries have also revealed that it has risen across the board in all manufacturing sectors, and not merely in the sectors of manufacture of trade goods. This would indicate that international trade with developing countries is not the exclusive factor causing distress among workers in developed countries. Indeed, technological changes of the labour saving kind have been held to be partly responsible for job losses. There could also be reasons for fall in manufacturing employment other than imports from developing countries. The example is that of Norway and UK, where manufacturing employment fell more than that could have been attributed to increase in imports. These countries' concentration was on extraction of oil, which by definition is not manufacturing employment.

SOCIAL CLAUSE

Conceptually, the social clause is an international trade arrangement which renders it feasible to link imports with conformity to labour standards. This arrangement could provide for restrictions or prohibition of imports of products from countries, industries or enterprises where there is no compliance with stipulated labour standards. It would also provide for preferential imports of products from where there is compliance with stipulated standards.

In the current century, the issue of linkage of labour standards with international trade has been discussed and debated in different contexts; formulation of ILO Constitution in 1919; the abortive Havana Charter, 1947; early European integration days, 1950, Brandt Commission, 1980; Commodity Agreements of the 1980's; the Uruguay Round of trade liberalisation 1986-1993; and NAFTA, 1994. (Trade linkage has in fact, been provided for in NAFTA).

The GATT Ministerial Meeting with which the Uruguay Round ended has left the issue of the social clause open, of course, without any secured commitment for future action within the GATT/WTO framework. The matter has been partly debated in a working party of the ILO constituted in June, 1994. The working party document discusses different aspects of the social dimension in the international trade system, the content of such a social dimension, the trade liberalisation dimension in ILO's activity and

possible modalities of linking the social dimension on the one hand and GATT/WTO and ILO procedures and standards on the other.

ADVOCACY OF TRADE LINKAGE

The advocates of the social clause justify it on many grounds the need for social progress keeping pace with economic progress; the 'solidarity' argument (that the industrial countries should press for adoption of universal minimum labour standards, failing which they may be seen as collaborating in the exploitation of workers in developing countries), pre-emption of unilateral protectionism in trade and the concept of 'fair trade' involving 'harmonisation', 'level playing field' and pre-emption of 'races to the bottom' - all of which mean equalization of regulatory labour standards.

Conceding that Article 19(3) of ILO's constitution, in formulating Conventions and Recommendations on labour standards, calls for due regard being given to those countries in which "the imperfect development of industrial organisation or other special circumstances make the industrial conditions substantially different," it is argued that a new consensus should evolve on income related issues. The specific suggestion made in this context is that certain basic Convention that is, those relating to Freedom of Association, Right to Organise and Collective bargaining etc., be taken as mandatory, which should be adopted regardless of income.

The rationale of trade-linked labour standards is also presented at the legal and institutional levels. Article XX(e) in the GATT Agreement (Original post-war agreement) which provides for exclusion of goods made by prison labour has been cited to argue that labour standards are already covered in the GATT. (This Article allows GATT signatories to adopt measures, *inter alia*, to restrict trade so as to protect human health.)

The case for ILO's involvement in labour rights and trade linkage has been presented in the following terms:

a) If ILO does not take an active role in addressing the issues involved in the social clause, they may get



captured by protectionist interests in the rich countries.

b) The ILO has expertise, gathered over the years, in monitoring complaints on conformity to Conventions by its Standing Committee of expert jurists. The sue of this expertise within the ILO framework may greatly moderate the abuse that is certain to be caused if the rich countries become the jury and the complainants, in the process selectively choosing targets for their own arbitrary purposes.

c) ILO-agreed standards being the products of tripartite agreements, and not being exclusively, or even primarily dictated by trade concerns, will be impartial and fair to be justifiable applied as minimum conditions for free trade when countervailing tariffs and trade sanctions are invoked against poor countries, which may be accused of not meeting such standards.

d) The ILO could insist that the establishment of facts concerning violation of labour rights, must be carried by impartial and symmetric procedures under its own umbrella. This would also help poor countries address complaints about the violations by rich countries.

CONTARARY ARGUMENTS

The rationale of the case for the social clause has been extensively debated and questioned. The counter-arguments projected in these debates are presented below:

The social clause, in terms of a mechanism for correcting distortions in comparative advantage in international trade, amounts to the revival of the old "pauper labour" argument, that gainful trade with low countries is harmful. This argument involves an apprehension that even if such trade is gainful, it is harmful to the workers of the rich countries, driving down their real wages and employment. In other words, the theory has been that trade with paupers will multiply paupers at home. The demand for "up-

ward harmonisation" of labour standards involved in the social clause as a pre-condition for free trade could undermine free trade altogether, the reason simply being

that the basis for international trade itself is comparative advantage and cost differences. The proposition, therefore, just does not have economic justification. The protectionistic application of the social clause would also run counter to the very objective of structural adjustment launched by several developing countries, seeking - inter alia - to liberalize trade.

Justice Mark Fernando of the Supreme Court of Sri Lanka has observed that comparative advantage is in fact very heavily tilted in favour of the rich countries because of their command over, and access to, superior technology, access to finance and marketing and the enforcement of a social clause will inevitably make the third world producers more uncompetitive, causing increased unemployment, and so the social clause will fail to achieve its stated objective of conditions of labour.

The issue is, in fact, one of resource transfer and not comparative advantage or disadvantages. Invoking trade sanctions against exporters in developing countries on grounds of labour standards would hurt the workers themselves, causing unemployment and driving them from distress to destitution. In this sense it is also a "morally defective rather than a morally superior innovation". Circumstances of poverty, slow demographic transition, large labour force, unemployment and underemployment do adversely impact on labour standards. It is resource transfers and not trade sanctions which will find solutions to these problems. Therefore the social clause is a wrong policy instrument, the application of which would only be in the nature of treating the symptom rather than the ailment.

The concept of core labour standards having universal application, irrespective of Article 19 (3) of ILO's Constitution, that is, irrespective of stages of industrial and economic development of countries essentially flows from high moral ground. If the social clause is projected simply from high moral ground it does not even belong in the area of international trade. In any case, there is a significant level of production and employment in every country outside the frontiers of international trade to which trade-linked enforcement of labour standards would just not be applicable.

The issue involved is also one of principle. Once the



trade linkage principle is accepted, precedent is established. And, it does not take much time for the principle and precedent to evolve into practice. The projection of the angle of absolute standards may turn out to be the thin end of a wedge, even Article xx(e) in the original GATT Agreement is now being quoted to justify trade linkage.

Again, as the ILO publication entitled "International Labour Conventions and Recommendations, 1919-1991 (Volume 1-1919-1962)" itself says: "this designation (reference is to basic human rights) should not be understood to indicate that other instruments do not cover human rights subjects. Many ILO conventions and recommendations deal in detail with rights recognised under e.g. the international covenants on civil and political rights and on economic, social and cultural rights".

It is apparent that once trade linkage even to basic human rights conventions is conceded, willy-nilly, a wide range of labour standards is likely to be brought under the regime of international trade, externalising the whole process of standard setting, with serious adverse implications for the objectivity essential for developing the labour code further.

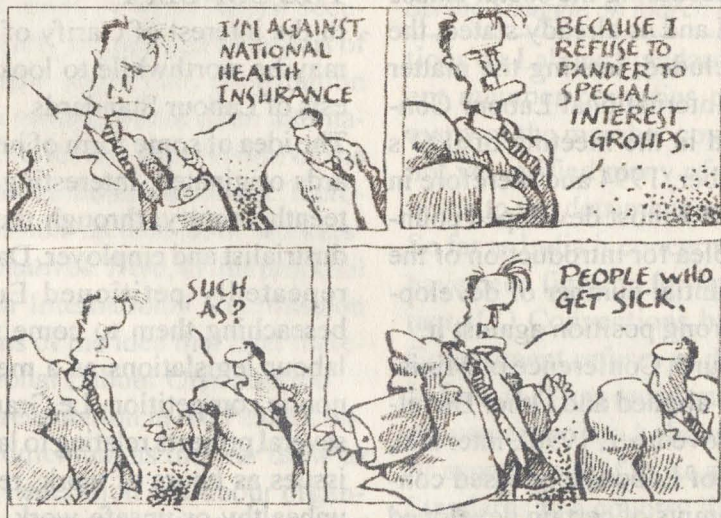
Externalization of labour standards into the realm of international trade may also lead to the politicisation on the process of standard setting. In the course of scrutiny of standard compliance for purposes of trade, collateral issues are bound to be raised. For example, one could argue that for the upgradation of labour standards, which is the professed objective of the social clause, rather than trade sanction, liberalisation of economic emigration which directly enhances means of livelihood should be addressed. The externally negotiative trend has thus undesirable potential for opening up the ILO-established labour code.

Viewed in this background, grant of jurisdiction to the ILO in respect of the social clause may seem to be in the nature of a virtual constitutional change. The compulsions for, and the costs of, such a change would call for a very careful and diligent application of mind by the developing world. An important issue of examination in this context is that securing social progress alongside economic growth is a distribution function to be addressed by national governments. It may not be appropriate to make a constitutional change extending ILO's framework intrusively into national sovereignty.

The issue is not really the institutional aspect. Once trade-linked labour standards are established within the framework of the ILO, it would surely be construed as a readymade licensed weapon available in ILO's armoury, and it would only be necessary for trade-linked demand being made to use it for enforcement of such standards.

The procedural aspects of trade linkage are also rather complicated and seem to defy logical and practical measures. Issues relating to definition, establishment of ground rules, enforcement etc. may not lend themselves to clear-cut delineation in

the case of pure-trade issues. For example, in the event of a complaint regarding non-enforcement or inadequate enforcement of labour standards, such non-compliance might come to be stamped as unfair trade practice; consequently, there could be demand for invoking trade sanctions against import of allegedly "socially dumped" goods; and the complainant country or industry may not even have to establish that it is not itself indulging in similar non-conformity to labour standards in



its domestic market. The concepts of "injury to domestic industry", "subnormality" and "artificiality" in prices constituting "subsidies" to trade etc. cannot be imported into the area of labour standards for the purpose of defining "social dumping". Nor can ILO established norms and standards be made bodily enforceable by any agency because within the ILO itself they have been liberally negotiated and established and are meant to be accepted by member-states only voluntarily within open-ended time-frames. In any case, these are procedural aspects which may be construed as irrelevant when the very concept of the social clause is itself a matter of controversy.

WORLD THINKING ON SOCIAL CLAUSE: THE CURRENT STATUS

In the pre-Marrakesh GATT deliberations, of course, opinion on the need for discussing the social clause was itself sharply divided and as already stated, the Uruguay Round has concluded, leaving the matter open-ended. Both in the International Labour Conference of June, 1994 and in the meeting of ILO's Working Party of November, 1994 and therefore in all ILO Conference till 1997 most developed countries have made a strong plea for introduction of the "Social Clause". A substantial number of developing countries has taken strong position against it.

The Declaration of the Fourth Conference of Ministers of Labour of the Non-aligned and Other Developing Countries (Tunis, November, 1990), inter alia, mentions: "the Ministers of Labour expressed concern at the increasing attempts of certain developed countries to link international trade with allegedly minimum standards and felt that such attempts were mere guard for further protectionism and must be resisted resolutely."

The G-15 Summit of March, 1994 and the Golden Jubilee Session of ESCAP of April, 1994 have looked at the 'Social Clause' quite disapprovingly.



While a substantial number of developing countries are not inclined to accept the social clause, they are also generally unanimous in their opinion that objective and neu-

tral ILO action for standard setting should continue and that ILO's hands should be strengthened for the purpose. They have also called for review, consolidation and updating of the Conventions, keeping the changing socio-economic scenario of the world and of their own countries in view and, of course, without any linkage to trade concerns. This work has to be given paramount importance in ILO action, supported by concurrent implementation of technical cooperation in the field.

The National Governments, on their side, will have to continue to keep ILO-established labour standards under periodic review so that their application could be progressively enhanced, consistent with economic growth, they should further improve the standards of enforcement of ratified conventions.

LABOUR STANDARDS - DEVELOPMENT OF THE CONCEPT

In the interest of clarity of the above discussion, it may be worthwhile to look into the historical genesis of Labour Standards.

The idea of some form of international labour standards originated, interestingly, during the mid-nineteenth century, through the efforts of a French industrialist and employer, Daniel Le Grand. Le Grand repeatedly petitioned European Governments beseeching them to come to a joint agreement on labour legislations as a means of eliminating economic competition. Le Grand reportedly worked on several projects relating to labour legislations on such issues as hours of work, rest days, night work and unhealthy or unsafe work. He also advocated special rules for children.

Probably another factor that made the western governments of advanced capitalist states take labour seriously was that the nineteenth century was also witness to massive turmoil and growing working class movements in Europe and America. Better working conditions, eight-hour working day and political rights were major issues being raised by these workers' movements.

The first known positive initiative came from the Swiss Federal Council in 1889. It sent out invitations to 13 governments to meet at a Conference to discuss and agree upon some common, desirable labour laws. Meanwhile Germany too initiated a move and the Swiss Federal Council joined in. On March

15, 1890, an international factory and mineworkers' conference opened in Berlin. Among the recommendations of the Conference were proposals for the regulation of child labour, mine workers, women workers and Sunday work and so on. There were however, no formal commitments.

During the First World War, workers had to bear the maximum brunt causing widespread misery. In the midst of the war, the American Federation of Labour, in November 1914, called for a meeting of the representatives of organized workers from different parts of the world. It proposed that this meeting be held at the close of the war. A significant step forward was the convening of a Trade Union Conference in Leeds in England, in 1916, jointly by the British and French Trade Unions. The major contribution of the Leeds Conference was its demand that workers issues such as hours of work, social security and occupational safety be guaranteed as part of the peace Treaty. Another significant contribution was its proposal for the establishment of an international labour commission for the supervision of the application of the provisions mentioned above. It proposed that this commission include both workers' and employers' representatives. Here, in this proposal for the formation of an International Commission on Labour, lay the germs of the idea that later materialized as the International Labour Organisation.

The demand for the representation in the Peace Congress start gathering momentum as the war drew to a close. The American Federation of Labour organized another conference to demand the inclusion of labour rights in the Peace Congress. As a result of these pressures, one of the first acts of the international Peace Conference held in Versailles in 1919, was the appointment of a Commission on international Labour legislation that was to draw proposals for the formal inclusion in the Peace Treaty. The text of the Commission's draft was included as Part XII of the Treaty of Versailles. The ILO was now in being as a permanent section of the League of Nations, to be based in Geneva.

After the Second World War, it is now United Nations, of which ILO is a specialised agency.

THE QUESTION OF IMPROVEMENT OF THE LABOUR STANDARDS

Though ILO has recommended a variety of Conven



Spring Struggle on March 8, 1998, Tokyo

tions on Labour Standards to be followed by different member countries of the ILO, unfortunately, many of the member countries including India have not yet ratified many of the important Conventions much to the detriment to the cause of the workers. So far as India is concerned, the Indian trade unions, have been fighting for ratifications of all the important ILO Conventions by the Government, but the Government refuses to do so.

In fact, ILO has recommended Conventions for improvement of the Labour standards from almost all its aspects, and if those are ratified, then the Labour Standards in a country like India will automatically improve. So is the fact for all other developing countries.

Thus, 'Social Clause' is no solution, rather it is an imposition on the developing countries by the developed ones through WTO and ILO in order to gain comparative advantage in international trade. It has practically nothing to do with the welfare of the labour. In fact it is the national Trade Unions who will have to fight for improving the Labour Standards without any external pressure motivated by trade interests of the developed countries and nothing more.



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Globalisation - Myth And Reality

N.M. Sundaram

World Investment Report defines globalisation as internationalisation of trade and investment. It would mean that in the process of such economic integration, expansion of trade would materialise as well as expansion of financial investments, benefitting all the countries embracing the path of globalisation. But the term globalisation in practice is not amenable to such simplistic assumptions.

With vast inequalities between nations, equitable share of any expansion in trade and investment would not materialise. With the standard of living of different strata of the people within countries being vastly different, whatever benefits accrue would be cornered by the small sections of the privileged class while further marginalising the poorer sections. In practice this is what has happened; the hiatus between the rich and the poor countries and between the rich and the poor within national boundaries has further widened accompanied by inevitable social tensions.

MYTHS Vs FACTS

We may now proceed to examine experiences in order to separate certain myths from facts. The world trade has grown according to UNCTAD Trade Report by 9% in dollar (US) terms, in 1997. It cannot, however, be said that all countries participating in the globalisation process have equitably benefitted. For Example, India's trade has increased by only 4%. India has lost out nearly 6 % in the process of participation in this globalised trade. No wonder, with all this expansion in world trade, India's share out of the total is a mere 0.7%. It continues to hover around this percentage share for quite a long time. We are not for the present going into details of how this imbalance has occurred. But the facts stare us in the face.

In respect of investment too, despite all the hype, the facts are hardly encouraging. Assuming that In

dia is desperately in need of foreign direct investments(FDI) in a big way, it is worthwhile studying the factual position.

Our Finance Minister has gone euphoric in expressing to groups of interested investors in the USA recently that India would be able to absorb an FDI of \$10 billion per annum. Recent statements of the spokesmen of the new Central Government, welcome such investments in respect of 'computer chips' as well as 'potato chips'! Official statements also assert that investments need not be confined to core areas but could come in the area of consumer products too.

What are the possibilities that the desired \$10 billion of FDI would materialise? In a situation when most developing countries have been lured to take to globalisation, it is only fair for all of them to expect that they too should be recipients of sizeable FDI, if not \$10 billion per annum as India aspires for.

Despite the economic crash suffered by countries of South-East Asia such as Malaysia, Thailand, Indonesia, etc. they continue to be role models to emulate. The avowed aspiration is that by the turn of the century, we shall also be a tiger economy like them, though as an economic analyst described recently that the tigers had already become turkeys, figuratively speaking, for the western dinner tables.

All developing countries would naturally like to emulate Malaysia, if not China, in attracting substantial FDI. But despite an explosion in financial investments particularly in the last decade, in reality is there sufficient FDI to go around? This needs to be examined in depth. Other-



wise fond expectations would turn into mirage.

PRIORITIES JETTISONED

Often we are being told that the way to attract foreign investment is to liberalise the economy speedily and comprehensively. And that, in a manner to satisfy the sentiments of the investors, even if it would mean jettisoning the priorities of national development, carefully worked out over time. It is something like sacrificing the fatted lamb to appease the deity. Here the deity is world capital and the sacrificial lamb is people's interests in all their manifestations.

The much awaited investments originate in rich countries and are channelised through their instrumentalities. Naturally enough, the resources available would be utilised first for their own betterment-their own further enrichment. Inevitably, FDI is concentrated in the largest developed countries, the US, the countries of the EU and Japan-TRIAD as they are called.

All the developing countries taken together, contributing as they do to around 1/5th of global GDP, absorb just 1/4th of world FDI flows. Even here the flow is so uneven that the ten largest of the developing countries absorb a major portion of these investments. As per World Investment Report-1993, it was 79% of the total. This asymmetry in FDI flows should never be ignored.

For example, as per a study on FDI flows conducted by the International Finance Corporation and the Foreign Investment Service, China attracted \$ 37.056 billion in 1995, as compared to India's \$1.316 billion. In 1997, FDI in India amounted to \$ 3 billion as against over \$ 40 billion attracted by China. (China has comparatively stronger resilience in terms of absorbing and mitigating the adverse effects inherent in such inward FDI flows. This is because of its stronger economic fundamentals such as wider and deeper home market and tremendous export poten-

tial. It is the largest owner of dollar reserves next only to Japan.) However, the external vulnerability inherent in FDI inflows cannot be underestimated. The ques-

tion where, for what and on what terms these FDI inflows come assumes crucial significance. Here it must be said that China has better grip over things though external vulnerability cannot be altogether ruled out.

There is this interesting study by UNCTAD according to which total worldwide FDI in 1996 amounted to \$350 billion. But not all this was employed for productive purposes-to create new production facilities, to produce what was most essential for economic development, to create employment potential etc. As much as 47% of it amounting to \$ 163 billion were utilised in majority acquisitions and mergers (A&M). If minority A & Ms are included, \$275 billion or 75 % of the total FDI was not available for purposes for which developing countries would be expected to seek FDI.

Most of this A & Ms involved firms headquartered in US and UK, though other rich countries too are involved. Indian industrial scenerion is also being increasingly vitiated by this A & M phenomenon. The process has increased the market control and therefore, profits of the acquiring company, But it cannot be said to have benefitted *per se* the process of economic development for people's benefit. The much - touted 'competition' is the casualty and so are existing jobs.

UNREALISTIC CLAMOUR

The sheer futility of relying on FDI inflows by developing countries for national development has been succinctly illustrated by the Trade and Development Report - 1997 of the UNCTAD. The Report takes the example of Malaysia which attracted an average annual FDI inflow of \$ 12.8 billion between 1991 and 1993. This by itself cannot explain much, given the vast differences in GDP growth rates, population, etc. of aspiring developing countries. The Report, therefore, relates the FDI flows into that country in per capita terms and as percentage of GDP. FDI inflow of \$ 12.8 billion would mean for Malaysia \$241.8 in per capita terms; related to GDP, it would be 10% (1990). If all developing countries clamouring for FDI are to emulate Malaysia, the hypothetical total FDI inflow has to be \$2007.8 billion, i.e., at the rate of \$241.8 in per capita terms. At 10% of the aggregate GDP of these countries, the inflow should be \$957.7 billion. As against this esti-



mate, other developing countries have together attracted only \$136.8 billion during the period, which in per capita terms would be a poor \$16.5 (compared to Malaysia's \$ 241.8) amounting to just 1.4% of GDP (as against 10% for Malaysia).

The Report in the circumstances concludes: "...even a modest replication of the Malaysian experience throughout the developing world implies a level of FDI outflows from the North that it would be totally unrealistic to expect." The Report further points out: "If all developing countries, other than the first tiger NIEs (Newly Industrialising Economies), received from OECD (Organisation for Economic Cooperation and Development) countries the same amount of FDI as a proportion of GDP, as did Malaysia in 1991-1993, total FDI outflows from these countries would amount to 27% of their spending on investment. If, on the other hand, they received the same per capita FDI as Malaysia, the proportion would rise to 56%."

It is highly inconceivable that the rich countries would allow such huge outflow of investments as 56% (or even 27%) which would amount to starving their own economies of required investments. Already protectionist lobbies and even trade unions in those countries are protesting against external investments-which they look upon as impermissible funding of their competitors in the third world and even as exporting employment.

It is significant that a proposal by the US Government, to fund the IMF to the tune of \$ 18 billion enabling it to meet its commitments across the globe, particularly in South-East Asia in the wake of the monumental crisis overtaking them, is facing stiff opposition in the US Congress. This no doubt is a manifestation of the contradictions inherent in their policies.

The object of investment liberalisation in the first place was to channelise these investments to export-oriented industries. Similarly the objective of liberalisation of trade could not be anything other than maximising exports apart from securing the essentials of development through imports. But these objectives have hardly been met.

Trade Policy Review - 1998 published by the WTO on April 7, 1998 gives a glaring analysis. Foreign companies that have set up their establishments in

India have done so with an eye on the sizeable Indian market rather than on exports.

The Trade Policy Review of WTO was specifically related to India. The review having said that the FDI and trade liberalisation have not fulfilled their avowed objectives, strangely enough though expectedly, demands of India that all barriers and restrictions relating to trade, investments and intellectual property right should be disbanded speedily. The Exim Policy recently announced by the Government obviously is an exercise in response to this strident demand of WTO. All the talk of utilising the WTO machinery for hard bargaining in India's economic interests has already come to nothing.

STRENGTHEN SELF RELIANCE

From the above, it is clear that the quest for economic development and finding solutions to the basic problems of the economy and the people of developing countries including India, cannot take the role of globalisation and liberalisation. The real direction of policy should be towards strengthening the process of self-reliance through stimulating and conserving whatever resources are available within the country and also by widening and deepening the home market.

As an inherent part of such developmental process, the aspect of increasing substantially the internal savings which is around 26% of GDP at present, assumes crucial importance. The Government could be said to have set its sight correctly when it targets 30% domestic savings. But this cannot be achieved by frittering away resources nor can it be done by reckless liberalisation of trade and investments aimed at further aggravating the consumerist trends that have overtaken the psyche of the people at present. It is becoming glaringly apparent that the enlightened self interest of a developing country like India seeking to find solutions to manifold problems of its people, cannot be subserved by reckless liberalisation and globalisation of its economy.

(N.M. Sundarm is the General Secretary of the All India Insurance Employees Association)



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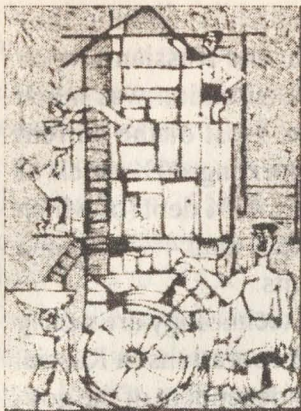
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ERSTWHILE SOCIALIST COUNTRIES AND GLOBALISATION

Chittabrata Majumdar

The process of transformation from socialist system to capitalist system started from the later part of 1989 in the Eastern European countries and culminated with the dismantling of former Soviet Union in December 1991. Emergence of a number of independent states and Russian Federation are the follow up of disintegration of former Soviet Union. The Soviet Union was a major player in international economics before its breakup. The people outside the former socialist countries are interested to know about the impact of free market economy on the economic and living conditions of the people in these countries.

CONDITION OF PEOPLE IN THE SOCIALIST SYSTEM

In short, the economic and living condition of the people under social system can easily be understood from the observations of the World Bank. It has been pointed out in the World Development Report, 1997 that, "In central and Eastern Europe and the former Soviet Union, the state has traditionally provided a wide range of social services. Before their transition to the market, these states offered comprehensive benefits, but they differed from those in industrial market economies in four respects. First, because the system was premised on full employment guaranteed by the state, there was no unemployment insurance. Second, social protection focussed on those (such as the old and the disabled) who could not work. Third, benefits were decentralised at the firm level. And fourth, in kind subsidies (housing, energy) played an important role." Now we are to examine, whether the people in these countries are enjoying all these rights and further facilities, if any, in the free market economy.

LIBERALISATION SUGGESTED FROM OUTSIDE

Long before disintegration, in July 1990, leaders of the Group Seven industrial nations and the President of the European Community asked the International Monetary Fund (IMF) and other United Nations economic agencies to study the Russian economy and propose a more effective method of reform. The study titled 'A Study of Soviet Economy' and released in December 1990, made recommendations to both the international community and the Russian government itself.

The Committee strongly suggested that the Russians immediately release price controls on almost all goods, instantly creating a free market in which the people could learn capitalism first hand. An auction of all government-owned corporations was proposed, beginning with smaller, easier to value companies. Also, the committee emphasised the need to lift restrictions on foreign trade.

Liberalisation of the economy is the process of removing price controls and restrictions on private ownership. The year 1996 registered implementation of many of the recommendations. Controls over production and distribution have already been released in all industries except energy, communications and transportation. But the advisers are not still satisfied. They are demanding further withdrawal of price control, especially in staple product such as food. For rapid implementation of their recommendations, the advis-



ers are suggesting to import experts from Europe and the United States to educate Russian economists, who could then teach the people about the operation of a free market economy.

IMPACT OF GLOBALISATION ON ECONOMY AND SOCIETY

Economy

The globalisation has worsened the economic situation of these countries. In Russia, in the year 1995, total external debt reached the amount of 120,461 million \$. The value of rouble has reduced drastically. Before transition, the official value of one US \$ was worth about 2/3rd of a rouble. In 1993, it was close to one thousand roubles and in October 1997, it was 5919 rouble. That translates into an annual inflation rate of more than 350%.

The annual average growth rate per cent of GDP has declined from +1.9% in 1980-1990 to -9.8% in 1990-1995. The income inequality among the people is growing high. During 1993, the share of income of the lowest 20% was only 3.7%, while that of highest 20% was 52.8%. During 1980, the percentage distribution of gross domestic product for private consumption was 62, which has declined to 58 in 1995.

Industry and Production

The liberalisation of economy has brought with itself the destruction and downfall of a number of enterprises in advanced industries that used to make for technological development and self-reliance of the country. In Russia, the working in all the industries starting from consumer goods manufacturing to machine tools industry, mines, military industrial complex, space research organisation has almost come to a halt. The Government is not providing any money to continue the manufacturing activities.

In Russia, 56% of enterprises in the main branches of production ran at a loss in 1996 and this was after privatisation in which they were given their land and all their fixed assets virtually free and in a year in

which inflation was still running over 20%. One third of enterprises were insolvent (current assets less than short term liabilities), and fewer than a third had assets more

than double their liabilities, which is the ratio they are required to maintain under the Russian law on insolvency. However, the real situation was much more worse than this because, most of the current assets were unrealisable, comprising 40% stock of raw materials and unsold goods, 45% debt (of which over half were overdue) and less than 4% cash and short term financial investments.

Research and development in technology are nearly non-existent in most private corporations in Russia. Many entrepreneurs who are independent of the government are unwilling to risk their capital in product development. Government expenditure towards Research and Development has been cut drastically. Such attitudes are making technological modernisation nearly impossible.

Living Standards

The globalisation has brought with itself the sizeable drop in the living standards of the majority of the population. All the burdens of reforms under prescription of IMF and World Bank have been shifted the shoulders of the working people. Official minimum wage is less than 20% of the minimum subsistence level; average salary can buy 80% of a minimum consumer basket. The number of people living below poverty line is increasing rapidly. According to Jeni Klugman, a World Bank expert, in early nineties, around 10% of the population in Russia were below subsistence level. The proportion of those below the poverty line was 25.2% in 1992, 31.9% in 1993, 24% in 1994 and 31% in January-February 1995. Thus around a third of the population of Russia are officially described as the poor.

The situation is almost the same in Hungary. According to the World Bank sources, the national average of the people living below the poverty line in Hungary in 1993 was 31.9%. Poverty in Hungary is concentrated in villages and homesteads, where it is less visible. According to the 1994 survey, 71% i.e., almost three-quarters of the village population, belong to the three lower income quintiles. In Hungary, poverty is not most frequent amongst the old - although the situation of those over 70 is worse than the national average - but amongst children and young people. 25% or more of those under 19 belong to the lowest quintile. It is particularly noticeable that 32.9% of infants under two (that is of fami-



lies with small children) live in poverty.

The average per capita daily calorie intake is also reducing progressively. From UNICEF sources, it is seen that between 1989 and 1994, per capita calorie intake came down in Russia from 2603 to 2427, in Ukraine from 3517 to 2895, in Bulgaria from 3269 to 2665, in Hungary from 3499 to 3052, in Slovakia from 3234 to 3143.

During the same period, per capita bread and cereals consumption also came down in Bulgaria from 158.2 kg to 156 kg, in Poland from 120.5 kg to 117.8 kg, in Hungary from 112.2 kg to 92 kg, in Slovakia from 153.4 kg to 141.4 kg.

Meat and fish consumption has come down in Bulgaria from 56.7 kg to 44.1 kg, in Hungary from 81 kg to 69.5 kg, in Slovakia from 88.5 kg to 68.2 kg, in Russia from 71.7 kg to 59 kg, and from 1989 to 1993 in Rumania from 57.1 kg to 49.8 kg, in Czech Republic from 103.4 kg to 88.8 kg, in Ukraine from 68.6 kg to 46 kg.

During the period, per capita consumption of dairy products also came down in Bulgaria from 132.2 kg to 82.4 kg, in Poland from 133.2 kg to 107 kg, in Hungary from 189.6 kg to 141.1 kg, in Slovakia from 253.2 to 166.1 kg, in Russia from 388.6 kg to 294 kg, in Ukraine from 366.9 kg to 256 kg.

Employment

Growth of unmanageable unemployment is another manifestation of globalisation. As per ECE sources, the registered unemployment increased in thousands from 1991 to 1994, in Bulgaria from 419 to 488 (12.8), in Poland from 2156 to 2838 (16), in Hungary from 406 to 520 (10.4), in Rumania from 338 to 1224 (10.9), in Slovakia from 302 to 372 (14.8), in Slovenia from 91 to 124 (14.3), in Russia from 62 to 1637 (2.1), and in Ukraine from 7 to 82 (0.3). Figures in () indicate unemployment in term of percentage of labour force in 1994.

Unemployment figures for Russia and Ukraine are shown less. The reason is that full employment continues in Russia, the Ukraine and in the CIS countries, though, one Russian worker in four, more than 20 million people, is no longer paid regularly and delays can be as long as six or even twelve months. The total wage debts amounts to 10 billion US \$. One Russian worker in eight is paid in kind. In the southern Russian port of Taganrog Dockers have

been paid with tins of the exotic fruit rather than in roubles. Workers at the Ivanova textile factory, for example, now have stacks of sheets, while those at the porcelain factory near Vladimir are collecting crystal vases.

The situation is so grave that the Director General of ILO, Michel Hansenne, said he was deeply concerned about the non-payment of wages, which constitutes a violation of human rights. Even the International Monetary Fund, not known for its trade union sympathies has appeared concerned about the risk of social explosion.

Human Losses due to the Transition

The leap in the crude death rate in the former socialist countries, lower life expectancy at birth, changes in male and female mortality rates and that of various age groups, are all in some way connected with negative social and economic process that kicked off or gathered momentum at the time of the change. Mass unemployment and impoverishment do not exhaust the list of possible causes. Law and order, public health and labour safety problems also figure here.

With the poor economic conditions many people, particularly in Russia and Ukraine, have turned to crime to support themselves. The annual growth in the total number of deaths compared to the 1989 level grew in Russia from 73,000 in 1990 to 545,000 in 1993; in Ukraine from an annual 28,800 in 1990 to 129,700 in 1993. Combining the two, the excess mortality can be said to be around 842,000 in the four years following the changeover. The crude mortality rate grew further in Russia in 1994, from an annual 14.5 per thousand to 15.6 per thousand. This could mean an additional loss of close to half a million for Russia alone. There is no indication that the situation has improved in the following years.

Human losses due to the dissolution of Soviet Union and the first four years of the systemic change can be compared to those caused by war. Around 600,000 or so lost by Russia are almost one and a half times the British military and civilian fatal casualties for the six years of the



It is an undeniable fact that the activities of multinationals in the special economic zones established apart from traditional industries and local communities have not been of any help to foster national, independent industries and companies in Asian countries. Far from it, multinationals' activities are factors that hinder Asian nations from achieving their autonomous industrialisation, and fix their dependency upon the import of machinery and products from abroad. The reality is that multinationals' activities have become an obstacle for Asian countries in building a well balanced, independent industrial infrastructure.

Kazunori Okhi

Director

*Japan Research Institute
of labour Movement*

Second World War. The 842,000 human losses, of Russia and the Ukraine combined are far in excess of the joint Second World War losses of Great Britain and the US combined whose population at the time corresponded to the present population of Russia and the Ukraine. But all this has happened at a time of peaceful transition.

GLOBALISATION - NO SOLUTION

The dismal scenario as can be seen from the facts and figures above, clearly shows how even a major player in international economics like erstwhile Soviet Union which was a major aid-giver to the third world countries, has become virtually an economic pauper, totally dependent on outside agencies to sustain its existence. The same holds good for other erstwhile socialist countries. Here lies the lesson for developing countries like India and others where globalisation is being projected as a remedy for all economic problems. Keeping in view the experience of erstwhile socialist countries after globalisation, the likely future scenario in such an event would be much more disastrous for the people and the working class in particular.



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Poor Have Become Poorer: UN Report

The United Nations Industrial Development Organisation (UNIDO) has just released its world industrial economic research results - "Industrial Development - Global Report 1997". The voluminous study blows up standard myths such as "developing countries (DCs) industrially growing or that survival economic indicators related to industrial development in DCs are reducible to key objective caused factors common to all DCs explain progress or failure, or that a too strong dependence on export industry or foreign technology promotes sustainable development. Instead, says the report, 90% of the financial resources needed for industrial investment in DCs and transition economies came from local resources, going hand in hand with high savings rate in DCs and that significant growth factor differences prevail in regional development, be it in Sub-Saharan Africa, North Africa and West Asia, East and South-East Asia, Latin America and Caribbean or Economies in transition (Eastern Europe). The income difference between the rich and poor countries since 1970 has increased by a phenomenal 45% and industrial development, both in the developed and developing countries, with exception to NIEs (New Industrialised Countries), has markedly slowed down.

The Global Report drawing heavily from leading multilateral finance and national institutions and from UNIDO Database, is essentially pegged to the GDP (Gross Domestic Product) growth rate philosophy with three base parameters, the GDP, the MVA (Manufacturing, Value Added - a key indicator of industrial development) and the GFCF (gross fixed capital formation) with the latter two indexed to the first in terms of its percentage. Critics and "alterna-

tive" economists might consider this insufficient for a comprehensive understanding of a complex problematic like the world-wide industrial development and economic growth. Nevertheless, many of the pointers of the study are of great information value, as they are based on well-studied statistical data and dispel many conventional misunderstandings and illusions.

The UNIDO's Director-General, Mr. Mauricio de Mariay Compos, inaugurating the report release at Bank Austria hall before international Press, bankers and economics specialists, said "The world economy has certainly become more globalised, but more polarised as well". It currently symptomises imbalance, if not chaotic trends. Whereas it grew annually by 3.6% in the Seventies, crashed to 1.7% in the mid-Nineties, a trend further reflected in the decline of MVA from 3.6% in 1995 to 2.7% in 90's. The crash was more acute in economies in transition dropping from 5.4% cent in the 70's to minus 8.2% in the 90s. The GDP decline in DCs, however was only 5.7 to 4.9%. The only remedy to world economy, according to the UNIDO study is more investment in DCs with more savings and selective technological inputs conducive to sustainable development. "The study among other things", says India's Mr. N. Mohanty, Director Head of UNIDO's Publications Division, "emphasises the role of long-term investment in industrial economic development. Mere increase in level of investment is not enough. Decisive is the efficiency and com-



position of investment, has one business investment. A balance is required to stimulate domestic investment, between domestic resources and foreign capital inflow."

The report points out a clear difference in savings and investment in the developed world compared to DCs. As percentage of GDP, in the former it was 23.1 and 25.9 respectively from 1974-81, dropping to 19.9 and 20.4 in 1990-95, but in the later it was 26.6 and 25.9 in 1974-81 but investment increasing to 27.4% and savings of 31% only marginally declining to 25.7% of the GDP in the 1990-95 period. Asia beats the rest of the world with high savings of 31% and investment of 32.2% in 1990-95, compared to 26.5 and 25.7 respectively in 1974-81, registering a systematic increase in better industrial economic performance. One good reason given is selective high-tech influx in the manufacturing sector. Second, from cultural viewpoint, religion, ideology and philosophies of Asia traditionally place high value on personal savings. Third, bias toward savings went hand in hand with a healthy restraint and plunge in domestic consumption. Other factors like Government intervention through imposed mandatory savings schemes like provident funds (Central Provident Fund in Singapore for eg.) in East and S.E. Asia also play a role in generating the high savings mentality.

Investment in DCs is expected to rise 50% in 10 years compared to 1994 and over 5% in economies in transition. The report warns: "Measures to boost investment will not succeed if the required financing, which comes from savings is not available." Thus mobilisation of domestic savings will become a crucial policy concern of national governments as most investments will have to come from the domestic financial markets as over dependence on foreign capital implicates foreign control enslaving national economies.

Banks play the major role in financing DCs. According to a 1997 World Bank internal document, unlike the U.S., where Banks' role in investment is limited to 23%, it is as

high as 98% in Argentina, 97% in Brazil, 94% in Hong Kong, 79% in Japan, 91% in Indonesia, 80% in India and Taiwan, and 38% in S.Korea. Both capital and stock market soared phenomenally in the DCs with bond markets clocking between \$4 to 7 billions in 1988-92 and stock markets jumping from \$240 billions in 1986 to \$1900 billions in 1995 accounting for "more than 10% of total market capitalisation, compared with 3.6% in 1986.

Industrial firms have become motors of emerging stock markets. Although the percentage of manufacturing firms accounting for total market capitalisation dropped from 44% in 1989 to 33% in 1995 (IFC Global Index), in India and Indonesia they account for over 70% of total stock market capitalisation with India topping the list (77.7%). The international bond market being highly selective, only two Indian companies have profited so far - ICICI (\$150 millions) and Reliance Industries (\$300 millions).

Portfolio Equity Investment (PEI) has catapulted 10-fold in DCs and economies in transition during 1990-93. In DCs loan issues fell from \$102.9 billions in 1995 to \$77.5 billions in 1996, bond issues increased from \$47.7 billions to \$72.97 billions in 1996. Unlike Bank lending, portfolio debt financing around the world for DCs and economies in transition has soared from \$1 billion in 1986 to a whopping \$73 billion in 1996.

The Report's major message is that more and more DCs are able to finance up to 90% of their industrial development from domestic sources. But poverty remains the major concern. Income disparities between rich and poor has widened with 45% increase with per capita income showing a downward trend. Overseas Development Assistance (ODA) now stagnant at 0.27 GNP at \$60.1 billions in disbursements as against the U.N. target of 0.7% with Denmark, Norway and the Netherlands being exceptions with 0.8 per cent GNP contribution. Two-thirds of ODA are bilateral and one-third is multilateral. \$5 to \$6 billions, i.e. 8% of ODA, goes to humanitarian emergencies.

The Global report has compiled an exhaustive country by country database giving GDP-indexed economic indicators. In the S.Asian region the GDP increased from 3.3% in the 70's to 5.3% in the 80's dropping down again after the Gulf war. India's GDP



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had grown steadily from \$174 billion in 1980 to \$376.2 billions in 1995. India's per capita though increased from \$253 in 1980 to \$405 in 1995, is still one of the lowest in the world. Topping the manufacturing sector in India is textiles (\$2.19 billions), Chemicals (\$1.84 billions), iron and steel (\$1.48 billions) transport equipment (\$1.08 billions) with food products manufactured accounting for only \$0.89 billions. India's industrial production index graph shows a steady rise, especially after 1993 reaching almost to 140 in 1997 from 45 in 1975.

(Report from VIENNA in 'The Hindu' by George Chakko)



In Germany, the unemployed, who now number around 4.8 million, have organised a series of demonstrations starting in February 1998. This action should culminate in September with a big demonstration in Berlin. At the same time, the Government has decided that unemployed Germans will henceforth be required to take jobs which were once done by seasonal workers from abroad. The number of work permits given to foreign workers will accordingly be reduced by 10% *(Source: Le Monde, Espace social europeen, Paris)*



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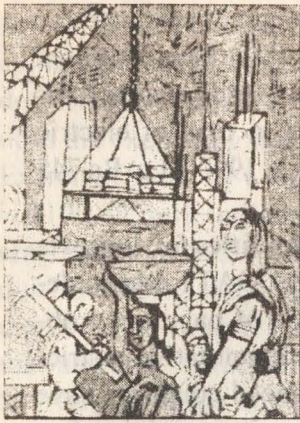
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Liberalised Foreign Trade And Deindustrialisation In India

Dr.(Ms.) Anjali Kulkarni
Dr. (Ms.)Rucha Ghate

During the last decade the benefits of liberalisation have been constantly publicised, yet, there were intermittent murmurs like, "leading manufacturers of capital goods are facing severe shortage of orders as prominent players in the users sectors have started importing capital goods without even making inquiries with domestic suppliers", and the expressions deindustrialisation may sound harsh, but its use to describe the damage caused by the policies of structural adjustment to the industrialisation of country is not inappropriate". With only a decade of experience of liberalisation - which gradually gathered momentum - one can only test the relationship between liberalised foreign trade with deindustrialisation, if not establish it.

1980s is the period when Indian policy makers began to shift the domestic economy from highly regulated, inward-oriented regime to an open, outward-oriented regime. Substantial changes were instituted since 1984, including liberalisation of imports, exemption of certain industries from the MRTP system etc., and raising the investment threshold for others, broad-banding of industrial licenses, and adding greatly to the incentives for exporters. Since 1990, with the New Economic Policy, the rate of liberalisation and shedding off the barriers has increased substantially.

SCENARIO AT INTERNATIONAL TRADE FRONT

The twin objectives, justifying liberalised foreign trade, were put forth as: to bring in latest technology and capital goods, both of which are scarce in India; and to improve competitiveness of indigenous industries to enhance exports. On the basis of quantitative data, certain observations are made here which

do not reveal the success of the said objectives but the opposite.

1. Trade Deficits: Back to 1980 level

The trade deficit for 1995-96 which is \$8.94 billion is double the figure for 1994-95 and almost four times the figure for 1993-94 according to RBI Annual Reports. In rupee terms the negative trade balance was as high as Rs.15,182, crores for 1995-96 which was Rs.7,670 crores in 1989-90.

The pretext for the entire set of IMF-ordered measures since 1991 was that the foreign exchange crisis had been brought on by trade deficits; but after five years of 'Structural Adjustment', we find the trade deficit at virtually the same levels as in the mid-1980s.(Table No.1).

2. Slowing down of Exports & Imports

During the current fiscal year (April,1996, March,1997) both exports and imports are growing at much below their targeted levels. After growing almost 21% during 1995-96, the export growth target for 1996-97 was set at an ambitious 17%, but the figures show export growth at less than 10%.

(see Table 1)

Imports, on the other hand, are also slowing down because of the current deepening of industrial recession. According to the Director General of Commercial Intelligence and Statistics (D.G.C.I.S), non-oil imports including plant and machinery, industrial raw materials, industrial intermediates, components, and other bulk commodities, apart from consumer goods, for the period



April-Oct., 1996 were 19.06% lower than for the corresponding period in 1995.

3. Composition of Commodities treaded

Going through the data published by CMIE in its special volume 'Foreign Trade Statistics of India', one finds that since 1990-91 overall imports have nearly doubled, i.e. from Rs.43,171 crores to Rs.88,703 crores in 1995-96. From the list of commodities, 28 Commodities are such whose imports have risen at the rate more than the average rate.

Spices, pearls and gems, sugar, jute, raw silk, cotton raw waste, leather woolen and cotton runs, hides and

mestically can give boost to indigenous industries.

In case of capital goods imports, these have increased in case of non-electrical machinery and machine tools but have substantially reduced in case of electric machinery from Rs.1,741 crores in 1990-91 to Rs.745 crores in 1995-96.

4. Recently Liberalised Commodities for Imports

Under article XVIII of the 1994 GATT treaty, developing countries with balance of payment problems have the right to impose quantitative restrictions on imports. But the advanced countries have been pressuring India to remove its remaining few curbs on imports, mainly on consumer goods, on the ground that India no longer has balance of payment problems. In response, Indian Govt. has each year removed some more items from the restricted list of imports.

In March, 1996, the policy moved 105 items from the restricted list to the free list, 7 from the special import licences (SIL) list to the free list, and 85 items from the restricted list to SIL list. Among the items whose imports were liberalised were cellular phones, walkie talkies, pagers, coca and coca products, shavers/hair clippers, watch and clock movements builders, wares of plastic like large-size tanks, door and windows, shutters and Venetian blinds, food processors, shaving products like razors, blades, blade blanks, twin razor systems, locks, high-powered lawn mowers, mechano-therapy and massage apparatus, to name a few. It is a known fact that most of these items have been produced domestically and quite efficiently. Imports of these commodities produced by multi-nationals who have an upper edge in competition because of superior technology, international network and large amount of money spent on advertisement, is bound to give indigenous industries a tough time.

5. Abnormal Trade Pricing

Three American economists J.S. Zdanowics, W.W. Welch, and S.J. Pak have published a study on 'Capital Flight from India to USA through Abnormal Pricing in International Trade, they have compared the price at which India bought particular product from the US, to the average price at which the US exported that product all over the world. Similarly the price at which India exported a product to the US, to the average price at which the US bought that product

TABLE -1

Export, Import and Trade Balance

Year	Exports	Imports	Trade Balance
1985-86	10,895	19,658	- 8,763
1986-87	12,452	20,096	- 7,644
1987-88	15,674	22,244	- 6,570
1988-89	20,232	28,235	- 8,003
1989-90	27,658	35,328	- 7,670
1990-91	32,553	43,198	-10,645
1991-92	44,041	47,851	- 3,810
1992-93	53,688	63,375	- 9,687
1993-94	69,751	73,101	- 3,350
1994-95	82,674	89,971	- 7,297
1995-96	1,06,465	1,21,647	-15,182

Source : Foreign Trade Statistics of India, May, 1996, CMIE

skins are some of the commodities India is importing for which she was a well known exporter for a long time. These, and many other commodities like pearls and gems, cosmetics, silks, textile yarn fabric, fruits and nuts are all luxury consumption goods which do not help enhance productivity or boost domestic industries.

It is interesting to note that while India is exporting raw cashew, raw silk, raw cotton, which are low priced, she is importing same commodities after processing, at high price. Same is true for paper which we export, at an added cost of deforestation, and import newspapers and printed books. The processing, if done do-



from all over the world. A quick perusal of the list of commodities and extent of over-invoicing and under-invoicing can give one a fairly good idea of what does the expanding international trade really mean. Exercise Cycles for which world average export price is \$100.39/unit. India exported these to USA at average price of \$0.51/unit. Insulated Electrical conduit? Similarly, only one example of overpriced Indian imports from US can throw light on losses on that account. Teracyclines world average price is \$11.74/gm. which was bought by India at \$1.105.50/gm. Arc welding base metal core wire, fans/blowers for motor vehicles, fixed capacitors, generator, freezers, radio transmitter, nickel alloy pipes & tubes, insulated cable etc. are examples where process of indigenous industries can directly get adversely affected, falling to stand to foreign competition.

These are only some aspects of international trade which directly or indirectly affect industrial sector.

SCENARIO AT INDUSTRIES' FRONT

The highlights of industrial sector in India, between 1991-95, are, declining productivity, absolute fall in employment, suppression of wages, mergers and takeovers, and fluctuations. One reason, for which protection, specially protection from imports, was given to domestic industries immediately after independence, was to protect them from invasion through international competition. But it was misused by the privileged industrial houses within India which killed internal competition as well. As a result indigenous industry did not improve either its efficiency or its product quality. And now that the corporate sector is thrown open to international competition it is trying hard to stand firmly on feet lest it will be swept away. Many of the industries are falling prey to easy solutions of mergers or amalgamation, or are being expelled from the market through acquisition.

1. Declining Productivity

The rate of growth of output of Indian corporate sector has experienced a decline since 1990s. The recent Economic survey also mentions that the rate of industrial growth has fallen from 11% in 1995-96 to 9.8% in 1996-97. The average growth rate between 1997-98 to 1990-91 i.e. before structural adjustment, was 16.2%, which reduced to 13.6% between 1991-92 to 1993-94. Even this is a understatement because these are figures of nominal output and not real out

which would be much less after accounting for inflation. There are some discrepancies in the rate of real growth of industries, which was 8.2% according to official IIP for 1990-91, and 3.5% according to CMIE data base.

Secondly, the productivity of fixed assets has declined, which shows that value of production by the value of gross assets has declined. This ratio has dropped particularly sharply during 1990s from 1.47 to 1.36. The marginal productivity of investment has been heading steadily downhill which means that capital has been employed less and less effectively. This ratio is obtained by dividing the increase in output by the increase in investments. It was 1.36 in 1989-90 which sank below to 0.82 in 1993-94 (see Table No.2)

2. Fall in Employment and Wages

Two distinct phases in the development process are discernible, i.e., industrialisation, in which the share of employment rises; and deindustrialisation where the share declines. Paradoxically, this latter phase is not an abnormality. But when the share of industry in employment begins to fall even before it completes the industrialisation phase, the deindustrialisation is an abnormality. It is product of economic failure and occurs when industries are in severe difficulty, and the general performance of the economy is poor. In these circumstances, labour is shed from industry and so its share in total employment declines.

CMIE's publication on Indian corporate, April, 1995 states, "It is unfortunate that Indian companies are not required to, and therefore do not, disclose the number of employees employed." This is serious constraint, therefore, expenditure on wages as proxy indicator to study the productivity of labour are used. The results are in stark contrast to those of the productivity of capital. Output per rupee spent on wages has increased more or less consistently since 1987-88 (Table No.3). But wages as a percentage of output have declined from 10.4% in 1987-88 to 8.5% in 1993-94.

3. Increased Fluctuations

It is true that despite the slowdown in the growth rate of output



Table -2

Corporate Sector: Rate of Growth of Output, Productivity of Investments, Productivity of wages and Profitability

	1987-88	1988-89	1989-90	1990-91	1991-92	1992-93	1993-94
1) Growth of Output (%)	12.8	18.5	18.5	14.9	16.3	13.1	11.4
2) Productivity of investment	1.49	1.49	1.47	1.47	1.44	1.30	1.36
3) Marginal Productivity of Investment	1.08	1.38	1.36	1.19	1.02	1.04	0.82
4) Productivity of wages	9.6	9.6	10.5	10.9	11.2	11.3	11.7
5) Wages as (%) of Output	10.4	10.4	9.5	9.2	8.9	8.8	8.5
6) Profitability	11.6	12.5	13.5	13.3	14.6	14.9	15.4

Source: CMIE. *The Indian Corporate Sector*, April, 1995

and the decline in the productivity of capital, the profitability of the corporate sector (profit before depreciation, interest, and tax divided by sales) has risen steadily. Yet, real growth in sales, growth in depreciation provision, in gross fixed assets, in net profits, in net non-recutting income, growth in gross value added have all experienced wide fluctuations.

It is also interesting to note that the peak in most of the indicators, in the post 1990s is not very different from peak before the structural adjustment programme. For example, real growth in sales increased by 13.6% in 1994-95, the rate was almost same in 1988-89. The growth in provision for depreciation was 18.17% which fell to 0.84% in 1992-93. Growth in net profits was 1.65% in 1989-90, which increased to 66.33% in 1993-94 but again fell to 57.44% in 1994-95. Growth in gross value added has also experienced similar fluctuations.

Economic stability is one of the important economic objectives of government policy as business fluctuations have adverse impact on the economy as a whole, as well as on industrial sector. As has already been mentioned, foreign trade is the main source of economic instability for developing economies.

4. Mergers and Acquisitions

There is a long list of mergers and acquisition of Indian Companies with multinational companies.

Consumption goods top the list of these mergers. Several examples can be quoted. Tea Estates and Dooms Dooma were amalgamated with Brooke Bond (1993), Nusli

Wadia took over Britannia Industries from Rajan Pillai and collaborated with French Group Danone 1993, Brooke Bond acquired 'Dollaps' from Cadbury India; Baskin Robbins of the Allied Lyons group has tied up with Maharashtra Process food. But the single most eventful 'takeover' has been by Coca Cola of Chauhan's Parle Exports which had withstood a bitter battle over softdrinks, market with pepsom Now Parle is left with its mineral water, Bisleri. Some new entrants like Kellogg and Kentucky Fried Chicken, are bound to wipe out Mohan's and other small industrial Products. A newly formed joint venture between ITC and Zeneca; Hindustan Level and Tomco; and Godrej Soaps and Procter & Gamble, AB Electrolux and Maharaja International, Whirlpool of USA and Kelvinator of India are some examples where multinationals are making steady inroads in Indian consumer market. For reasons mentioned earlier, indigenous producers are going to face tough competition with these strong allies.

5. Foreign Investments

A drain of Capital RBI has come out in (RBI 1995) Bulletin with its fifth Survey which mentions that foreign firms attempt to ensure that though they grab the Indian market, Indian firms do not export to their market. The amount of foreign equity capital held by foreign companies through subsidiaries and mi-



Table - 3

Distribution of Labour Force

Sectors	1971	1981	1991
Agriculture	72	69	67
Industry	10	11	10
Service	18	20	23

Source : *Census of India*

Table - 4 :

Some Indicators of Fluctuations in Industries(Percentage)

Rate of Growth	1986-87	1987-88	1988-89	1989-90	1990-91	1991-92	1992-93	1993-94	1994-95
1) Sales	7.4	8.3	13.7	11.5	6.5	5.5	2.8	9.0	13.6
2) Depreciation Provision	9.67	16.45	12.88	18.71	14.01	27.88	13.65	-0.84	
3) Gross Fixed Assets	12.5	15.1	15.7	16.2	15.4	18.7	15.9	16.4	22.9
4) Net Profit	5.33	11.32	50.36	40.05	1.65	6.89	16.16	66.33	57.44
5) Net non-recurring Income	10.57	-12.95	8.54	39.98	5.76	20.06	52.11	40.60	44.02
6) Gross value added	9.92	12.07	20.62	20.64	13.01	21.53	13.16	16.06	28.88
7) Wages/ Vop	10.51	10.31	10.13	9.44	9.13	8.80	8.65	8.22	6.75
8) Operating Expenses	6.37	15.60	18.11	18.36	15.26	15.75	14.63	10.90	24.44

Source : The Indian Corporate Sector, April 1996, CMIE

minority companies increased to Rs.298.4 crores. Through the data published in 1995 pertains to the period 1981-85, it proved more as a drain for capital instead of a source. Largest drain takes place on account of imports which is much greater than their exports. It is important to remember here that one important reason of allowing MNCs in India was the hope that they will enhance export earnings. The survey notes that while actual inflows of foreign capital in both groups (subsidiaries and minority companies) were Rs.192.5 crores since their inception, these companies resulted in net foreign exchange drain of Rs.1548.1 crores during the five year period. During this period the net drain (import-exports) was Rs.755.8 crores and net foreign exchange outgo on all foreign collaborations, financial and technical, came to Rs.2,289.2 crores during 1981-85. This loss of precious foreign exchange adds to the difficulties of indigenous industries by delimiting their import demands of capital goods on the one hand and forces them to compete with 'unequals', on the other.

CONCLUSIONS

International trade policy of India has witnessed several developments which show a transition from a restrictive import policy granting shelter to domestic industries, to an open, liberal policy - opening the gates of Indian economy to international competition. This has created wide ranging impact on various sectors of the economy. Indian private corporate sector enjoying 'Privileged position' under the

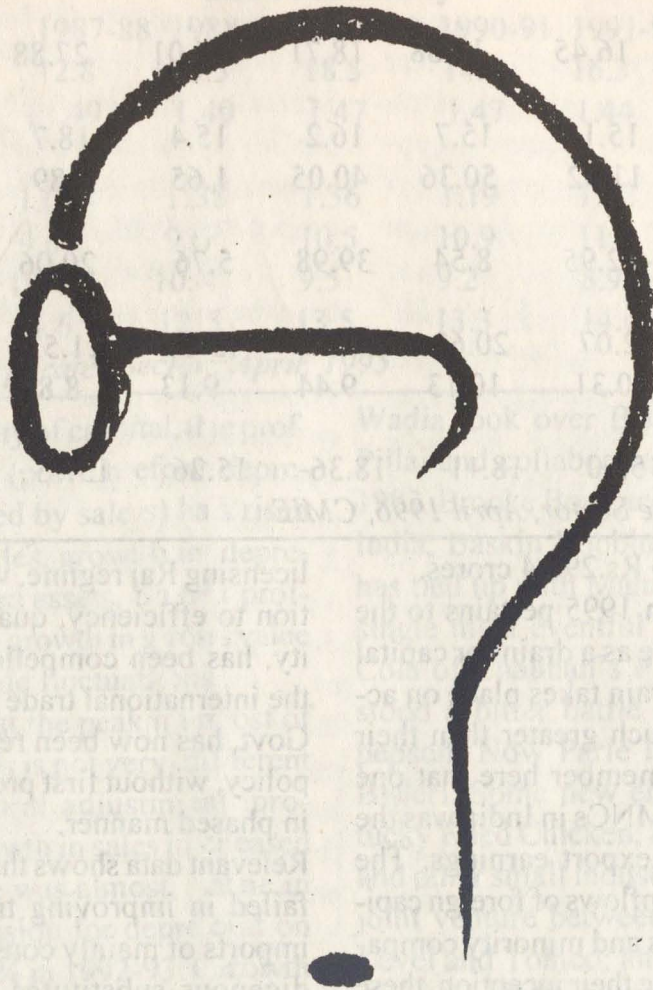
licensing Raj regime, with out giving due consideration to efficiency, quality, viability and productivity, has been compelled to face new challenges in the international trade policies. Import policy of the Govt, has now been replaced by import liberalising policy, without first promoting internal competitions in phased manner.

Relevant data shows that liberalised foreign trade has failed in improving trade deficit; has encouraged imports of mainly consumption goods for which indigenous substitutes are available; and has also proved to be a major source of drain of scarce foreign exchange. The Indian corporate sector has suffered on this account as it is now exposed to trade cycles and presently facing problems of decreasing productivity and rate of growth and is faced with forced mergers, amalgamations and accusation.

However, some of the indicators, do show the improvement in the industrial sector. Also 7 years (since adoption of NEP) period is too short to claim that hypothesis of deindustrialisation and destabilisation in India due to liberalised trade, is established. Yet, this apprehension is worth serious consideration by the keen observers of the economy.

(Courtesy: ICSI Herald, organ of the Indian Council of Small Industries)





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" PRIVATISE AND PERISH" GENESIS OF THE GAME PLAN

Swadesh Dev Roye

Privatisation has become the buzzword of the on going economic liberalisation unleashed by the Government under the Fund-Bank dictated New Economic Policy (NEP) introduced in 1991.

Scores of arguments are being showered by the proponents of so called liberalisation and their pen-pushers to establish that the Government has got no business to be in business. Further these agents of multinational companies propagate that efficiency and government ownership cannot go together. They also argue that social ownership of enterprises as in the case of public sector can no longer bring benefit to the society. True to their brief, according to them, transfer of the assets created by the public sector (privatisation) to the tax-evading corporate houses and foreign multinational companies is the need of the hour. And accordingly schemes have been drawn up by those in governance for privatisation. In India, the Disinvestment Commission has truly come up to the design of their principal employer and have done 'praiseworthy' job in prescribing multi pronged routes for privatisation.

The CITU statement of policy on privatisation had already dealt with the concrete situation in our country with industry specific issues. Here the historical background of the current phase of the philosophy of privatisation and the offensive of privatisation ideology are dealt with. This piece of write-up ventures to chart out the route through which the very concept and mechanism of privatisation were born in the laboratory of the chieftains of the capitalist world, the USA and U.K. to subserve and promote the business interest of the international finance capital. A proper scrutiny would reveal that the pro-capital economists, intellectuals and politicians in India, in service of the philosophy of privatization cannot claim any originality in their prescription for

privatisation and its mechanism. Each and every step towards privatisation prescribed by the Disinvestment Commission and the players in the corridor of power have been lifted from the World Bank policy papers developed by the MNC lobby of USA and Europe. Of course, their copying skill deserves appreciation !

Refutation of the pro-privatisation arguments is not the real purpose of this article. However, it is witnessed that there are some people who are identified with the camp which firmly believes that commanding role of public sector in building self-reliant economy is a must. But surprisingly these gentlemen are influenced, or better said convinced, by the campaign justifying privatisation of public sector on the ground of inefficiency, irrelevancy in the era of globalisation, financial crunch of the government etc. We shall consider the present exercise fruitful, if this helps in any way to these gentlemen to understand that the mad drive for privatisation has its roots in the philosophy of 'Neo-Liberalisation and globalisation' of world economy, imposed on the developing countries in the name of 'Structural Adjustment Programme' (SAP).

ADVENT OF 'REAGONOMICS'

It is relevant to recollect that, to deal with the economic crisis of 1930s, the Keynesian theory of demand stimulation, regulation of industry and government-run companies came into operation and dominated the economic horizon of the world till 1970. Among the major characteristics of this period was the ever increasing share of economic activities carried



out through state sector, dominantly in newly liberated, third world and developing countries and consequent 'shrinkage of space' for the private sector. The discussion paper presented in the World Conference on Electric Power Generation and Distribution held in Istanbul on 17-18 February, 1992 noted; "In 1970's, neoliberal criticism had started to attack Keynesian concepts more successfully and the theoretical basis for a monetarist and supply side oriented policy was laid. Particularly the so-called Chicago School in the U.S. and their followers elsewhere deserve a lot of the dubious credit for the later dominating philosophy."

The germ of the philosophy of deregulation and privatisation originated in the U.S. "Chicago School". For providing the theoretical input for the privatisation ideology the US big business financed a world of new foundations and "think tank". Some such prominent institutions were the Heritage Foundation, the Ethics and Public Policy Center, the Committee on the Present Danger, the American Business. The Heritage Foundation blueprint - 'Mandate for Leadership' provided a detailed scheme for the "Reagan Revolution". The foundation's Privatisation: a strategy for taming the budget outlined a privatisation strategy. Thus, it is evident that the seed of the 'poison tree' of deregulation and privatisation was sowed in U.S. It has rightly been observed that: "the boom of privatisation owed its existence to the American experience of Deregulation ... the changing political ideology towards the right and growing influence of the monetarist school."

DEVELOPED/DEVELOPING COUNTRIES

In the developed countries the decision for privatisation and deregulation was largely "home-made", while it has been imposed on the developing countries by the forces of neo-imperialism and executed through different mechanism of their agencies; World Bank and IMF. However, it must be mentioned that while the

ruling classes of the developing countries have surrendered, the working class of the affected countries have been fighting against the philosophy



of privatisation.

It is important to note that privatisation is accomplished through the whole range of process. The major ones are : outright sale, off-loading of equity in tranches, joint ventures, promoting private sector to outgrow public sector, abolishing various public services, off-loading permanent jobs to contractors, encouraging private funds to build and operate public services, management contract in public sector, inducting representatives of private sector in the management of public sector in the name of inducting professionals.

According to Samuel Paul "Privatisation of industrial and commercial public enterprises has been insignificant in the US ... it has been predominantly in the area of "contracting out" public services. Urban services such as garbage collection, wastewater/sewage treatment, solid waste disposal, public transportation and fire protection." (EPW, Feb'88) Mind that US is the country where the privatisation philosophy has originated.

GREAT BRITAIN : THE 'SHOWCASE'

Amongst the advanced capitalist countries Great Britain has been identified as the 'showcase' for many pro-privatisation governments all over the world. As in the case of USA, so too for Great Britain, the role of 'think tank' for the 'Thatcher Programme' was provided by the Adam Smith Institute established in 1981. It is revealing to note that "Banks, stockholders, accountants and management consultants received some 650 million pounds in fees from Britain's 24 billion pounds privatisation programme to the end of 1988.

The early major victims of Thatcher Programme were British Aerospace, British Airways, Cable & Wireless, National Freight Corporation, Amersham International, British Sugar Corporation, Associated British Ports, Britoil, British Petroleum, British Gas, British Coal, BritishTelecomm, National Bus Company etc. In the subsequent phases more followed. Incidentally it may be mentioned that in Great Britain the privatisation operation have been carried out in three phases.

The trade union movement and labour became the worst victims of the privatisation operation. "About 1,70,000 workers found their jobs transferred to private sector by 1984." The famous miners' strike

of 1984-85 was a glorious battle against privatisation of mines. However, it is a different matter that British Coal has reduced drastically its coal pit from 170 to only 69 as a consequence of which about 1.5 lakh coal workers lost their job. The electricity industry has been one of the worst victims of the Thatcher programme. The industry has been broken to pieces and thousands of workers have been thrown on street.

TARGET : DEVELOPING COUNTRIES

The striking feature of the perverse privatisation programme of the imperialist forces is the deep rooted conspiracy to destroy the self-reliant economic development of and to subjugate the economic sovereignty of the developing countries. After rehearsing in their own countries and that too mainly upto the extent of deregulation, the gun has been directed towards the develop-

ing countries : the actual targeted stage for enacting the dangerous drama of privatisation. As Michael D. Boggs, former General Secretary of ICEF said: "There is a plot afoot in this drama of privatisation that we witness today in the developing countries, and it is a plot to a drama that is being scripted by the International Monetary Fund and the World Bank.."

In his famous revealing 'open letter' of resignation from the post of Senior Economist of the IMF (addressed to the Managing Director of IMF), Davison Budhoo has disclosed many sensational information which have got direct bearing on the perverse privatisation programme. He wrote that President Reagan asked the IMF to draw plan to turn the "third world a new bastion of free wheeling capitalism." Budhoo continued "the strategy was finalised and explicitly stated in the Baker Plan of 1985 and in the eligibility criteria to Enhanced Structural Adjustment Facility to the 62 'poorest' countries of the world." The letter said that the IMF was told "the Baker Plan, let it be the base for a new set of instruments for transforming Third World societies, and use new jargon: for heaven's sake, use new jargon ! Don't say "Demand Management" anymore, say "Structural Ad-

justment Programme' instead." Budhoo said, "Thus everything we did from 1983 onward was based on our new mission to have the South 'privatised' or die."

The directive to the developing countries for privatisation was issued by the USA in open concrete terms when it declared, " assistance for some developing countries would depend on their efforts to transfer public assets and programs to private industry ...[because] privatisation is usually sound economic policy."

According to a World Bank study report by Charles Vuyelsteke on privatisation techniques, in 68 countries "public sector companies have been in some way or the other shifted from state ownership into private hands."

"THE BLUE BOOK"

We have seen in the foregoing discussion that the international fi-

nance capital, under the leadership of US big business, is the author of the philosophy of privatisation. However, the task of undertaking vigorous ideological campaign and for drawing the strategies to execute their game plan was assigned to the World Bank and International Monetary Fund. The directive was that since public sector is antithesis to the philosophy of privatisation, the state must not have any role in the economic activities. Therefore, the state owned sector must be privatised at all cost in order to pave the path for the unhindered march of finance capital over the graveyard of public sector. The World Bank conducted a worldwide research and published a voluminous book titled '**BUREAUCRATS IN BUSINESS**' - The Economics and Politics of Government Ownership and termed the publication as a "World Bank Policy Research Report." The book has dealt with exclusive details the experience of the countries which have successfully (?) reformed [better read ruined] the public sector and those who are



in default. It has 'diagnosed the disease' of the defaulting countries and prescribed the poison for committing economic suicide. The concluding chapter of the book notes : " we hope that the evidence and analysis presented in this book together with the road map for successful [public sector] reform will give political leaders ... a better understanding of how the many obstacles to successful reform can be overcome. " Thus the book should be better titled as 'The Blue book' for path to privatisation.

THE THREE CONDITIONS

According to the World Bank three conditions must be fulfilled to create the atmosphere for PSU reform : (a) political desirability (b) political feasibility and (c) Government credibility. And by 'reform' they really mean nothing less than privatisation.

They say the leadership of the party in power must have political desire to undertake the public sector reform and in the absence of such leadership it is necessary to ensure, what the Bank say; " change in the regime or ... shift in the composition of the governing coalition." At the same time there is necessity for a shift in the support base of the political party to "the urban commercial and middle classes, whose interests are not consistent with those of State Owned Enterprises (SOE) workers." The other method to ensure political desirability is the presence of economic crisis. "The second circumstances involves shocks such as drought, a decline in foreign aid or sudden deterioration in the terms of trade ... In these cases , a crisis must be extremely large ..." The message is clear - either change the political leadership or create a so called economic crisis to compel the leadership to ride on the path to destroy public sector.

As regards far the condition for political feasibility, the 'Blue Book' say that this cannot be attained if the public sector workers' movement is strong enough and the workers " who stand to lose are so determined that they resort to strikes, demonstration or other forms of civil disobedience." So they have the remedy to " offset resistance through a combination of COM-

PENSATION and COMPULSION - for example by offering fired workers severance payment, distributing shares to the public or to workers in powerful unions and by banning strikes ... or otherwise curbing labor union power." No more elaboration is necessary to understand the real intention of the Government behind imposition of the voluntary retirement scheme and the motive behind the noise for 'labour law reform' !

The last and major pre-condition is the political credibility. The research report says that the Government implementing the 'reform' must earn the confidence of the private capital with the " promise to investors that Government will establish a policy regime conducive to profitable operations and refrain from re-nationalizing or otherwise expropriating privatized assets." The report continued to further prescribe, "The profitability of these investments depends on a wide array of economic policies, including secure property rights, the tax regime and the prices that investors are allowed to charge for their output." With the specific aim to protect the interest of the foreign investors the Bank further prescribes that the reforming governments should be brought under the clutch of WTO ; "which explicitly restrict signatories from assisting domestic companies, including state firms, with subsidies and tariff and quota protection ... They are less likely to do this if the country relies heavily on trade and is therefore vulnerable to the trade sanctions that foreign governments might impose in retaliation."

Now we have been hearing the rhetorical cry for, not only from the ardent advocates of economic reform but from some unexpected corners as well, the necessity in building the confidence of MNCs by welcoming them to invest in our country. Signing the GATT is a part of confidence building exercise, according to World Bank formula, and hence to oppose WTO but welcome MNCs is rather contradictory.

TO REMOVE HURDLES

Having discussed the pre-conditions for privatisation programme, the World Bank proceeds with different sets of guidelines for preparation for the countries which are ready for PSU-reform and those who are not ready. The 'Blue Book' prescribes: "foster competition while hardening budgets, end-



ing soft credits [to PSUs], increasing managerial autonomy, removing barriers to entry [of private sector] thereby increasing the number of voice calling for SOE reform, lower cost of capital for private sector [reduce interest rate].”

The World Bank has strange method to blunt the PSU workers’ movement against privatisation. It asks the governments to reduce wages and other remuneration, remove job security, curtail trade union bargaining power and so on. They say in the process public sector jobs should become unattractive and “force them [PSU workers] to look for work in the private sector.”

In this connection it is worthwhile to note what the World Bank has prescribed in the World Perspective on World Development Report, 1995. “Reduce the role of central government in the labor market ... This can be achieved in two ways. First privatization of state enterprises would automatically reduce government’s wage setting role. Second, for enterprises that remain in the public domain, wage determination needs to be decentralized ... for this strategy to succeed, government will need to impose hard budget constraint on public sector enterprise management.”

In the light of the above prescription of the World Bank if we analyse the steps taken by the successive governments in withdrawing budgetary support to PSUs, so called autonomy granted to the management in the name of ‘Navratna’, restrictions imposed on wage negotiations and such other measures, it is not difficult to understand where from the input is coming. These are steps, according to the World Bank, to prepare a country for massive privatisation and demolition of public sector.

PRIVATISE IN PHASES

According to obtaining condition in the respective countries, as narrated above, the World Bank report has prescribed the phases and strategies for privatisation. It says : “ Direct sales are attractive to developing countries for several reasons ... direct sales may also be more appropriate for troubled large firms. Where opposition is strong and an enterprise is large, government can sometimes overcome objections by distributing some of the shares widely. If potential buyers cannot otherwise raise the funds, the enterprise can be sold in tranches (passing man-

agement control immediately to private, allowing them time to raise the funds to buy out rest of the shares gradually).” To facilitate the prospective private buyer the Bank has suggested, “ splitting off the large size public sector enterprise and horizontal unbundling of other activities.”

However, where immediate sale is not attainable, the Bank says, immediate step toward divestiture, management contracts is advisable. However, such management must have the “ freedom to hire and fire, which is an important factor in the successful management contracts.”

These strategies of the World Bank have full reflection in the modus operandi of the Disinvestment Commission which has recommended for strategic disinvestment of 51% shares in a number of giant PSUs along with management transfer with the stipulation that at a latter date the remaining shares shall be sold out to the strategic buyer. The steps being taken by the government to split big PSUs like ONGC, Bharat Petroleum Corporation, IOC are in line with the strategy drawn in the “Blue Book’ of World Bank.

According to the ‘research report’ of the World Bank, opening up of financial sector is an important complementary step for successful execution of privatisation programme. It says, “ financial sector reforms are key to competition and hard budgets, because they make loan to SOEs subject to independent, commercially driven decisions. They also make privatization easier by enhancing the ability of banks to mobilize savings, assess entrepreneurs, finance sales of SOEs and oversee new management, all of which, in turn, help expand the number of [private] investors that can participate in the privatization process.” The World Bank is quite unhappy that, “ SOEs often capture a disproportionate share of credit, squeezing out private sector borrowing.”

Thus the repeated insistence for opening up of financial sector is really out of deeper motive and multiple intentions. It is not mere privatisation of banks and FIs.

It is also aimed at squeezing source of fi-



nance for the PSUs and providing finance to the prospective private participants in perverse privatisation programme .

The World Bank is eager to ensure that the sales proceeds must not be reinvested again in public sector and prescribe that, " privatization proceeds can be used to retire any obligation [better read repayment of loan and interest] but not to start public projects. Another important use is to compensate the losers from reform, for example, by funding severance pay or the distribution of shares to employees and others." It is amazing to note that while the World Bank is opposed to any investment before privatisation, (say for reviving the any sick unit) it recommends that, "government needs to be prepared to write down some of the typically large SOE"s debt burden and lay off workers before selling the enterprise ! " Obviously to attract private buyers.

No wonder that Government of India is totally opposed to plough back the proceeds from disinvestment of PSU shares for expansion and technological upgradation of PSUs, let alone financing the revival scheme of sick PSUs. No doubt the Disinvestment Commission and the liberalisers in the ruling polity deserve 'recognition' for their faithfulness to the blueprint authored by their Fund-Bank masters !

THE REAL BENEFICIARIES

While the philosophy of privatisation has been formulated by the international finance capital , obviously the real beneficiaries of the privatisation game are the multinational companies and the developing economies are the actual losers. As observed by ICEF, " impact of privatisation on corporate structures is fairly clear. Powerful and large private sector groups are generally strengthening by privatization. Economic power is further concentrated and centralized. In most developing countries, privatization results in a domination of the national economy by foreign capital." According to a study report, as a consequence of the perverse privatisation programme the multinational companies have experienced ex-



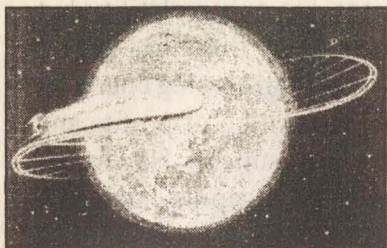
plosive growth. Whereas only 7,000 multinational companies existed in 1970, the total reached to 37,000 by 1990. These MNCs together control 70% of world trade and 75% of world investment. More than 40% of world trade takes place between multinational companies' own subsidiaries. The 15 largest MNCs have revenues greater than the GNP of 120 poorest countries. More than half of the 37,000 MNCs are headquartered in any of these four countries only ; USA, Japan, Germany and Switzerland. The top ten multinational companies operating in the coal trade have so far captured nearly half of the world coal trade. Only five major players are controlling the world power generation machinery industry. These are - Westinghouse of USA, Simens from Germany, Framatome of France, Mitsubishi from Japan and Asea Brown Boveri of Sweden.

TO DEFEND ECONOMIC SOVEREIGNTY

The importance of and urgency to the fight to protect the public sector and oppose privatisation must be conceived on the basis of the worldwide experience of the effect of such conspiracy of the international finance capital. It is not the question of public sector efficiency, degree of productivity or work culture of the public sector. The bogey of inefficiency raised against the public sector is really intended to create conducive condition to eliminate public sector and advance private sector.

'The research report' of the World Bank has showered high appreciation on South Korea, Mexico, Chile and the likes for their all round success in PSU reform. The irony is that within one year of publication of the World Bank report the hard reality has surfaced before the world. We must take lesson from such horrifying experience.

The World Bank strategy is to push the public sector movement out of context in the name of shifting the constituency of the political party that rules the country. Thus the task for the trade union movement is defined. The responsibility to save the public sector in the face of mad drive for privatisation must be pioneered by the working class. At the same time the patriotic democratic forces having commitment for the economic sovereignty of the country must extend all support for the national cause of protecting the public sector from the onslaught of the philosophy of privatisation.



The New Phase of Global Capitalism

M.R. APPAN

Globalisation” has become the catchword of the Nineties. The word conceals more than it reveals. Bourgeois economists present globalisation as a neutral phenomenon by disguising its class content. Globalisation is key feature of the current phase of imperialism. It is the slogan of Multi National Corporations backed by imperialist countries. The process of globalisation embracing the socio-economic and political dimensions of human existence is a war of the global rich against the global poor.

The last five decades after the second world war have seen a wave of economic activity. International production, world trade of goods and services, foreign direct investment and transfer of money across national borders have all become central aspects of capitalist economic life, and in consequence, are defining the dynamics of capitalist development in the current era.

Capital has had a global character right from its inception. In the earlier spurts of internationalisation of capital, the bourgeoisies of metropolitan countries alone participated. But in the present phase of globalisation, sizable sections of capitalist classes in developing countries have joined hands with the metropolitan capital in the project to integrate the economies of developing countries into the global capitalist system. They are encouraged and enticed to join the globalisation process on a plea that the rules of this process are same for everyone. The principal economic institutions of the imperialist countries are “World Competitive” and thus nothing to lose and everything to gain from “free trade” and open markets.

THE BACK GROUND

After the second world war, international capital took sweeping measures to achieve its strategic goals - to bolster its economic positions in developing countries and create conditions enabling it to exploit the

newly - free nations still more. After attaining independence, industrial development was the central element in the economic policy of the majority of developing countries, without altering the production relations prevalent. So the possibilities to finance the economic growth from national resources were limited.

Developing countries sought foreign credits and borrowed heavily on account of objective internal and external factors. The debt burden of developing countries increased many-fold. The total outstanding long-term debt of developing countries stood at 62 billion US dollars in 1970. It increased sevenfold in the course of 70s to reach \$481 billion in 1980. The total debt including the short-term debt of developing countries stood at more than \$2 trillion in 1996, a 32 fold increase in relation to 1970.

The developing countries were engrossed in a deep debt crisis in the middle of eighties. Today, more than at any time in the history of capitalism, the profits of finance capital are based on debt and the world debt surpasses \$31 trillion, galloping at a growth rate of 9% or three times faster than that of world GDP and world trade. The imperialist capital wanted the flow of capital to the developing countries with less risk and more rewards. This is the background for the wave of financial liberalisation.

The industrial production in the leading capitalist economies has continually slowed down in the seventies and eighties. The slow down reflects a narrowing of profitable opportunities of capitalist investment in the developed economies. The spectre of globalisation has arisen in this background. This is forcing the imperialists to seek profits and investment opportunities more and more on a global level. Added to this, the col-



lapse of the socialist system in the Soviet Union and Eastern European countries enabled the international monopoly capital to bring the entire globe under its spell. The present phase of capitalist globalisation was incubated with the science and technology revolution and the hatching of multi-national capital out of developed capitalist countries. The central theme of current phenomenon is the globalisation of capital.

EXPORT OF CAPITAL

Export of capital has been an instrument of growth and expansion of capital. It has been recognised as a characteristic feature of imperialism. The export of capital is conducted mainly in three ways: by direct investment, by making portfolio investment or by granting loan.

Foreign Direct Investment (FDI) is long-term movement of capital across national borders. It acquires companies in other countries, it establishes new production units in foreign countries or enters into joint ventures with other companies in host countries. It comes not only with money but with technology also. FDI, in a way, lays the foundation for globalisation of capital. The flow of FDI to the developing countries induces new investments of domestic origin, than the foreign capital. The total inflow of FDI into the developing countries during the period of 1991-95 was 350 billion US dollars. In the nineties, there has been a great upsurge in the flow of FDI into the developing countries. The total FDI stock in 1990 was 100 billion dollars, having multiplied 20 times since 1960.

Foreign Portfolio Investment (FPI), the cumulative name for cross border investments in bonds, equities and related securities has become the principal mechanism for flow of finance across countries. Such investments makes hardly any contribution to production. Portfolio investment is basically "floating capital" always on the move in search of avenues of

profit. The total FPI inflow into the developing countries which was 9.34 billion dollars in 1990, suddenly rose to 36.80 billion in 1992 and 93 billion in 1993. Build up of this

type of reserves introduces not only volatility but also risk to the economy. Capital flight has been a reality all through the nineties. Developing countries will lose capital through repatriation of profits and outright departure of foreign investments. Having enlarged tremendously, the scope of capital expansion has heightened the danger of crisis and instability to unprecedented levels. Globalisation of capital is the principal cause of unemployment, poverty, marginalisation and social disintegration in this world, particularly in the developing countries.

MULTINATIONAL CORPORATIONS

Production as well as markets for products have increasingly become global. Multinational Corporations (MNCs), also known as Transnational Corporations (TNCs), have come to play a central role in this process. They are in the vanguard of globalisation. The MNCs emergence in a big way since the sixties marks an uninterrupted movement of capital concentration. Today the MNCs influence the major economic decisions of the world such as what to produce, how much to produce and where to produce. The current and future control of the resources of the world are significantly depend on those decisions.

At the onset of 1990s there were around 37000 MNCs with 170000 affiliates whose chains bestrode the world economy. Globalisation and liberalisation are the slogans of the MNCs which requires freedom to operate at a global level. All the MNCs are not giants. The top 200 mega corporations, as measured by corporate profitability, control 70% of the total FDI and over 25% of the world productive assets.

The world GDP in 1992 was 21900 billion US dollars. Sales of the top 200 MNCs accounted for 5862 billion dollars. In 1992, the top 200 are geographically spread in a few countries; USA (60) Japan (54) France (23) Germany (21) UK (14) and Switzerland (8). The first five countries alone house 180 corporations out of the top 200. Out of top 200, the top 10, each earned yearly over 2 billion US dollars in profits. The top 10 amassed 40% of total profits. Six privately owned mega corporations (i.e. their stocks are not quoted on the New York Stock Exchange) are not included in the top 200, although their revenues could easily propel them into the company of top 200; Cargill, Koch, UPS, Continental Grain, Mars



and the investment and securities firm of Goldman Sachs.

The MNCs are the primary agents responsible for FDI and have spread to all corners of the globe and are growing larger and far more rapidly than the world economy as a whole. The MNCs demands an "activist" State - but one that dismantles the welfare state in favour of globalisation.

GLOBAL INSTITUTIONS

The International Monetary Fund and the World Bank are playing a key role in the process of globalisation. The IMF and the World Bank were set up at the end of second world war by imperialist countries to anchor their interests in the structure of the world economy. They pave the way for the penetration of finance capital in the developing countries.

The formation of the World Trade Organisation in 1995 is also a landmark in this process. Now, a new "triangular division of authority" has unfolded. Enforcement of IMF-WB policy prescriptions have become permanently entrenched in the articles of agreement of the World Trade Organisation. The UN system has been marginal compared to the Bretten Wood twins. The World Bank has more control over education and culture than the UNESCO, more control over agriculture than the FAO and more control over health than WHO.

CONSEQUENCES

Under globalisation, the change in the structure of production and management practices have fragmented and segmented the labour force. Largest integrated plant employing large numbers of skilled and semiskilled workers on mass production has become an obsolete model of organisation.

The new model is based on a core - periphery structure of production; a small core of permanent employees handling finance, research and development, technological organisation and marketing; and a periphery consisting of dependent units manufacturing the components of the production process.

While the core is integrated with capital, the fragmented component units of periphery are much more loosely linked to the overall production process. The work force in the periphery are not covered generally by any protective labour laws and thereby, excessive working hours and casualisation of work are

the order of the day.

The present intensive phase of globalisation affects directly the livelihood of more than 4 billion people of all countries. It destroys the national currencies and economies. It forces "dollarisation" of domestic prices of developing countries. It insists on deindexation of wages of the workers and casualisation of employment and ultimately globalises poverty.

CHARACTERISTICS

Replacement of pre or non-capitalist production relations with capitalist ones and poverty amidst plenty are the important characteristics of the present phase of globalisation, everywhere. Global capitalism is tearing down all non-market structures. Every corner of the globe, every nook and corner of social life is becoming commodified. This involves breaking up and commodifying non-market spheres of human activity, especially public spheres managed by States. Commodification involves the transfer of non-capitalist public spheres such as health and educational systems, utilities, infrastructure and transportation system to private ownership. In every aspect of our social existence, we increasingly interact with our fellow human beings through dehumanised and competitive commodity relationships.

POVERTY AMIDST PLENTY

Socio-economic inequalities and human misery grow drastically under globalisation. The gap between rich and poor is widening within each country, developed and developing countries alike. Simultaneously, there is also a sharp increase in the inequalities between the developed and developing countries.

The worldwide inequality in the distribution of wealth is in the form of permanent violence against the world's majority. According to the UN Human Development report 1994, 1.3 billion people live in absolute poverty-literally between life and death. One billion are without access to health services. 1.3 billion have no access to safe water and 1.9 billion are without access to sanitation.

The 1994 report further indicated that the wealthiest 20% of humanity received 84.7%



of the world's wealth. The comparison between rich and poor nations also have widened. In 1960, the wealthiest 20% of the world nations was thirty times richer than the poorest 20%. Thirtyfour years later in 1994, it was sixty one times richer.

Twenty developed countries with only a quarter of the world people consume about three quarters of the world production and the G-7 countries possess two third of the gross production and consumption of the world. These figures are based on comparisons of the average per capita incomes of rich and poor nations. In reality, there are wider disparities within each nation.

CONCLUSION

The globalisation has opened new opportunities for monopoly capital from imperialist countries to reproduce itself on an ever larger scale in far corners of the globe. It has brought changes in the anatomy of inter-imperialist contradictions and shifted the conflict to a new arena which lies largely in the economic field. It has restructured the relationship between imperialist bourgeoisie and the bourgeoisie of the developing countries, as junior partners.

The growing contradiction between globalisation and decay of the domestic economy and society of developed countries and the contradiction between growing elite integration in the world market and the pillage of domestic resources and labour in the developing countries are creating the basis for a new kind of internationalism built around common opposition to capitalist globalisation.

In order to counter globalisation effectively, the working class movements in all countries must target the various financial interests which feed upon this destructive economic model.

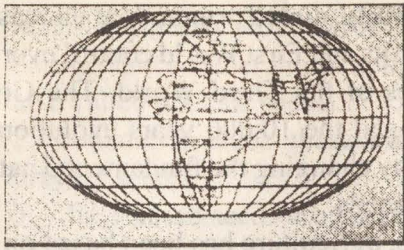
Bridges of international working class solidarity must urgently be built. Actions of different toiling segments in solidarity at national and international levels are the need of the hour.

(M.R. Appan is the Honorary President of the All India State Employees' Federation.)



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Seeds of Suicide : The Ecological and Human Costs of Globalisation of Agriculture

Dr. Vandana Shiva
Afsar H Jafri

INTRODUCTION

“Seeds of Suicide” is a study of the impact of trade liberalisation on Indian agriculture and Indian farmers. It is an account of the social and ecological costs of globalisation.

More than 100 cotton farmers have committed suicide in Andhra Pradesh (AP) in this season. Farmers' suicide are, however, not only restricted to Andhra Pradesh. Across the country farmers are taking the desperate step of ending their life because of the new pressures building upon them as a result of globalisation and spread of capital intensive agriculture. The promise of huge profits linked with clever strategies evolved by the seeds and chemical industries include the lure of huge profits and easy credit for purchase of costly inputs. However, the reality of globalisation is different from the corporate propaganda and from the promises of trade liberalisation and agriculture offered by the World Bank, the WTO and experts and economists sitting in our various ministries.

The epidemic of farmers' suicide is the real barometer of the stress under which Indian agriculture and Indian farmers have been put by globalisation of agriculture. Indebtedness and crop failure are the main reasons why the farmers have committed suicide throughout the length and breath of rural India. Indebtedness and crop failure are also inevitable outcomes of the corporate model of industrial agriculture being introduced in India through globalisation. Agriculture driven by MNCs is capital intensive and creates heavy debt for purchase of costly internal inputs such as seeds and agro-chemicals. It is also ecologically vulnerable since it is based on monoculture of introduced varieties and non-sustainable practices of chemically intensive farming. The Andhra Pradesh tragedy highlights these high

social and ecological costs of the globalisation of non-sustainable agriculture which are not restricted to the cotton growing areas of this state but have been experienced in all commercially grown and chemically farmed crops in all regions. While the benefits of globalisation go to the seeds and chemical corporation through expanding markets, the cost and risks are exclusively borne by the small farmers and landless peasants.

The two most significant ways through which the risks of crop failures have been increased by globalisation are the introduction of ecologically vulnerable hybrid seeds and the increased dependence on agro-chemical inputs such as pesticide, which are associated with the use of hybrids.

The privatisation of the seed sector under trade liberalisation has led to a shift in cropping patterns from polyculture to monoculture and shift from open pollinated varieties to hybrids. In the district of Warangal in Andhra Pradesh, this shift has been very rapid, converting Warangal from a mixed farming system based on millets, pulses and oilseeds to a monoculture of hybrid cotton.

The focus of the cotton failure has been on the excessive use of pesticides or of spurious pesticides. However, pesticide use is intimately linked to hybrid seeds. Pesticides become necessary when crop varieties and cropping patterns are vulnerable to pest attack. Hybrid seeds offer a promise of higher yields, but they also have higher risks of crop failure since they are more prone to pest and disease attack as illustrated by the Andhra Pradesh experience. Monocultures further increase the vulnerability to pest attacks, since the same



crop of the same variety planted over large areas year after year encourages pest build-ups.

The problem of pests is, therefore, a problem created by erosion of diversity in crops and cropping patterns. The most sustainable solution for pest control is rejuvenating biodiversity in agriculture. Non-sustainable pest control strategies offer chemical or genetic fixes while reducing diversity, which is the biggest insurance against pest damage.

As the cotton disaster shows, the globalisation of agriculture is threatening both the environment and the survival of farmers. Biodiversity is being destroyed, the use of agro-chemicals is increasing, ecological vulnerability is increasing and farmer debts are sky rocketing leading to suicides in extreme cases.

This study both takes stock of the impact of seven years of trade liberalisation and create policies for a more sustainable future. Farmers and policy makers may draw the right lessons from the cotton tragedy in Andhra Pradesh and focus on building ecologically lasting solutions instead of chasing the "magic bullets" of technological fixes, which kill farmers more effectively than they kill pests.

THE NEW SEED POLICY AND THE SPREAD OF INAPPROPRIATE MONOCULTURES

For 10,000 years, farmers and peasants had produced their own seeds, on their own land, selecting the best seeds, storing them, replanting them, and letting nature take its course in the renewal and enrichment of life. With the Green Revolution, peasants were no longer to be custodians of the common genetic heritage through the storage and preservation of grain. The miracle seeds of the Green Revolution transformed this common genetic heritage into private property, protected by patents and intellectual property rights. Peasants as plant breeding specialists gave way to scientists of multinational seed companies and international research institutions like CIMMYT

and IRRI. Plant breeding strategies of maintaining and enriching genetic diversity and self-renewability of crops were substituted by new breeding strategies of uniformity

and non-renewability, aimed primarily at increasing transnational profits and First World control over the genetic resources of the Third World. The Green Revolution changed the 10,000 years evolutionary history of crops by changing the fundamental nature and meaning of seeds.

For 10,000 years, agriculture has been based on the strategy of conserving and enhancing genetic diversity.

According to former FAO genetic resources expert Erna Bennet:

The patchwork of cultivation sown by man unleashed an explosion of literally inestimable number of new races of cultivated plants and their relatives. The inhabited earth was the stage for 10,000 years, for an unrepeatable plant breeding experiment of enormous dimension.

In this experiment, millions of peasants and farmers participated over thousands of years in the development and maintenance of genetic diversity. The experiment was concentrated in the so-called developing world where the greatest concentrations of genetic diversity are found, and where humans have cultivated crops the longest. The traditional breeders, the Third World peasants, as custodians of the planet's genetic wealth, treated seeds as sacred, as the critical element in the great chain of being. Seed was not bought and sold, it was exchanged as a free gift of nature. Throughout India, even in years of scarcity, seed was conserved in every household, so that the cycle of food production was not interrupted by loss of seeds.

The shift from indigenous varieties of seeds to the Green Revolution varieties involved a shift from a farming system controlled by peasants to one controlled by agro-chemical and seed corporations, and international agricultural research centres. The shift also implied that from being a free resource reproduced on the farm, seeds were transformed into a costly input to be purchased. Countries had to take credit from banks to use them. International agricultural centres supplied seeds which were then reproduced, crossed and multiplied at the national level. For the production of seeds for chemically intensive agriculture, seeds are classified into four categories by seed certifying agencies:

1. Breeder seeds- Seeds or vegetative propagating



materials directly produced or controlled by the originating plant breeder or institution. Breeder seeds are also called nucleus seeds.

2. Foundation seeds- these are the direct increase of breeder seeds.

3. Registered seeds are the progeny of foundation seeds.

4. Certified seeds are the progeny of foundation, or registered seeds.

World Bank finances were an important element in the spread of the vast network that was needed for distribution of Green Revolution varieties. In 1963, the National Seed Corporation was established. In 1969, the Terai Seed Corporation was started with a World Bank loan of US \$13 million. This was followed by two National Seeds Project (NSP) loans. NSP I of US \$25 million was given in 1976 and NSP II of US \$ 6 million was given in 1978 to support the National Seed programme. The overall objective of the projects was to develop state institutions and create a new infrastructure for increasing the production of certified seeds. In 1988, the World Bank gave India a fourth loan for the seed sector to make India's seed industry more 'market responsive'.

The involvement of the private sector, including multinational corporations, in seed production is a special objective of NSP III (US \$150 million). This was viewed as necessary because, as the project document notes, "sustained demand for seeds did not expand as expected, constraining the development of the fledgling industry. In the self-pollinated crops, especially wheat and rice, farmer retention and farmer to farmer transfer accounted for much of the seeds used, while some of the HYVs were inferior in grain quality to traditional types and thus lost favour among farmers." The growth of marketed seeds is thus the main objective of 'developing' the seed 'industry', because farmers' own seeds do not generate growth in financial terms.

The fact that in spite of miracle seeds, farmers in

large parts of India prefer to retain and exchange seeds among themselves, outside the market framework, is not taken as an indicator of better viability of their own production and exchange network. It is instead viewed as reason for a bigger push for commercialisation, with bigger loans and better incentives to corporate producers and suppliers. The existence of the indigenous seed industry as a decentralised community based activity is totally eclipsed in the World Bank perspective according to which, 'before the 1960s, the seed industry was little developed.'

PRIVATISATION OF THE SEED SECTOR AND THE SPREAD OF MONOCULTURES

Privatisation of seed sector has induced three major changes in agriculture. Firstly, it has led to a change in cropping patterns of farmers varieties from mixed cultivation based on internal inputs to monoculture of hybrids based on external inputs. Secondly, it has changed the culture of agriculture. Instead of growing food and maximising ecological security and food security, farmers have been induced to grow cash crops for high profits, without any assessment of risks, costs and vulnerability. Thirdly, the shift from a public system approach to a private sector approach in agriculture has also meant a reduction in public sector low interest loans and extension, and an increased dependence on high interest private credit, pushing sales of seeds and agro-chemicals as a substitute for information and extension.

The Andhra Pradesh cotton crisis is a result of a seed policy, which has encouraged the privatisation of the seed sector and the displacement of ecologically adapted local crops by monocultures of ecologically vulnerable hybrid seeds.

The growth of the Indian seed industry will



be worth some 20 billion rupees (around US \$600 million) annually by the turn of the century. Indeed, the former Managing Director of Monsanto estimates that it will be worth 60 billion rupees (around US \$ 2 billion) in 7-10 years' time. As the value of seed sales grows, the proportion of these accounted for by the public sector is diminishing, with more farmers turning to high yielding hybrid seeds produced by private seed companies. Simultaneously there will be a continued coalescence of the industry around a few key companies, most of which will either be subsidiaries of transnational companies, or otherwise have entered joint agreements with such companies. Representatives of large seed companies (and in some instances the directors of smaller companies) admit that the future for low-turnover domestic seed enterprises looks grim. There is uncertainty over the actual current value of the seed industry, though it is anticipated that this stands at 12-16,000 million rupees per annum. Estimates placed the value of the industry (both public and private) at 10,000 million rupees back in 1994.

This massive and continued growth is attributed to a shift in seed sales away from the public sector and towards the private sector, commensurate with an increasing demand for high-yielding hybrid seed. As K R Chopra (Managing Director of Mahendra Seeds, President of the Seed Association of India, and consultant to the World Bank) writes: "The commercial exploitation of hybrid vigour in recent years has been a crucial factor in phenomenal increase of private sector contribution to the total turnover. The Managing Director of Mahyco estimates that the distribution of the market has shifted since 1994. He suggests that currently some 30% is attributable to the public sector (state seed companies), 40% to 'large' private companies, and 30% to 'small' seed companies. If he is right, this represents a small shift away from the public sector and a significant shift within the private sector in favour of larger companies over the last three years.

The seed policy has inflicted a big blow to this biodiversity of the cotton and with it the

freedom of the cotton farmers, who are now in the vicious cycle of seed companies, pesticide companies and the moneylenders. India is the country of origin of cotton diversity, which has been the supplier of the cotton seeds to the entire world. But today, thanks to the new seed policy, the country of origin has become a country of dependence. As a consequence of the AP cotton disaster, the government has announced that emergency import of cotton seeds is likely. The import of the cotton seeds may bring even worse disasters in the form of toxic seeds of the Bt cotton. The alternative is to introduce indigenous cotton varieties and shift away from poisonous pesticides which are driving our farmers to suicides.

CONCLUSION

India has once before been colonised through cotton. From being the biggest producer of the cotton and the cotton textiles, India was converted into the biggest market for textile produced by the British industry.

Today cotton colonisation is not restricted to the cotton textiles but goes deeper into the colonisation of the cotton seeds. From being the country of origin and the centre of diversity India is being rapidly reduced to dependence on imported cotton seeds.

Freedom from the first cotton colonisation was based on liberation through the spinning wheel. Gandhi use of the charkha and the promotion of khadi was both a form of resistance to the British monopoly on cloth and a reminder that it was in our hand to make our own cloth again.

Freedom from the second colonisation needs to be based on liberation through the seed. India is the home of cotton and cotton diversity. Indigenous seeds are still available in large parts of India. Organic cotton is a major route to prosperity for farmers. Indigenous cotton seeds and organic cotton production is equivalent to Gandhi charkha's. The freedom of the seeds and freedom of organic farming are simultaneously a resistance against monopolies of corporation like Monsanto and a regeneration of agriculture that brings fertility to the soils and prosperity to the farmers. The seeds of suicide need to be replaced by seeds of prosperity. And those seed are in our hand.

[Courtesy: Research Foundation for Science, Technology and Ecology]





GLOBALISATION - LABOUR AND QUALITY OF LIFE

Jibon Roy

It is just seven years since the movement of capital and the profit thereof are made free of Parliamentary supervision and our economy has been made organically connected with the developed economies in the world. Big land holding in our country had always been independent and even exempted from land tax. Thus a parallel power to the government has been created by the then Congress Government with active support from the then main opposition party BJP, allowing the international capital to mingle with Indian economy and exploit country's labour force. This is precisely called reform and globalisation.

The time of seven years - around ninety months - is not very small for the nation which has seen fifty years after independence. Now people are in a position to perceive from their own experience what the reform had finally caste over their lives and fortunes. Our political system should provide them the opportunity to express themselves. It is unfortunate, that the politics in India, since reform has been initiated, had been reverted to extraneous issues not emanating from economics or daily lives of the masses.

Consequently, people did not get the opportunity to vindicate their pains & agony arising out of policy reversal initiated in 1991 June. The masses were virtually carried away by non economic issues during three consecutive Parliamentary election. All the more, a vast majority of the toiling population which was thoroughly plagued with the severity, never knew that the policy move for reversed of the economic line persued so long is responsible for their lot. The Government led by BJP at the Centre through their national agenda has assured to review the reform in depth and to take all corrective measures. But will such a review materialise? The Trade

union movement as the biggest constituent against the policy of indiscriminate opening up, must be alert as the ruling coalition has smarted backtracking from this commitment.

Government had been counselling the working population to accept globalisation and had promised for a bright future. Despite the fact that even at the very initial stage of structural adjustment programme, when economy had been sending adverse signals, the Government went on painting rosy picture about the reform. It says — *"The fundamental objective of economic reforms is to bring about rapid and sustained improvement in the quality of life of the people of India. Central to this goal is the rapid growth in income and productive employment. Hundreds of millions of our people are still trapped in abject poverty. The only durable solution to the cure of poverty is sustained growth in incomes and employment"* (Economic Reforms, two years after and the task ahead)

The policy of globalisation and liberalisation in an underdeveloped feudal economy ultimately leads to parasitism, intensifies poverty, shrinks the labour market and downgrades quality of labour. In a system where the commodity production, its market and the movement of capital are globalised, but not the movement of labour, sustenance of indigenious industrial production is just theoretically impossible without revolutionising the technique of production and continuously expanding the domestic market. Since the globalised capital market is mostly owned, controlled and administered by giant transnational



corporations, they cannot have any commitment to eradicate poverty or to increase GDP of host countries.

The so called miracles in number of Asian countries, especially in South Korea, was mainly contributed by land reform and Government control. The level of poverty in South Korea came down from 23% during 1970 (when reform was initiated) to 5% by 1990. However, that miracle has now become a debacle followed by loss of jobs to millions of people. South Korean Parliament has recently enacted a law to impose compulsory retirement on the workers. The Democratic Republic of China is the only country which is carrying forward the reform with concern for enlargement of job potentials and eradication of poverty. In the year 1978 when China decided to open up, around 33% of population were under the daily wage range of 1\$. By 1994, the figure has gone down to 7%. This was possible because of exploitation of vast domestic market springing out of abolition of landlordism and the Government guaranteeing a great deal of social equity. Standard of social security had been very high in China.

Experience in all other countries had been horrible. In Eastern European countries and the countries of the Commonwealth of Independent States which reverted to globalisation in late eighties, it is estimated that almost a third of the population now lives in poverty compared to a povertyless society during socialism. Globalisation has cornered the non affluent section of the masses even in most developed countries and the poverty level is rising every passing day. United Nations report has placed India's Human Poverty Index at 36.7%. Poverty index is maintaining an upward trend throughout post reform period. Against 35.9% in 1990-91 the percentage of population below poverty line shot up to 41.2% during 1992-93. However, the rate

has been brought down artificially to 36.5% in the year 1993-94, pumping huge funds through budgetary support under various rural development schemes. But current

unemployment indices suggests that the poverty curve have shot up further since then. This is mainly because of alarming drop in employment both in organised and small scale sectors and also in agriculture. The latest assessment indicate - "According to recent study, employment grew at an annual rate of 1.9% between 1990-91 and 1995-96 against an annual average rate of growth of 2.38% in the labour force." (Information Bulletin-Lok Sabha Secretariat, April, 1997) This is against the plan target of 2.8%. The bulletin further adds: "according to estimates, the backlog of unemployment in the country would peak at 35 millions by the end of Eighth Plan (1997-98) from 23 millions at the beginning of the plan."

ATTACKS ON EMPLOYMENT

The revelation needs no explanation. But, in all practicality, the figure is underestimated and based on erroneous calculations. The study carried out by Indian Council for Research on International Economic Relations suggests that employment generation was computed, as advised by the planning commission, on the assumption that for every 1% growth in agricultural production employment in this sector rises by 0.54% which is highly optimistic and not confirmed by ground reality.

Similarly, with the introduction of high tech automation in organised sector of industries, employment generation is going down in organised sector which could be at best 0.12%. As per latest National Accounts Statistics, the share of organised sector in GDP has gone up from 30% to 37.2% by 1995-96 indicating the comparative decline in the investment in small scale and unorganised sector. According to economic survey 1996-97, employment in organised sector taking both public & private sector and Government employees together has increased only by 8 lacs between 1991 and 1995. Employment in manufacturing has increased by only 7 lacs between 1992 and 1994. Small scale and unorganised sector cater 90% of the countries employment. The decline of capital formation in this sector casts its shadow on employment generation also in the unorganised sector. When gross investment in this sector grew at a rate of 6% per annum during the eighties, the gross capital formation has declined from Rs. 24,451 crores in 1990-91 to Rs. 11,083 crores in



1993-94, i.e. an annual decline of more than 20%. According to a study by an economist, loss of jobs on this account could be around 29 millions. Growth has again eaten away by the colossal increase in industrial sickness. The number of sick enterprises grew to 271206 by March, 1995. Reduction in government expenditure on infrastructure, as also on the employment generation and poverty alleviation programmes, has further aggravated the employment situation. Employment generation through Jawahar Rozgar Yojana fell from 1.2% growth per annum between 1989 and 91 to negative rates of (-) 7.7% and (-) 3.7% in the next two consecutive post reform years.

One need not be surprised, that despite an average rate of growth of 5.5% per annum during eighth plan period, the employment generation had almost been stagnant. Here lies the basic malaise of so called reform and globalisation. The impact of globalisation for labour would have been different, if it had integrated the economies and ensured also the globalisation of labour, including unskilled one. But in real sense it has been reduced to (a) globalise the movement of capital (b) globalise the multinational exploitation through unequal trade. But there is another hidden objective which brings about marriage between indigenous and multinational capital. This is triggered through outright deregulation of the labour market to suit the designs of capital and pauperising the masses. Since the world integration of capital has forced cut throat competition worldwide, the basic concept of distributive pattern as envisaged in capitalist philosophy is getting totally distorted. The drive for automation, pattern to carry on with smallest possible workforce, the process of continuous casualisation of workforce and rapid switching over to parttimers has led to 'jobless growth of economy'. This has almost eliminated the 'trickling down process' of distributive philosophy resulting in accelerated concentration of wealth in the hands of few.

The world development report 1997 has painted the emerging scenario as alarming. According to the report, the share of the poorest 20% of world's people in global income was 2.3% in 1960 and 1.4% in 1990. It is now 1.1%. The ratio of top 20% to that of the poorest 20% was 30.1% in 1960. It has now

moved up to 78.17% in 1994. Human Development report has provided a graphic account of what has befallen on Mexico after liberalisation. In the midst of worst of economic crisis Mexico has ever faced, the policy of privatisation and allowing investors to purchase small land holdings, has enabled a small group of people to rake in huge wealth. Number of billionaires increased from 10 to 15. But the share of the population living in absolute poverty increased from 19% in 1984 to 29% in 1989.

In rural areas, where more than 80% of those in absolute poverty live, the number of poor people increased throughout the period, from 6.7 million to 8.8 million. In India too during the period of reform between 1991 and 1997, Indian industrialists have moped up highest amount of profit they could ever think of since independence. This has partly accrued from the State itself by way of tax relief and diversion of public resources through various means.

Reform and globalisation are together called as Neo-Liberalism in advanced developed countries. Employment potential in those countries also are severely affected because of two reasons. Firstly, increasing replacement of labour by high tech automatic system. In a globalised economy, multinationals deemed the labour as expensive and problematic too. Secondly, because of erratic movement of capital, rising discontent has touched the political arena in many of those countries bringing downfall of right oriented governments in many of the European countries. The World Employment Report of 1996-1997 published by International Labour Organisation, Geneva, has indicated that in all the developed countries with the exception of America the rate of unemployment is rising. In Canada unemployment was 9.8%, in Spain 22%, in Belgium 14.5%, in France & Italy 12.5% and in Germany 12.5%. The average unemployment rate in the Eastern Europe was 11.33% in July 1996. Amongst the Eastern European countries, unemployment is rising and was at 11.6% in Bulgaria, Hungary, Poland, Slovenia and



Slovakia. It is increasing rapidly in Russia. In Latin America, unemployment was at 10% in Argentina, Venezuela and Uruguay. Economies of all these countries have been globalised under IMF sponsored restructuring schemes.

DIRECTED AGAINST LABOUR

Experience of the countries around the world including that of developed countries amply testifies that the neo-liberalism or the globalisation is basically directed against the working class and the poor. It will be self-deception, if not a blatant lie, to propel an idea that reform will bring about rapid and sustained improvement in the quality of life of the people of India. Experience of last six/seven years has proved beyond doubt that the policy of labour dispensive industrialisation, privatisation and deregulation cannot bring balanced economic growth in a vast country like India and cannot solve unemployment. Developed economic countries could, however, survive because of high technology at their command, world wide markets and inherent economic strength. These options are not available for developing countries whose socialies are still reeling under feudal domination.

Greatest tragedy is that the working class in our country is so influenced by the dominant classes it has not perceived that the anti-nation and anti-worker design of the reform in real sense. As a consequence, mobilisation against liberalisation and globalisation is not picking up to reach a political platform. This has facilitated the ruling classes to a great extent in diverting people's attention. But in the meantime, the condition of labour situation is deteriorating to a devastating level. Besides, loss of jobs and large scale contracting, decline of real wages etc., fly in the face of Indian labour. Public sector which employed more than 194 lakhs of workers out of the total 275 lakhs in organised sector of industries both public & private together is being dismantled brick

by brick. This process alongwith ongoing job freeze in the establishments owned or controlled by Central and many State governments has already caused shedding

of around 50 lakhs jobs during last 6 years period. Overall employment in public sector has declined from 194.67 lakhs in 1995 to 191 lakhs by the end of 1996 (Economic Survey 1996-97 and Employment & Unemployment summary prepared by Ministry of labour for the month of August 1997). It is estimated that atleast two out of six sanctioned posts will be eliminated in Government sectors and Railways. Quality of labour standard is also going down. Permanent posts are being manned by contract workers whose wages are regulated by Minimum Wages Act. Multinational companies and private corporate sector is also replacing permanent workers with more and more of contract workers and part timers.

Entry of multinationals in the labour market has seen offering exorbitant salaries (over or under the table) to attract experienced professional managers and high-grade technicians from the indigenous companies. Public sector is with brain drain. Besides, this is distorting existing wage relativities. There are instances when an ordinary graduate executive is paid a salary of Rs. 25,000 per month, a Ph. D in science from the University, employed as an ad hoc lecturer in a college, is paid only Rs. 1,500/- In view of the fact that in a globalised economy, labour is less mobile or stagnant in relation to capital, bargaining power declines. Since the unskilled and educated categories of labour force are most immobile, wage levels in those areas either remained stagnant or declined. Prevailing wage rates declared by various State Governments belie the Government claim that level at minmum wage level has gone up. It ranged between Rs. 9.25 and 76.40 per day. Most industrialised state of Maharastra pays Rs. 9.25 at the lowest level. Central Government has announced Rs. 38/- per day for most strenous job like quarrying in iron ore mine. In fact, slave wages are the order of the day at the lowest level. Rate of compensation against cost of living increase is ridiculously low.

Decline in the real wages is another disturbing phenomenon. Calculations on the basis of figures circulated by CSO, Labour Bureau Chandigarh for 1991-92 and 1992-93 suggest that the real wage has gone down alarmingly in many areas of manufacturing. Decline is as follows : Food Products by 12%, Beverages & Tobacco related industries by



8.9%. Cotton & Textiles by 8.8%, Wool, silk and other synthetic fibre textiles by 8%, Leather products by 9.7%, Basic Metal and Alloys by 9.5%, Manufacture of Transport Equipments and Parts by 8.5%. If this decline is calculated alongwith job shedding it will be found that wage component to total cost has been declining constantly. There is every reason to believe that the subsequent period decline must be more steep.

MISERIES UNABATED

It is mentioned earlier that the reform has instrumented re-structuring of wage levels. In the course of this restructuring it is also creating new formations amongst the wage labour creating further hurdles for trade union movement to maintain trade union unity. Besides, replacing the permanent jobs by daily rated workers and parttimers, the industries are diverting jobs from workshops to homes where women and children are engaged in hundreds of thousand at a very nominal wage price. Also the content of women employment has undergone a sea change and it is dedining.

Census reports indicate a decline in the percentages of working persons to total population. Between 1961 and 1991 the percentage has gone down from 42.97% to 37.49%. Despite the fact that the average decline in the rate for male workmen have been higher by 0.4%, overall employment of female remained alarmingly low at 22.26% and 9.24% in rural & urban employment respectively. Again, overall decline in rural areas by 5% against 3.3% in urban areas suggests the increasing trend in the use of machineries in agricultural production which signifies also the trend of replacement of female workers in rural sector. During the period of reform this trend has further grown.

A study conducted on women employment in newly industrialising countries (Jeemol Unni, Political & Economic Weekly, Sept. 28, 1996) indicated that in the matter of female employment in India it is 'relatively low and stagnant.' However, the study says women's participation has clearly risen in South Korea, Indonesia, Philippines and Thailand. As regards status of women workers the study says 'in case of India it is to the less advantageous status of casual workers' In terms of the proportion of its workforce engaged in industry, India's position is lowest of

the seven countries in South East Asia. One more study conducted by a group of social scientists has found 55% of the working women in Indian industries are paid wages below the level of minimum wage. 70% of them work in units where there are no unions. And only 11% women workers had permanent jobs with written contracts.

The policy of privatisation and competition has brought about wide range job shedding and untold miseries to the workmen. Strength in public sector and government employees together is going down. The policy of privatisation has made most of the PSUs vulnerable and many of them in the verge of extinction. Besides large scale job killing. This situation has affected the bargaining capacity of the workers. In many industries, wages are not revised for seven/eight years. There are industries where wages are not regularly paid. Some PSUs have defaulted in paying Gratuity and Provident Fund to the retiring employees and they have diverted these funds for production purposes. This illegal diversion of funds, is violation of statutory obligation is bring place at nice!

The liberalisation has blown up a great migration of work force from a higher stream of industrial activities to lower and then the lowest level, Beedi workers in Telengana Region of Andhra Pradesh are its glaring example. Raising the investment level in small sector of industries has initiated a shift of large textile industry to power loom sector which is again gradually wiping out the traditional handloom industry in our country. It is identified that the weavers who had once migrated to textile centres of Bhiwandi, Sholapur and Surat have returned to join the stream of Beedi workers, as the textile mills are closed. More than 60% of beedi workers in this region hail from the displaced weaver community. However, Beedi workers were being regarded as industrial workers and substantial percentage of them had been working factories. In the drive of liberalisation when excise from cigarette has been reduced progressively and duty on mini cigarettes was reduced to half in 1994-



95 budget prices of mini cigarettes came down to the level of beedis. This again initiated the shift of beedi industry from factory to homes.

This pathetic form of migration is taking place in all industries. Liberalisation is throwing workers to the streets but with no reflection to current days' politics. Market economy has compelled many workmen to take voluntary retirement. But most of them do not invest that money which consequently vanishes from their hands to fly back to the original destination i.e. market. As a result, they became destitutes.

THE OPTION TO RESIST

Despite all talks of swadesi inlet of MNCs into our country and its economy continues unabated. Once the opening is given to them, there is no option other than to live with them. It is said that economic reach of international capital is much longer than the political reach of national entities. Message is getting clearer and the recent national election has proved it beyond doubt. Nation has to learn to revolt against this economic aggression or has to live with increasing foreign pressure on our socio-polity.

We are reminded that since the combined sales of major TNCs (350) is more than one third of the combined GNPs of all industrial countries and they are given mandate to rule, there is no other alternative but to reconcile with their domination and IMF represents them.

Yes, there may be no option for Indian monopolists as they have institutionalised marriage of their capital with multinationals. But Indian working class should realise that they have the option to resist. It has been argued so long that in a globalised economy labour stands to lose in short term but in the long run it will gain. In recent days, as the globalisation is getting stabilised, the economists, even those who had been arguing otherwise so long, are taking the stand that there are no simple answers to the question

whether labour stands to enjoy long term benefits.' It is obvious that labour stands not to gain anything out of jobless growth!

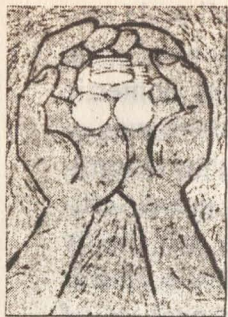


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Globalisation and the Informal Sector

P K Ganguly

The capitalist development strategies earlier were largely oriented towards modern large scale industries —generally termed as the formal or organised sector. The informal sector was not taken into serious consideration. The informal sector consisting of large number of small scale and tiny units, cottage industries, traditional and ancillary industries, etc was existing on the fringes of its parent, the robust organised sector.

With the deepening crisis in the capitalist system, the capitalist planning and mode of exploitation has now been changing according to the needs of imperialist bourgeoisie for the sustenance of capitalism. With the philosophy of liberalisation, privatisation and globalisation and implementation thereof, the production centres are undergoing a sea-change with a transnationalised global economy.

The hitherto ignored informal sector, as stated above, has now ceased to be the earlier small sector existing on the fringes of the organised sector. It is now threatening the very existence of the parent. With the structural adjustment programme, the organised sector and the public sector are being squeezed or dismantled and products are off-loaded to the informal sector for manufacturing. The advantage is that of low overheads, low working capital, cheap labour, scuttling of all labour laws, social security schemes, safety and occupational health measures, and of-course, garnering of huge profits by the big business.

The term "informal sector" or unorganised sector, as it is called in India, is in many ways misleading, since it carries the inaccurate connotation of a homogeneous sector with a specific set of characteristics. In macro-economic terms the informal sector is a residual concept, that is what is left over, if the agricultural and the formal primary manufacturing and service sectors are subtracted from the whole

economy. But what is left over is in fact, a multitude of extremely different and diverse activities ranging from a large number of small and tiny scale industries like beedi, handloom, powerloom, brick kiln, quarries, fire works, matches, tanneries, small chemicals, garments, cashew, carpet, bangle making, diamond and jem cutting, computer repairing and so on, to casual, contract workers, self-employed people, home based workers, etc. According to National Commission Labour of Labour (1969), the list is never ending.

GLOBAL PHENOMENON

As already stated, the proliferation of the informal sector has become a global phenomenon - a planned result of liberalised and globalised economy. Consequent to the systematic closures and shrinkage of the organised sector and dismantling of the public sector, there has been an exodus of large number of workers into the informal sector. With the shrinkage of the organised sector, in the Western countries particularly, there is reduction of working days in a week and number of hours in a day. So full time work is gradually receding into the days of the past. The net result is unemployment, underemployment, low wage employment, part time employment and casual or contractual service.

The composition of the working class is also changing thereby. While with the technological offensive, the squeezed high-tech organised sector consists of largely reduced number of highly skilled white collar workers and technicians, the classical blue collared proletariat is crowding over the informal sector. The moot question arises as to whether through such structural



adjustment the informal sector, despite its proliferation is able to absorb the exodus from the organised sector, albeit on low wages? The answer is obviously 'No'!

In USA, more than 50% of the labour force is now in the small business sector, which is credited with 50 per cent of its GNP also. According to the Indian Council of Small Industries, not even 1% of new jobs created in USA during the last decade was absorbed in the organised sector.

In UK, the informal sector accounts for 40% of employment and 25% of GNP. It is, however, growing at a fast rate along with technological innovations and joblessness in the organised sector. The big business hails this phenomenon as renaissance of small business!

In Japan, the small scale sector accounts for more than 82% of the workforce and is the main driving force in the export front. The same picture emerged in other G-7 and OECD countries. So jobless growth, dismantling of the organised sector and "fortification" of the informal sector are the features of the liberalisation and globalisation policies.

TALK-SHOW ON UNEMPLOYMENT

Following the growth of unemployment, resulted from the liberalised economy, the G-7 countries had a talk-show on unemployment at Detroit in 1994. But when the entire capitalist world led by the G-7 themselves has embarked upon a predatory venture on the vulnerable informal sector and job destruction as its means to achieve "growth" and prosperity, how can their talk-show on unemployment make it otherwise? So they decided to follow the same path to be pursued more aggressively to solve "unemployment," i.e. structural adjustment policies uninhibited liberalisation and privatisation, deregulation, decentralisation of production and "development" of the informal sector for market—all wedded to the corporate greed and acquisitiveness. And for this they

are fully utilising the troika of Fund- Bank- WTO to subordinate the third world countries in particular.

It does not require a large quantity of foreign capital to pen-

etrate areas which are domains of small scale production. The operation can be a simple one of using a prestigious trade mark to capture the domestic market and subordinate hundreds of thousands of small producers. If local producers are thus subordinated or weeded out, not on the basis greater efficiency of foreign capital in production, but simply through control over markets, this will be considered as "competition"—the motto of capitalism, of monopolisation, of transnationalisation.

INDIAN CONTEXT

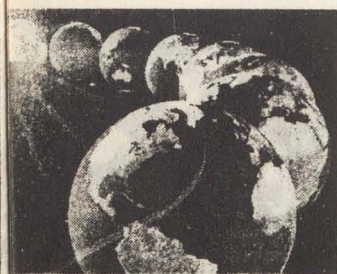
Being a third world country the situation in India is far more grim. The overwhelming majority of the Indian workforce is in the informal sector. The number has been growing further, accelerated by the process of liberalisation started with open declaration in 1991. At present, the Labour Ministry estimates that over 90% of the Indian workforce is in the informal sector. Only 9 to 10% account for the organised sector.

SMALL SCALE SECTOR

The 1956 Industrial Policy Resolution, although not a panacea itself, did lay stress on self-reliance, building up of public sector and development of the small scale sector. Regarding the small and tiny sectors, the cottage and traditional industries the 1956 Resolution stated that they provide large scale employment and offer a method of ensuring more equitable distribution of national income. Since these units cannot withstand predatory competition from the large houses, the Resolution called for reservation of items to be produced in the small scale sector for their protection against infiltration by the large houses.

The reservation of course started as late as 1967. The list progressively increased from 47 industries to 836 till 1991. The policy of protection did give a boost to the informal sector. So far as employment generation is concerned, the average annual growth rate of employment was 5.8% between 1980-81 and 1990-91. However, with the start of the economic reforms it dropped to 4.1% during 1991-92 to 1995-96. But still in 1995-96 the SSI units accounted for 15.26 million jobs, while the large and medium houses accounted for only 5.45 million jobs.

So far as production is concerned, it produced goods from worth Rs 28,060 crores in 1980-81 to Rs



3,56,213 crores in 1995-96, a jump of over 36%.

On the export front, the SSI units exported goods worth Rs 1643 crores in 1980-81 to Rs 36,470 crores in 1995-96, a growth of over 52%. As a proportion to total exports, it increased from 24.5% to about 36% during the period.

WORLD BANK DIKTATS

It is no wonder that the informal sector in India was targeted by the imperialist countries and their large house collaborators in the country. The 1991 Industrial Policy was adopted as per World Bank dictates in pursuance of the policy of liberalisation and globalisation, which practically reversed the 1956 policy. Then the Abid Hussain Committee sounded the death knell for the informal sector. The reservation policy was given a go by and the investment limits for the SSI and Tiny scale units were raised 500 times allowing poaching by the MNCs and the Indian large houses into the informal sector in the name of "promotion" and "development."

That the basic framework of the 1991 New Economic and Industrial Policies were based on the World Bank Report — "India: An Industrialising Economy in Transition" (released in December, 1989,) can be seen from the comparative statements of the World Bank Report and the new Industrial Policy of 1991:

1.Upward revision of Asset limit for Small Units:

a)World Bank Report (para 5.12): The dereservation of products might take place gradually, with products in which SSI is not performing efficiently, deregulated first. It is also suggested that the asset limits on firms producing reserved items be progressively raised to facilitate their growth, and that they be allowed to take minority equity stake in small ones, thus stimulating sub-contracting arrangements, transfer of technology and managerial skills, and further specialisation.

b)New Industrial Policy (Para 3): The investment ceiling in plant and machinery for small scale industries (fixed in 1985) would be raised from the present Rs 35 lakhs to Rs 60 lakhs and correspondingly, for ancillary units from Rs 45 lakhs to Rs 75 lakhs.

2.Fiscal Concession for Small Scale Sector

a) World Bank Report (Para 112): As the case is weak for perpetual and often absolute protection of small firms, and for an incentive frame work that discour-

ages their graduation from the SSI sector and their optional use of resources the incentives for the small scale firms should be shifted to facilitate their entry and efficient growth.

b)New Industrial Policy (Para 5 V): The existing regime of fiscal concessions will be reviewed both to provide sustained support to the units in the small scale sector and to remove the disincentives for their graduation and further growth.

3.Revising of Licensing Limits

a)World Bank Report (Para 5.07): The focus of decisions on investment and technology choice would thus gradually shift to the industrial firms, with additional scrutiny coming from leading institutions appraising investments from the perspective of loan scrutiny and repayment capacity.

(b) New Industrial Policy (Para 12): All new units upto an investment of Rs 25 crores in fixed assets in non-backward areas and Rs 75 crores in centrally notified backward areas will be exempted from requirement of obtaining license registration.

4.Foreign Collaboration

a) World Bank Report (Para 3.126): The approach could allow firms a relatively free choice of technology on the basis of specifications and price. Firms also would be allowed to independently contract process and product technology.

b) New Industrial Policy (Para 15): In respect of transfer of technology if import of technology is considered necessary by the entrepreneur, he can conclude an agreement with the collaborator without obtaining any clearance from the Government, provided that royalty payment does not exceed 5% on domestic sales and eight per cent on exports.

5.Foreign Investment:

a)World Bank Report (Para 3.126): Direct foreign equity participation in Indian firms could continue to require scrutiny for levels exceeding a specified share, say 40%, but could be delicensed otherwise.

b)New Industrial Policy (Para 6): Keeping in view the need to attract effective inflow of technology, investment upto 40% of equity will be allowed on an automatic basis. In



such proposals also, the landed value of imported capital goods shall not exceed 30 per cent of value of plant and machinery.

6) Revision of MRTP Asset Limit

(a) World Bank Report (Para 108): Until such time that MRTP investment and production clearance were phased out, the asset limits defining large or dominant firms, above which MRTP clearance is required, could be progressively raised.

b) The Indian Govt has raised the MRTP limit from Rs 100 crore to Rs 500 crore.

7. Ancillarisation and Large Units

a) World Bank Report (Para 114): Entry and growth could also be encouraged by allowing freedom for small firms to integrate with larger units, eg in ancillary production, with large units being free to take an equity stake in small firms.

b) The Indian Govt has accepted this proposal with the argument that there are organic linkages between the small scale sector and large sector and their relationship can become symbiotic rather than antagonistic. There are countries where lot of ancillarisation has taken place and we should try to learn from them.

ABID HUSSAIN COMMITTEE

Immediately with the 1991 Policy, the Government raised the investment limits from Rs 35 lakhs to Rs 60 lakhs for the SSI, and from Rs 2 lakhs to Rs 5 lakhs for the Tiny units. Then as per the Abid Hussain Committee's recommendations, the limits were raised to Rs 3 crores for the SSI and to Rs 25 lakhs for the Tiny units—both 500 times.

Another diabolical recommendation of the Abid Hussain Committee is to completely scuttle the reservation for the SSI and Tiny units.

It is surprising to note that although the Abid Hussain Committee was formed as an "Expert Committee" to determine the fate of the SSI and Tiny units, there was no representation in it from the Indian Council of Small Industries, nor from the Laghu Udyog

Bharati, nor from the KVIC, who are credited with the growth and development of the SSI and Tiny units during the post-independence period.

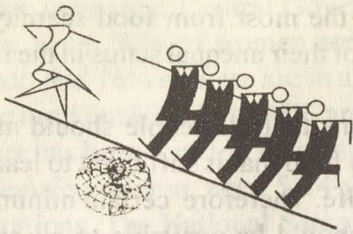
The Abid Hussain

Committee's plea for raising the investment limits was rising prices. But whereas the investment limits were raised by 500%, the prices rose by only 88% from May, 1990 to May, 1997.

Further, it recommended for total dereservation. It should be noted that 60 items in the reserved list account for 80% of production. The Government has already dereserved 14 out of these very 60 items. Where 90% of the units have investment below Rs 5 lakhs, the investment limit has been raised for whom? Of course, for the MNCs and Big Business in India. Many units with less than Rs 2 lakhs investment actually meet the local demand of low priced items for low income people. Moreover, the Abid Hussain Committee has removed the ceiling of equity participation, which was 24%, by big business, both Indian and foreign, allowing them to capture the market share by the SSI and the Tiny units. As a result, large number of such units have closed down rendering thousands of workers jobless. Many others, innumerable in number have grown sick, or are on the verge of death. The "expert" Abid Hussain Committee has not touched the employment question at all, nor sickness. In a situation of galloping unemployment and overcrowding in the informal sector, for workers it is not a choice between high wage employment and low wage employment; it is a choice between low wage employment and no employment. The liberalised and globalised economy has left them in lurch.

Thus, the effect of liberalisation, privatisation and globalisation, nay, transnationalisation and neo-colonisation, is the same everywhere—closures, sickness and joblessness, be it the organised sector—private and public, or the informal sector. The only solution lies with the working class. The trade unions must organise the teeming million of workers in this vast sector and unleash struggles. If this vast section of workers in the informal sector can be brought into trade union struggles, then along with those in the organised sector the dimension of the entire trade union movement will acquire the shape of mass actions. This is very important for changing the co-relation of class forces in favour of the working class. (Source: The data and other informations given in the article were obtained from the Ministry of Labour, ILO, Indian Council of Small Industries and Laghu Udyog Bharati)





Globalisation and Liberalisation: Impact on Women and Children

Ranjana Nirula

In the last fifteen years the ideology of the 'free market, the world as a 'global village' and 'globalisation' has come to dominate the unipolar world we live in. This ideology propagates economic policies which advocate the withdrawal of the state from productive and developmental activities. It maintains and promotes inequalities in income and resources, both between developed and underdeveloped countries, and between the rich and the poor in each country.

Policies of globalisation were introduced in India in 1991 at the dictates of the World Bank and IMF, under the guise of "economic reforms". Even earlier, in the 1980s some such steps were taken as part of the conditionalities imposed by these institutions for their loans. These policies serve the interests of the advanced countries at the cost of the underdeveloped third world countries. They have been thrust on the people of India, despite their record of adverse impact on the lives of the majority of people, wherever they have been introduced, as is seen in many countries of Latin-America and Sub-Saharan Africa. In almost all these countries these policies have led to an increase in absolute poverty, a reduction in food availability, accelerated inflation, a rise in debt and a fall in the rates of growth of output. These policies have also resulted in a deterioration of working conditions and wages, especially for women.

One of the most significant conclusions of the International Women's Conference at Beijing in 1995 was that the policies of globalisation and liberalisation have resulted in increasing the inequalities not only between the rich and poor, but also between men and women. All over the world, those below the poverty line were increasingly women, particularly families which were headed by widows, abandoned women or migrant workers.

These policies operate at different levels: greater

privatisation, decline in social sector spending, cut-backs in subsidies, decline in government spending on developmental activities and massive opening of the Indian economy to MNCs at the cost of domestic industry.

All these measures naturally intensify prevailing inequalities and further marginalise women. Apart from the economic they also impact on the social and political spheres. The 'free market' brings with it the 'get rich quick' philosophy which results in a degeneration of human and social relations, and increase in violence, of which the worst victims are women. At the same time, the shift in decision making from local and national to supra-national or international bodies, further denies democratic rights to the majority of the people, including women, who, even the best of times, have little say in decision making processes in the country.

The conditions of life of the majority of Indian people are characterised by low incomes, illiteracy, hunger and malnutrition. These conditions of underdevelopment can be changed only by public intervention, including intervention by the government, on a large scale. But the policies adopted by the Government of India which have led to rising prices, increasing poverty, lack of food security are the exact opposite of what is needed. Their disastrous impact, manifested in the declining quality of life of the vast majority of the Indian population, especially women and children is already evident.

The much tomtommed argument that this is due to population growth is negated by the fact that since 1947, even though India's population has tripled, its agricultural production had quadrupled. The real reason is that the



increase in prices of food and essential commodities has put them beyond the reach of the large majority of people. This has resulted in a situation where the per capita availability and consumption of cereals dropped sharply in the years following the introduction of the 'new economic policies.' For example, it declined from 510 gms/capita/day in 1991 to 468 gms/capita/day in 1992, and the intake of pulses, the only source of protein for the poor, dropped even more.

PRICE RISE AND FOOD SCARCITY

The Human Development Report, 1997 states that over 515 million people in South Asia live on less than a dollar (Rs 40/-) a day, and suggests that a larger percentage of these are women. In India, in the 1990s there have been repeated increases of unprecedented amount in the prices of cooking gas, diesel and petrol, which led to spiralling of prices of essential commodities - an increase of 45% in just three years from 1994 to 1997, affecting the vast majority, and in particular women and children. The Consumer Price Index for Industrial Workers rose by over 67% in the 6 years between 1992 and 1997, and in rural areas the price index for agricultural workers increased by 14.1% in just one year - 1995. The growth of indirect taxation in the economy and the inflationary policies of the government combined to aggravate the price situation.

The extent of impoverishment of the people in the past 6 to 7 years is seen from the findings of the UNICEF Progress of Nations Report 1996 that one-third of all malnourished children under five in the world are in India, and that 53% of all children under 5 in India (about 75 million) are malnourished. The number of people living under the poverty line (of less than ten rupees a day) has been going up in both rural and urban areas. Since 1990-91, the number of people in India officially estimated to be living below the poverty line has increased by around

30 million. The percentage of people below the poverty line has been going up and is higher in 1995-96 than it was in 1989-90. Many studies have revealed that women and

girl children suffer the most from food scarcity in the family, because of their unequal status in the family.

Food security means that all people should at all times have access to food that is sufficient to lead an active and healthy life. Therefore certain minimum quantities of food should be available to all at affordable and stable prices. This requires intervention in food markets, as well as ensuring economic security so that people have the means to purchase the amounts of food they need.

As part of the cutbacks in Government subsidies, including food subsidy, in accordance with IMF and World Bank demands, the government has been raising the price of rationed rice, wheat sugar, kerosene oil, and is now moving towards dismantling the public distribution system entirely. Millions of people have been deprived of ration cards, family quotas have been cut and many ration shops have no supplies. Hunger and malnutrition are prevalent on a mass scale in India, and there are still areas of the country where deaths by starvation occur, every year. For consumers, the period of structural adjustment has been one in which there was a steep increase in the prices of foodgrains supplied through the public distribution system. At the national level, between 1991 and 1994, the central issue price of wheat rose by 71.8% and of the common variety of rice rose by 85.8%. During the same period, the Index of Wholesale Prices rose 44.45%. In other words, the cumulative increase in the prices of major foodgrains sold through the public distribution system was higher than the corresponding increase in other general price indices. Price differentials between the PDS and private market narrowed or even disappeared, so those who could not afford to buy in the open market, were unable to buy from the PDS either.

WOMEN & EMPLOYMENT

Economic independence is an essential prerequisite for women's equality. It is unfortunate that the already low percentage of women in the organised sector, about 8%, has further gone down. The government has imposed a virtual ban on fresh recruitment, nor is it filling up vacant posts, especially in those sectors where women found employment, such as schools, hospitals, postal and telegraph services,



banks, insurance, Central Government offices, railways. Over 90% of women are in the unorganised sector, and 76% of these are in agriculture. Of all the poor rural families 30 to 35% are headed by women. There has been a steady increase in the participation of female children, aged 5-14 years, in agricultural operations. The National Sample Survey Organisation found in rural areas 6-7% of the labour force consisted of girl children of this age group. Instead of taking measures to abolish child labour, government policies are resulting in more and more children being forced to work to augment the meagre family income.

Traditional sectors such as handloom, cashew, coir, khadi and village industries have become a special target of attack under the new economic policies. After the liberalisation measures the workers in these sectors are paid abysmally low wages. Real wages are declining. Many do not get sufficient work and partial employment is common. The terrible hardships caused by these factors have led to a rise in suicide cases amongst workers in these sectors.

About 10 lakh women are employed as health workers in Anganwadis, in projects funded by the Central and State governments. In spite of the diverse and difficult work these women do, they are not paid a salary. The government gives them an honorarium varying from Rs 350 to 700 for workers and Rs 260 to 310 for helpers. In Bihar 70,000 rural midwives have not been paid for over two years because of cuts in Central Government funds for the projects. The rate of growth of female employment which was 8% in the 1980s is down to under 2% in the 1990s. In the textile industry 65,000 workers have availed of the Voluntary Retirement Scheme. The wives of these workers are being forced to take up jobs as domestic workers or contract labour since they have become the main breadwinners in the family.

In many government sectors where women are employed, a process of giving out work to contractors has started which leads to a direct deterioration of wage levels and service conditions, including job insecurity.

An increasing trend is to farm out work, on a piece rate basis, to women working at home. This is an easy way to bypass labour legislation, to cut infrastructure costs and to hike up profits. This process

has accelerated in the garment industry, in leather, in shoe manufacturing and even in electronics. An example of this kind of 'home-based' work is in the export oriented garment industry in Mumbai, where women sewed buttons on shirts, at rates between one and five paise per button. On completing fifty shirts in 8 to 10 hours they earned between Rs 2.50 to Rs 12.50 for their labour. When the daily minimum wage is over Rs 30/- the extent of exploitation is enormous. In India where there is no protective legislation for women in the unorganised and home-based sector, the government is projecting this type of sweated labour, along with the idea of self-employment as a viable work alternative for women. Self-employment is made unviable by a credit crunch due to the privatisation of the banking sector, and the increasing takeover of the market by MNCs.

Within the organised sector, the government has set up special areas for export oriented industries called Export Processing Zones in 7 different parts of the country, where trade unions rights are denied and labour legislation not implemented. There are a large number of single, migrant women workers in these zones, who are vulnerable to both economic and sexual exploitation. Since the government is following export oriented policies, an expansion of such areas can be expected. The possibility of a boom in the Tourism industry also exists, with all the related aspects of sex tourism and the exploitation of women's bodies.

In urban areas a section of educated middle class women, have found employment in the private sector and are subject to illusions about the 'freedom' and 'choice' of the market. However, their number is extremely limited in comparison to the jobs lost or needed. So at one level the new economic policies are intensifying the differentiation between women, but at another, women will draw closer together in united actions, to face the increased violence, sexual harassment and exploitation at the work place.

RURAL WOMEN

A vast majority of India's population depends on agriculture for survival, and a large



section of the rural population is involved in animal husbandry, brick kilns and artisanship of different types. Many of the rural people are landless and since most of them are scheduled caste or tribals, they suffer additionally from caste oppression. The women among these sections are the worst victims of class, caste and gender oppression. They participate in all major agricultural operations but in spite of hard, backbreaking labour, women's work is termed 'light' 'secondary' and has a very low level of remuneration. Even where women do the same work as men, they are paid lower wages—in fact, women's wages are barely 1/3 of men's in many parts of the country. This, when the government has yet to pass Minimum Wages legislation for agricultural workers at national level, so the wages of both men and women are already very low.

The NEP has impacted on rural women in many ways: Land monopolies are being strengthened, with MNCs and big companies given open license to buy land. Government land which should be distributed to the rural landless is being sold to MNCs. Thus, land reform is no longer on the agenda and the joint titles to women in land distribution has become even more difficult to achieve.

2. Government agricultural policy which is export oriented has led to a shift from foodgrain production to cash crops. While threatening food self-sufficiency, such a shift also affects work patterns. In labour intensive cash crops such as cotton and groundnut women do get employment but in non-labour intensive ones, like eucalyptus, they lose jobs. Over all, the shift is leading to less work and lower wages for the vast majority of women. The transformation of huge tracts from agricultural land into fish breeding and prawn cultivation have led to degradation of the soil as well as loss of work for thousands of agricultural workers. In the same way, conversion of paddy fields to flower gardens has rendered many

men and women jobless. As the men migrate to other areas to find work, a larger percentage of female headed families remain, in a vulnerable position.

3. Increase in mechanisation of agricultural operations done by women, and in the system of contract labour has led to displacement of the work force, as well as a reduction in workdays and intensified exploitation by the group leader.

4. The penetration of MNCs into rural areas has had an adverse impact on women, as in animal husbandry, where women are the mainstay. The cutbacks in poverty alleviation programmes of the government, in the name of fiscal austerity, have had a definite class and gender bias, in that it was the programmes for the poor and vulnerable which were cut. For example, in the 90s the expenditure on the Jawahar Rozgar Yojna and the Integrated Rural Development Scheme, the two major programmes for the poor, were drastically cut over the years.

Women's unpaid work includes household work and also collecting fuel and fodder. With industry being allowed to buy commonly held village land (being used for cattle grazing, fodder or fuel collection), women have been deprived of its use.

At the same time, government has cut funds for supply of drinking water and sanitation. A recent government survey noted that only 14.8% of the target for rural sanitation had been met. With the huge hike in prices, women have to produce more commodities at home, thus adding to their work burden. The unpaid work burden of domestic work is borne by girl children when adult females are desperate to earn cash for family survival. The plight of the girl child in a poor family needs to be highlighted much more as she is adversely affected by the policies being followed by the government. It is tribal women, however, who are possibly the worst affected because they are denied access to forests in the name of conservation. While the increasing commercialisation of forests and forest produce by contractors and timber merchants leading to rapid degradation of forests continues apace, women are denied their traditional rights.

CUTS IN SOCIAL SECTOR SPENDING

The government has reduced spending in social sectors by cuts in health budgets, education, child care services and poverty alleviation programmes. Programmes that are targetted entirely at women, or women and children have been cut, such as the DWACRA, Mahila Samridhi Yojana and ICDS and



also schemes for allowances to old persons and widows. These programmes, which are grossly inadequate as far as the numbers reached are concerned, do not benefit the target group and are being used as instruments of political patronage. Widow and old age pension schemes have had to be scrapped in many states because of lack of Central Government funds. This has led to malnutrition on a massive scale especially amongst children and tribals.

DWACRA Year	Rs in million	Index
1990-91	160.31	100.00
1991-92	158.82	98.7
1992-93	126.9	79.1

The inadequacy of child care services affects working women, and particularly those who cannot afford private creches. There are about 12,000 day care centres that are funded by the government through grants-in-aid and run by voluntary agencies. As part of liberalisation these grants are to be phased out, which will lead either to closure or a fee hike. In both cases, the poor working woman and her children will suffer.

HEALTH

UNICEF figures for the 1990s show that the reduction of social benefits has adversely affected the health of mothers as well as children. In India, in 1995, there were 75 million malnourished children under 5 years. Out of 25 million children born every year 2.7 million die before age 5, 1.7 million die before the age of one year. The major causes are malnutrition (often the mother is so anaemic and malnourished that she cannot breast feed her child), diarrhoea (due to contaminated drinking water) and diseases. Illness is frequently a consequence of malnutrition and malnutrition is also commonly the result of illness. Half of South Asia's children are deemed to be malnourished and 5000 children die in India every day due to malnutrition related disorders. 83% of Indian mothers have iron deficiency. A recent study found that 70% of adolescent girls in the urban slums of Delhi were anaemic. The gap between male and female child mortality is widening with more girl babies dying with a difference of about 5%.

The prices of medicines are increasing rapidly. At the same time there is a parallel deterioration in public health services. In 1995 there were 2 million re-

ported cases of malaria of which almost half were of the malignant variety like cerebral malaria. This is due to the government cutbacks in anti-malaria and TB programmes in the very first year of structural adjustment. Cases of TB have increased in India. 14 crore people suffer from TB and 1200 lives are lost everyday due to TB. Because of unhygienic conditions of living and low immunity levels due to poverty around 40 lakh people get affected by leprosy. Even the World Bank has had to admit the further deterioration of health services in India, but it still recommends privatisation.

We see that the NEP of the government have made a serious impact on the drug industry and its workers, as also on the health care system and ultimately, on the people. Privatisation of health services has directly reduced access to health for large numbers of poor people, especially women, who rarely go to a doctor in spite of serious ill-health. In agricultural workers families one of the growing reasons for indebtedness is medical expenses for the family but the woman rarely takes the loan for her own medical care.

In addition to this assault on peoples health, is the attack on women's health in the name of population control. The government's population policy is based on disincentives. It wants to push the People's Representation Act for Parliament and State Assemblies to debar all those from contesting who have more than 2 children. This will, firstly, debar the poor and especially women from contesting. Secondly, when son preference is prevalent in society and women rarely have decision making powers regarding family size, it will penalise the victim and punish the poor for their poverty.

Long acting contraceptives, which have harmful side effects and are banned in Western countries, are being used in India, on unsuspecting women, without giving them any information regarding these or doing the necessary follow up and monitoring that is required. At present the total outlay on family planning is more than the total outlay on health. The government has conven-



iently ignored the well known evidence that development is the best contraceptive and is instead bowing to IMF-WB pressures to control population growth by any means.

EDUCATION

Today there are more poor and illiterate people in India than her entire population in 1947. The low level of literacy in India, where over 65% of women are illiterate, is directly related to increased levels of poverty. The discrimination against the girl child in access to education is seen in the declining number of girls attending schools. Even when they do, the drop out rates for girls are alarming: 50% drop out in primary school, 30% in the very first year of school. India is one of the few countries where there are no laws on compulsory primary education. According to one estimate, if each village in India is to have at least one school upto the middle level, an additional 50,000 primary schools and 4,40,000 middle schools would be required. If all school children were enrolled 44,00,000 more teachers would be required. In response to this, the government has put a virtual ban on all recruitment.

At present, in existing schools 40% have no black boards and 59% no drinking water. It is in this context, that central government outlay on education has been reduced, in real terms, and at present this is under 2% of the Central Budget. At the same time, the government is encouraging privatisation of education at all levels, commercialised it beyond the reach of children especially girl children from poor families. With the mother being forced to go out to earn, to keep the home fires burning, more and more young girl children are forced to stay home, to look after the younger children and to do household tasks.

OTHER ASPECTS

It is not only in the economic sphere, but in the social sphere also that the NEP have had a marked impact. The privatisation of the electronic media has

led to a spate of TV programmes that debase sexuality to pornography and obscenity and are filled with mindless violence. The commodification of women in the media,

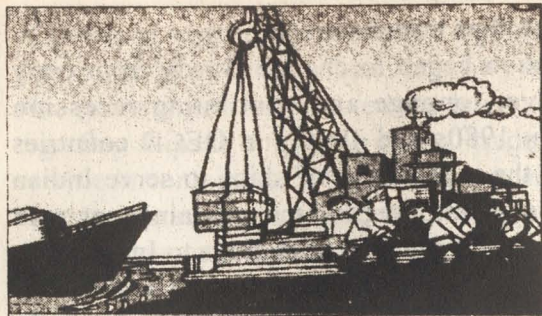
and use of their bodies in advertising has further led to their devaluation in society. In India, in the recent years of liberalisation and privatisation one of the issues on which there is the most spontaneous and angry reaction from women is the objectionable portrayal of women in the media and in particular the electronic media.

Another important fallout of pushing profits and privatisation as the major agents for development is the increase in social tensions. Violence against women is increasing apace with a crime committed against a woman every 4 minutes and a rape of a woman or child, every 47 minutes. Many women say that the changes in the past few years have led to increased work hours and harder work for them. As a result they are much more tired at the end of the day and are unable to play the role expected of them by their husbands. This leads to an increase in cases of wife-beating and domestic violence. For the mass of Indian women the NEP have meant a transformation of their double burden into a triple one.

NEEDED: PRO PEOPLE ALTERNATIVE

For the constitutional guarantees to have any meaning at all for the mass of Indian women, what is required is radical economic reform, which would give priority to the transformation of agrarian relations, since the vast majority of women live in the villages and are dependent on agriculture for their survival. This transformation requires the breaking of land monopolies and the distribution of land to the landless and marginal peasant families, ensuring equal land rights for women in the distributed land. This would be the key for expanding the Indian market and ensuring equitable living standards. It would also require massive investment for industrial expansion specifically linked to creation of more jobs, including those for women. The disastrous impact of the policies of globalisation and liberalisation, which have led to the general immiserisation of the vast majority of the people, and the process of feminisation of poverty, can only be countered by an all out struggle for a complete reversal of the new economic policies, and their substitution by those mentioned above, which alone can bring about progress and development of the mass of the Indian people.





GLOBALISATION, SHIPPING SERVICES AND SEAFARERS

M.M. LAWRENCE

Long before globalisation became a catchword, global market environment had always been taken to be quite natural situation as far as shipping service was concerned. During mercantilist era of 16th and 17th Centuries, seafaring nations of Europe promoted expansion shipping service to meet the needs of growing trade with new-found colonies of Asia, Africa and America. Shipping service providers sought protection of European states to safely sail through oceans and to load and unload cargo at ports. This scenario suited well both the colonising states and their shipping service providers, whose commercial ambitions equally matched the greed of empire-building colonisers.

Global market is not free for all of *laissez faire* type. Such free market theories exist in economics text books. Even during the mercantilist era, governments imposed regulations to expand exports and extend trade to new markets. Presently, these regulations have taken new forms and conventions under the system of World Trade Organisation (WTO), patent regimes, exchange rate mechanisms and cross-currency trading. The World Bank's Development Report 1991 puts in historical perspective as to how such regulations worked. To quote: "*Centuries before industrial revolution, countries had learned to protect domestic market. Beginning in the 13th century, England enacted a series of laws that restricted the type and origin of fabrics which could be worn. Although some laws had social objective - to identify social classes through their costumes - the basis for others were clearly economic. In addition to laws against import of French products, the British also protected producers against countries such as India. British producers in the 17th century succeeded in getting a law passed which prohibited importing or*

wearing of silk and calicoes from China, India and Persia. Restrictions on imported calicoes provided an impetus to England's calico-printing, silk and cotton-linen industries."

Whatever the term used - that is free market or global market, such markets always remained regulated. The regulations helped the producers who own productive enterprises to market their goods and services in highly profitable manner. Some regulations also helped the consumers who have income and wealth to procure quality products from a wide array of choices. There were practically no regulation to help the workers either as producers or consumers. No regulation in the so called global market helps the poor or those with limited means to have access to products and services to meet their needs.

PLANNED AND MARKET ECONOMIES

A beginning for such regulations to help the workers and ordinary people began in 1917 with the formation of Union of Soviet Socialist Republics and the trend was consolidated in many countries in Eastern Europe at the end of World War II in 1945. This trend gathered further strength between 1950s and 1970s in some countries of Asia and Latin America such as China, Vietnam, Cuba and Chile. It is in this circumstance that globalisation went into disrepute. Production slowly became geared in these regions for those in need and not solely for those whose purchasing power command them.

World market thus became segregated into two blocks - viz. (i) market economy, where government regulations support the rich and wealthy to control market as pro-



ducers and to some extent as consumers and (ii) planned economics, where government regulations supported the workers and people at large to help them with regulated production and distribution to lead a good life.

The second block of market started losing economic relevance in early 1990s in view of political changes in Eastern Europe and former Soviet States. The World Development Report 1996 notes this transformation thus: *"Between 1917 and 1950, countries containing one-third of the world's population launched a vast experiment to centralise control of economic resources and allocate them by planning. Recent years have seen another fundamental transformation, as the same countries change course, seeking to rebuild market and reintegrate themselves into the global economy."*

INDIAN SCENE

Shipping service, for practical purposes had always remained in the realm of the so-called market economy because major shipping service providers of non-socialist countries always dominated in sea-borne international trade. During the boom years of 1960's and early 1970's OECD countries provided between themselves large volume of trade in high value cargo and balanced trade.

During this period Indian sub-continent was commercially less attractive to foreign shipping service providers because of low volume of cargo and unbalanced nature of trade in Indian sub-continent. Consequently sailings during those times for Indian sub-continent were not frequent, while freight rates were maintained high by frequent increases.

The shipping companies made use of every event to invent and impose additional levies and surcharge; and to hike them as frequently as possible. Such levies pertained for example, to use and non-use of Suez Canal; congestion and delay in any port in India or elsewhere; change in price of petroleum crude, fluctuation in exchange rate of currencies and even any political event and news. Indian exporters then used to rely more on Indian carriers, which provided satisfactory

service to Indian trade interests.

This situation began to change slowly from early 1980s. Over tonnage and continuing recession throughout 1980s and 1990's in OECD countries increased the availability of ships to serve Indian trade. Foreign shipping lines in container segment increased their frequency of sailings to Indian sub-continent and improved the quality of service at a fraction of freight rate prevalent in 1970s. Currently the average liner freight rate from India to Europe is about \$ 700 per TEU (twenty feet equivalent unit - container) compared to \$ 2000 per TEU in early 1980s - that is more than 15 years ago.

Indian flag carriers have been forced to retreat or go out of business from container segment in view of unhealthy competition from foreign container shipping lines. The trend since 1980's is that established seafaring countries are drawn increasingly to high value and high tech ends of shipping service such as car and gas carriers; specialised product carriers and cellular container ships while general cargo (break-bulk), oil and dry bulk seem set to be taken over by entrepreneurs from developing countries. Dominant container lines owning infra-structure at key points around the world have either already formed into strategic alliance or have merged to gobble up a major share of major container traffic to themselves.

The result was the share of Indian ships in our overseas trade has been steadily declining as can be seen from the following table notwithstanding growth in volume of trade.

Year	Share of Indian ships (percentage)	Volume of Indian trade (million tonnes)
1982-83	40.7	74.81
1993-94	33.6	136.97

Source : Ministry of Surface Transport - Report of Director General of Shipping

That foreign shipping lines stay afloat even during these bad tidings is solely because of support and regulation in their favour by governments in developed countries while these Governments preach free market for third world. In many countries such as U.K., Germany and Sweden, ship building is subsidised, while Indian PSU shipyards are told to fend for themselves by our Government. Shipping companies generally enjoy varying degree



of financial support and exclusive right for national carriers in coastal trade of each country whereas Indian government had relaxed the law to allow foreign flag ships to engage in coastal trade for feeder service in containers. Wider market access to maritime transport was not agreed to even in WTO but the Government remain unconcerned about the steadily declining share of Indian ships in our trade during the last two decades.

PLIGHT OF SEAFARERS

The Indian Government appears to hold the biased view imposed by IMF/World Bank that globalisation is *laissez faire* of text-book vintage. Indian shipping companies both in the public and private sector face serious difficulties to operate profitably due to lack of government support. This neglect of the government extend to Indian seafarers employed on board ships and to port/dock workers working in Indian Ports. Modern ships of very large size now have very lean crew size. The condition of work of seafarers have become harsher because of longer time in voyages and very brief spells of stay in ports for cargo work.

Measures to ensure safety of seafarers and their welfare is very unsatisfactory. Most ILO conventions in this regard are observed in breach. There is at least one silver lining. International Maritime Organisation (IMO) has been insisting on countries to adopt uniform safety standards for ocean going vessels. Most seafaring countries are reconciled to adoption of these standards because the shipping operation is facing unhealthy competition from both old and new ships now under operation.

Adoption of IMO standards may lead to some extent to curtail over-supply of ships. India has decided to implement IMO norms from July 1 this year. The timing is favourable to owners of ships and so the government intervention in global market is hailed. The crumbs of this benefit would percolate to seafarers in the form of safer working environment although unemployment amongst seafarers would also get aggravated.

Modern shipping has made redundant many manual jobs traditionally done in Ports by port/dock workers. This trend is still continuing. Whatever manual jobs that remain to be done for cargo work such as stuffing and destuffing of containers is getting

delinked from port operations and such jobs got shifted to places away from ports. Statutory safeguards providing for job security and welfare of dock workers are either being curtailed or is becoming illusory.

OBJECTIVE REALITY

This is what liberalisation and globalisation really means. The objective is to help capitalists, the rich and wealthy segments of society around the world. Equally important objective is mentally and physically condition the working class to be more flexible to accept globalisation as if it were a great panacea to resolve all economic ills. Liberalisation as applied to shipping and port sector in India has ruined Indian shipping and brought down Indian shipping tonnage to all-time low of less than six million tonnes in addition to drastic reduction in share of Indian shipping in our overseas trade. The condition of work of seafarers and dock workers has worsened and levels of unemployment amongst these workers have increased.

There has been no growth of export in terms of value addition as Indian exporters have no financial clout to achieve competitiveness through launching of brands and establishing marketing outlets abroad. WTO's 1998 Trade Policy Review (TPR) indicates that liberalisation in India has not succeeded the objective of attracting foreign direct investment in export oriented industries. The WTO analysis confirm that foreign companies that have set up shops have done so more to cater to the large Indian Market.

At the same time, Indian ports are confronted with the need to modernise ports which is estimated to cost Rs.40,000 crores in the next few years. in addition to upgrading of road and rail system to suit the needs of shipping. There has been no takers to Indian government initiative to attract foreign direct investment for upgrading ports and developing national highways. That leaves the people of this country to mobilise the required resources, notwithstanding that the growth of income of large majority of Indians had already suffered serious erosion due to globalisation.



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Workers under various trade union organisations from 65 countries recently shared their experience in a conference held in Havana (Cuba). The conference adopted firm resolve to fight unitedly the challenges posed by the neo-liberalism and globalisation and have decided to embark on this struggle, heralding its beginning to coincide with May Day of 1998. The CITU calls upon the Indian working class to redeem this pledge of the Havana conference!

(M.M. Lawrence is the Secretary of Centre of Indian Trade Unions and President, Kochi Port Labour Union (CITU). He was one of the participants from India at the Havana conference)



The German Economics Institute has published a survey on the so-called "black economy", according to which its turnover has risen five-fold over a period of 20 years or, as a percentage of GDP from 6% to 15%. Half of all jobs in black, or unofficial, economy are in the construction industry. Germany is not only country affected by this trend, as is shown by the figures (% of GDP produced by the Institutes (see table). (Source: *Social International Paris*)

"Black economy": An international phenomenon

(As percentage of GDP)

Italy	25.8
Belgium	21.4
Sweden	18.3
Norway	17.9
Denmark	17.6
Ireland	15.3
Germany	15.0
Canada	14.6
France	14.3
The Netherland	13.6
Australia	13.0
United State	9.4
Austria	8.3
Switzerland	7.5
Situation in 1994	

GLOBALISATION AND SOCIAL JUSTICE

Freedom of association and collective bargaining are an important bulwark against an excessive rise in inequality and a deterioration in labour standards in the wake of globalisation.

Globalisation will not be politically viable if it led to a deterioration in Social Justice.

Workers are important stake holders in the process of globalisation and also the group that is most likely to suffer from its negative effects. As such they have a right to be heard and to influence how the process of globalisation is being managed both nationally and internationally.

MICHEL HANSENNE
Director General, ILO



Banking Sector: Reforms or Ruination?

Ashis Sen
Asit Das Gupta

Banks, insurance and such other financial concerns do constitute very important institutions around which revolves in the main, a country's economic operations. Every country therefore, pays serious attention to the working of these institutions particularly the banks. For a developing country their structure, shape, system and functioning are specially overseen by the State and according to time to time requirements of economic development, reforms are undertaken to suit the national needs. But, of late it is noticed that advanced countries, with international chains of their banks, are taking advantage of the position of weak countries, making all efforts to enter and dominate the banking system and economy of the developing countries. The governments of these countries are forced to succumb to use of various machinations trained by international bodies like World Bank, IMF, WTO, etc. Economic sovereignty becomes the victim.

The protagonists of globalisation of the economy, however, feel otherwise. That is how the first Narasimham Committee was appointed to 'reform' financial sector in India in accordance with the New Economic policy adopted in the year 1991 by the then Central Government. The hub of this policy is LPG, i.e. liberalisation, privatisation and globalisation of Indian economy and is based on what has been prescribed by IMF/World Bank.

'REFORM' PRESCRIPTION

The committee has recommended wide ranging measures intended to 'reform' the banking system and other institutions of financial sector. Liberalisation of banking business, privatisation of public sector banks and globalisation of financial sector including its banking segment are the sole targets which the 'reform' process aims at.

What actually globalisation of financial sector means? Let us quote here the relevant portion of the 'Report of the Committee on the Financial System'

(1991):

"The committee also believes that consistent with the other aspects of Government policy dealing with foreign investment, the policy with regard to allowing foreign banks to open offices in India should be more liberal subject to the statutory requirement of reciprocity and the maintenance of such minimum assigned capital as may be prescribed by the Reserve Bank...."

"The entry of foreign banks into the country, we believe, would have a beneficial impact from the point of view of improving competitive efficiency of Indian banking system as also upgrading work technology." (Chapter VI).

This is the perception of the committee on the financial system about deregulation of entry barriers of financial sector. It may be noted that the committee felt that opening of financial or its banking segment is the logical consequence of govt. policy of globalisation of economy as a whole. The committee, obviously, did not weigh all the aspects of impact of entry of foreign banks on Indian banks and the nature of challenge they would face. It did not also assess the international experience of such measure to facilitate proper understanding of this vital issue.

LEVEL PLAYING FIELD?

The committee, however, made the following observation:

"In the short run it could create problems to the Indian banks but over a period of time, we believe Indian banks would so organise their operations and improve their efficiency as to meet the competition posed by the foreign banks".
"While permitting operations of foreign



banks we would emphasise the importance of ensuring a level playing field."

There can be no dispute that the removal of entry barriers has thrown the Indian banks -both private and nationalised ones-into the vortex of fierce competition. And with whom? With the giant multinational banks (MNBs). Compared to them Indian banks are just small fry.

Though Narasimham Committee piously wished that a level playing field has to be ensured before the gate is opened to the foreign banks what happened actually? Indian banks are subjected to Bank of International Settlements (BIS)

standard of measuring capital adequacy, i.e, the ratio of capital to risk weighted assets a stringent prudential norms for income recognition and provisioning and other measures. The prudential

norms evolved in the context of developed countries have been imposed on banks in India - an under developed country having its own socio economic compulsions. Banks have been given little time to adjust with the new policy environment. Most of the public sector banks were already problem ridden when prudential norms have been introduced.

This ill advised reforms proceses have caused crisis situation in majority of the Public Sector Banks (PSBs). Some of them have failed to show profits by following new format of balance sheet. The implementation of first phase of reforms has clearly destabilised the na-

tionalised sector of banking industry instead of improving their health and consolidating their position. The survival of some nationalised banks have already been questioned. Some banks have already been condemned as 'weak banks' and various ways have been thought of to eliminate them from the scene.

ONLY FITTEST TO SURVIVE?

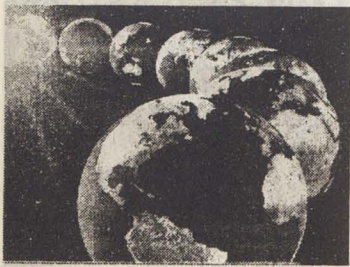
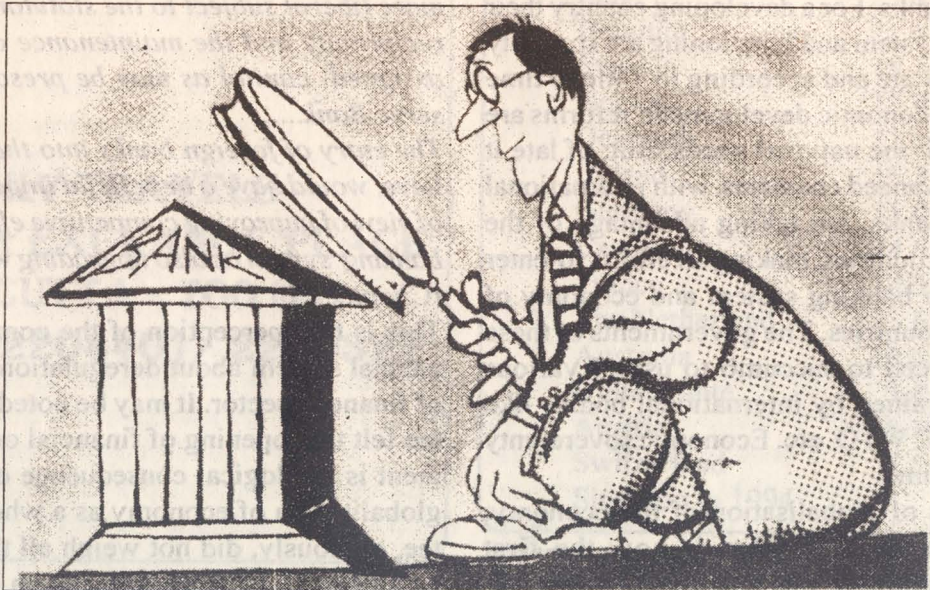
Doors of banking industry have been opened at this critical stage. Multinational Banks obviously will reap full benefit of the situation. The tall talks of ensuring level playing field is only but to hoodwink the people. Real intention is to remove the formidable

bulwark of nationalised segment of banking industry to ensure smooth business of foreign banks. What else one could expect when 'reforms' have been envisaged at the dictates of IMF/World Bank?

The proposed

convertibility of Rupee on Capital Account will increase the intensity of competition - never witnessed before in the annals of Indian banking industry. The convertibility of Rupee will escalate the magnitude of two-way capital movement to severe proportions. Indian Banks have neither infrastructural facilities supported adequately by information technology and expertise, nor have the financial support base to withstand the vagaries of currency fluctuation and speculative deals.

What has happened in South-East Asia should be an eye opener to the advocates of the new economic policy. Twenty major banks in Indonesia had to close their doors as Ruppiah started making a nose-dive. It goes without saying that, under deregulated globalised environment, income margins are bound



to become thinner and thinner. It is a situation which permits only the fittest and the fastest to survive. Banks with lower speed, high cost of deposits/funds, low yield on advances/funds, lower rates of other income to total income, high level of Non Performing Assets (NPAs), low yield on investments and high operational expenses will be victims of cut-throat rate war and eventually will be weeded out of the market.

Indian banks are forced to take on the giants in international banking arena. Indian indigenous banks, especially PSBs saddled with high NPA, capital inadequacy as per BIS standard, constraint of productivity by international standard, will be sure losers of this un-even war foisted on them. As a result well capitalised foreign banks with superior infrastructure will swoop on the Indian market, creaming off the most profitable business and monopolising foreign trade-related services whilst domestic banks will fight a losing battle to extricate themselves from the trouble. This is the inevitable outcome of globalisation of banking industry of our country, if it is effected in the form as demanded by IMF/World Bank and recently WTO.

INVERTED PRIORITY

Any well-intentioned reforms of economy would always give first priority on its Real Sector where productive activity is taking place. Real sector economy of our country is hindered by lack of infrastructural facilities like road, ports, power etc. These are the areas where attention is to be paid immediately. Secondly social infrastructure like education, health, social security benefits are also lacking. In such a situation globalisation of financial sector only means generation of profit through speculative activities. As foreign funds brought in will only be utilised towards speculation in capital market and Forex market, there is every possibility of occurrence of crisis similar to South East Asian Countries.

Financial sector reforms on priority basis vis-a-vis real sector economy means putting the cart before the horse. It is to be kept in mind that financial sector reform only acts as lubricant and facilitates the growth of real sector and does not have any existence of its own. Globalisation means financial crisis in any country will have immediate contagious effect on our banking industry. The same recently hap-

pened in South East Asia engulfing so many countries.

It is well known that a bank with international presence in many countries is subjected to country transfer risk in addition to normal risk like credit risk, liquidity risk, interest rate risk, foreign exchange risk etc. This country transfer risk can enlarge the dimension of all other risks to an unmanageable scale. This in turn will erode or even completely wipe off investments in the form of savings of millions of small depositors with the banking system, due to bankruptcy and failure of several banks, as witnessed during the current South East Asian crisis.

It is to be noted that access to India for Multinational Banks will be free but Indian banks will face entry barriers in the foreign countries due to stringent prudential norms. This will only result in domination of international finance capital over the entire domestic sector in our country.

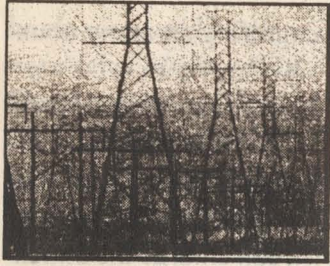
STOP THE INVASION

Those who talk of financial sector reforms, in ahead of real sector reforms, merely aim at making the industrial capital subservient to the finance capital. As finance capital market in the world is dominated by large MNCs and has tremendous monopolistic powers, the advocates of financial sector reforms are actually advocating the cause of imperialism.

It is in this context, the democratic opinion of the country must assert itself vigorously against allowing free-play of foreign banks in the financial sector of our economy.

On-going movement against anti-national new economic policy has to be intensified and broadened. Forum of Bank Employees Unions - a united platform of all sections of bank employees and their unions, is up in this struggle to protect the beleaguered banking industry, especially its unique nationalised segment. It is in the interest of the nation. It is in the interest of bank employees also. Stop invasion of hordes of foreign banks in our country and reshape our banking system and structure to serve the real interests of our people and economy.





ON POWER POLICY

K.R. UNNITHAN

1. STORY TO-DATE

1.1 During the regime of Narasimha Rao, as a part of his liberalisation, privatisation and globalisation policy, few amendments were made to the Electricity Supply Act (1948) and Indian Electricity Act (1910). Subsequently number of executive orders were issued by Government of India to suit the new economic policy, dictated the World Bank and the IMF. United Front government also followed the same path of the Congress(I) government in economic policies. They have introduced a Transmission Bill in Parliament, with an ulterior motive of privatising the most strategic segment of the power industry, the transmission sector. But due to the stiff opposition from the left parties, they could not press the Bill and pass it. Now, Ministry of power has prepared a concept paper for discussing how to privatise the distribution system.

1.2 During early 90s there was a flood of MOUs and PPAs signed by different state governments. This was the result of an avalanche of concessions and privileges, declared by GOI to Independent Power Producers, especially to foreign capital. The apostles of private power claimed that the new climate created by the liberalisation policy is the panacea for all crisis in power sector including resources crunch. But the gimmicks of the financial package was unveiled and the scam was exposed in the case of Enron's Dhabol Power Project soon. The CITU and left trade unions were the spearheads in the fight. The Congress (I) government was forced to declare

a committee of Parliament to study the policy packages in power sector. The committee headed by Jeswanth Singh, recommended among other things, to do

away with the MOU system and to put an end to issue of Counter Guarantee. So from 18th February, 1995, global bidding of power projects became mandatory.

1.3 The Orissa Power Sector reforms were placed as a model for restructuring the power sector as envisaged by World Bank and IMF. The Orissa Electricity Reforms Act took place in April 1, 1996. Other States were also asked to follow the suit. Haryana, Rajasthan, Uttar Pradesh, Gujarat among the other states are embarking on similar exercise. In Orissa, OSEB was divided into the Orissa Hydro Power Corporation (OHPC) and GRIDCO. The OHPC inherited the assets and liabilities of hydle generation units of the erstwhile OSEB, while the GRIDCO inherited the transmission and distribution networks along with their liabilities. GRIDCO was to handle distribution also, until separate distribution companies were set up. They divided the distribution into four zones, called Business Strategy Units (BSUs) and offered the central zone, which comprises the hcrative areas, to BSES for management for a period of 3 years from September 1996. The management fee offered to manage the zone and improve the billing and collection was Rs. 4.2 Crores/year. There were no definite targets. But BSES were allowed generous incentives to improve over a certain minimum, and surprisingly there were no disincentives or penalty for low-performance.

2. IMPACT OF POWER POLICY

2.1 Even though, concessions were poured on IPPs, especially to the 8 fast track projects declared by GOI, only 100 MW were commissioned by IPPs during the 8th plan. There were tall talks of adding 10,000 MW by private sector in 8th plan period. The expected addition from public sector was only 20,000 MW out of which the achievement was 18,000 MW. The shameful and miserable failure of private sector led to 41.1% slippage from the set target addition of



installed capacity, which crossed over all the previous records. Consequently almost all states with one or two exception like West Bengal are facing acute power crisis culminating into loss of production and employment.

2.2. The foreign investor promoted power projects now coming up in the 9th plan are based, largely, on imported fuels. The IPPs are preferring hydrocarbons as fuel as CC power plants and CI machine power plants have lower capital cost, shorter gestation period and easier to obtain clearance. India is already short of petroleum products and the oil import bill is the single largest item in the import list comprising about 60% of our entire import bill. The switch over to imported hydrocarbons has three pronged danger of mounting import bill, linking the power cost to international fluctuation of oil prices and currency and depending the power production on imported fuel. Once the power tariff and production are linked to international market in this way, the entire domestic economy will be open to further pressures. Further it will have a long term adverse impact on balance payment.

2.3 The MOU signed before 18.02.1995, have the facility to pad up the project cost and extract return on equity more than the normative of 16%, post tax, with provision to repatriate with the foreign currency of equity holder, treating the foreign exchange rate variation as pass through. This, along with the foreign debt, the servicing of which is also sensitive to foreign exchange rate variation is raising the tariff very high. Tariff offered by one IPP in Kerala which is supposed to be the low is given in the table(See box)

It is to be noted that average tariff of different states in India during 95-96 is only Rs.1.41 and that of Kerala during 97-98 is only Rs.1.25, at the Consumer end. A minimum of Re.1/- is required to bring the power from generating station to consumer..

2.4 One of the main conditionality of the power purchase agreements between IPPs and EBs now signed is the deemed generation payment. If the IPP cannot maintain the PLF agreed, due to the purchaser's fault -EBs - the EBs have to pay the fixed cost to the IPP, for the deemed generation. This conditionality compels the EBs to purchase the costly power, even when cheap power produced by EBs or other agencies are available, which deteriorates the financial health of

EBs.

2.5 Another conditionality detrimental to the EBs in the live PPA the Escrow Account. Revenue from an earmarked area is pledged and chanelled through a bank to clear the bills of IPPs, selling power to the EBs. In few PPAs, this security package is inclusive of a letter of credit. In such cases, the security package is inclusive of a state government guarantee. The IPPs are accepting this escrow mechanism if it is related to a healthy area in terms of revenue income. Consequently, EBs are left with low income areas. In certain states, a stage has come where any more escrow account cannot be operated. This situation also worsens the financial health of the SEBs.

2.6 The Indian PSUs, engaged in manufacturing power equipments are facing serious problems of liquidity consequent on the financial ill-health of SEBs. So PSUs like BHEL are finding it difficult to raise funds from Indian market and to offer suppliers credit. Since the FIPP/IPP design their own stations and make their own specifications, they are providing the equipment based on the standards most suitable to the equipment suppliers, who is providing suppliers credit. So the wide and further growing Indian power equipment market is grabbed by MNCs. Standardisation of power equipments and subsequent reduction in capital cost and power tariff is out of reach in such a chaotic situation. Thus denial of market, technology and finance, organizations like BHEL is poised to face serious business crisis. Thus these PSUs are gradually reduced to auxiliaries of MNCs, who are in need of a base for their Indian and Southeast Asian operations.

2.7 The unbundling of OSEB started with a tracheae of \$ 350 millions from World Bank, which is counter guaranteed by GOI. GRIDCO, the baby of unbundling as per World bank prescription is facing serious financial crisis. It is understood that the GRIDCO's loss now stand at more than 250 crores. Against the monthly expenditure of Rs. 125 crores, the company's receipts are no more than Rs.85 crores. Already there was an increase in tariff during 1997 and the regulator



- another baby of unbundling do not allow another increase of tariff in the same year. While the so called reform process in Orissa was taking place, the average power tariff was 93.73 paise per unit. This has been increased to 2.21 paise by 1997, in five phases, transforming electricity a luxury item. T & D losses are reported to be at a dangerously alarming level of 52%. When the first six monthly review came up in 1997 on the privatised management of central zone distribution, by BSES, GRIDCO found the BSES had notched up a negative incentive of 28.02 Crores, indicating a decline in performance. It is also reported that number of privileges the employees of the erstwhile OSEB was enjoying, were also curtailed while fixing up the service conditions of OPGC and GRIDCO. Thus

all the privatisation initiatives in Orissa, which was a guinea pig for the World bank model of restructuring and reform has created more problems than it had solved. It has proved that it cannot serve as a model for restructuring the electricity sector, elsewhere in the country.

3 ALTERNATIVE POLICY

Principles for an alternative policy perspective is suggested by the TUs and the concerned citizens, which is reproduced below.

3.1 State Electricity Boards

a) the State Electricity Boards should be financially restructured with loans converted into equity so as to make the Boards financially viable.

b) creation of a core grant similar to what has been done in the case of the Banking industry to enable states to implement financial restructuring.

c) adherence to Section 59 of the Indian Electricity Act in order to obtain reasonable return on investments. At the political level, a decision can be taken in respect of the maximum and the desirable tariff levels that various classes of consumers can bear. (This needs to be broken down beyond sectors

for example, instead of agricultural sector the exercises should be attempted for individual crops like rice, sugarcane etc.)

Restructuring of the tariffs, within the

TABLE		
Capacity	:	108.4
Equity (Foreign)	:	21%
Equity (Indian)	:	9%
Debt (Foreign)	:	49%
Debt (Indian)	:	21%
Capital Cost:		
Excluding working capital	:	352.22 Crores
Margin money	:	7.78 Crores
Interest on working capital	:	4.2 Crores
Station heat rate	:	1790 kal/Kgm
Aux. Consumption	:	3%
O&M	:	3%
O&M	:	7%
Depreciation	:	7.5%
Term of Project	:	15 years
	Ist year tariff	Levelised tariff for 15 years
Fixed Cost	1.209	1.000
Fuel Cost	1.097	1.097
Total tariff	2.306	2,097
Assuring		
Base Exchange Rate \$ 1	=	Rs.36
Exchange rate variation/year	=	+6%
Fuel cost escalation	=	9.5%
Total Tariff	2.306	3,100
<i>(at generating station)</i>		

framework of the Electricity Act to ensure financial viability of the State Electricity Boards, while protecting the underprivileged, (this is not possible by injecting high cost power that is the inevitable consequence of foreign investor friendly policies)

d) Any private investment in power should be limited by the maximum tariff determined under para 'c' above.

e) reforms should be based on achieving and sustaining the levels of tariff determined under sub para 'c' above.

f) continued role of the State to promote the interest of the backward areas and weaker sections especially the rural communities and the poor. This is not possible by injecting high cost power to be provided by foreign investor power plants.

g) creation of a core grant to the SEBs to enable a



proper financial restructuring of the SEBs (on the lines of a similar grant that has been made in the case of the nationalised Banks)

h) all subsidies should be borne by the State and the Central Governments instead of the State Electricity Boards.

i) effective demand side management particularly in the areas of agricultural and domestic use of electricity. Effective measures against losses and theft of electricity.

j) renovation and modernisation.

k) completion of ongoing projects on a war footing.

l) workers participation in Board's management.

m) effective steps for curbing corruption

3.2 External financing

a) various alternative routes of inflow of foreign capital should be explored. The recession hit industry of the west cannot ignore the large Indian market. They should be made to provide suppliers credit international Bonds at interest rates higher than the current GDR deposits can be issued. It needs to be examined whether this would be cheaper than the cumulative implicators of foreign investments in Independent Power Plants (such as load guarantees, import of fuel, various conditionalities in the PPA)

3.3 Energy/Power Planning

a) There should be an exhaustive energy and power plan prepared as was done in the past (Energy survey of India Committee of Power (Rajyadaksha Committee), Power Economic Committee, etc. All future plans should be based on such comprehensive examination instead of piecemeal restructuring and legislation in order to obtain a loan from World Bank or send wrong signals to some investors looking for short term gains.

b) Balanced regional and sectoral development (imbalances are not only amongst states but also within different locations within the states.)

c) Indigenous sources of energy should be emphasized and the developments of hydro resources should be undertaken on a priority basis. Resource constraints should not come in the way of completing the ongoing projects.

d) Optimal utilization of indigenous fuels/power resources consistent with national energy policy. Imports should not accentuate the balance of payment problem, use of petroleum fuels should be dis-

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couraged their use as feedstock for fertilizer and petrochemicals is more optimal.

e) A long term perspective based on indigenous expertise and experience. In any restructuring of institutions and amendment to the law should ensure that institutional changes do not result in disruption of existing institutional network standard costs and flight of talent.

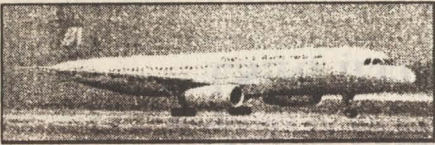
3.4 Central Public Sector

a) Move to privatise the Central Public Sector power generating units including POWERGRID through the disinvestment route must be stopped.

b) the built up capacity of indigenous manufacturing industry should be fully utilised before import of equipment is allowed. Progressive privatisation through disinvestment of BHEL is a suicidal step in destroying away one of the best institutions with technical capabilities of world standard which foreign multinational would be only too willing to takeover. This must not only be stopped but a consortium of BHEL/NTPC etc. should be allowed to create a corpus for enabling them to offer suppliers credit and compete in both domestic and foreign markets.

(K.R. Unnithan is the Secretary of the Electricity Employees Federation of India.)





CIVIL AVIATION: PRESSURES AND POLICY OPTIONS

R. Ramanathan

Civil Aviation in India grew progressively after nationalisation in 1953. The objects of the Air Corporations Act was to provide efficient, reliable and safe air transport services which was more or less achieved. The Indian Airlines Corporation which acquired the aircrafts, spares, equipments and also the man power from the several ailing and sick companies grew tremendously after nationalisation, absorbing in it different and most sophisticated technologies including wide bodied aircrafts.

Air India which was an on going company maintained its lead in world aviation successfully, competed with International Airlines and earned substantial foreign exchange and profit. The Indian Civil Aviation acquired the most modern aircrafts and developed their own engineering bases including maintenance, overhauling etc. Suitable manpower to manage the sophisticated technology was also created with an efficient training establishment. The financial position of both these companies were also good. They continued to earn profits during the period of nationalisation, except in a couple of years.

OPEN SKY POLICY

With the advent of the New Economic Policy of the Government of India, Civil aviation also became one of the targetted sector for privatisation and entry of foreign companies. Even though the Air Corporations Act conferred the exclusive right on Indian Airlines for operating air transport services within India, the Govt. of India allowed several private airlines, in the name of Air Taxi Operators, who brought

aircrafts from the leasing companies in the United States. The US was in fact searching for markets to these Boeings lying with the leasing companies. The World Bank - IMF

pressurised the Government of India to scrap the Air Corporations Act, 1953 and open up the civil aviation sector. An intensive campaign maligning the Public Sector Indian Airlines and supporting air taxi operators was launched.

The Air Taxi operators mainly operated air services only on profitable routes. The Indian Airlines, being a nationalised carrier, had to operate services on several uneconomic routes, especially in the North Eastern region and Andaman and Nicobar islands. The Indian Airlines which was admittedly a profit making organisation for quite some time started feeling the financial impact as a result of the Govt. of India's new economic and open sky policy. The major reasons for the loss suffered by Indian Airlines during the last six years as a result of the IMF dictated policies followed by the Govt. of India are:

Cause	Loss Rs./Crores
i) Grounding of A 320 aircraft and their reinduction.	197
ii) Entry of private airlines on trunk routes and consequent reduction in market share	545
iii) Devaluation	90
iv) Merger of Vayudoot.	50
v) Delay in increasing fares	137
Total	1,019

The market share of Indian Airlines during the said period of induction of private air taxi operators went on declining in the following manner.

Year	I A's share	Share of air taxis (In Percentages)
1991-92	99.50	0.50
1992-93	90.09	9.01
1993-94	74.08	25.02
1994-95	63.04	36.06
1995-96	60.70	39.30

As a result of the Government's economic policies, the Indian Airlines suffered immensely as could be



seen from the following table.

Year	Rs. in Crores
1993-94	258.46
1994-95	188.73
1995-96	109.98
1996-97	14.59
Total loss in 4 years	571.76
1997-98 estimated profit	45.00

IMPACT ON AIR INDIA

During the period of the new economic policy, Air India suffered immensely. Air India's share of percentage of passenger traffic from India went on declining year after year with the result that Air India almost became a sick company. The market share of over 50% in the year 1970 has come down to less than 20% as on date. There is gross mismatch between the revenue and expenditure. The Rupee depreciation, the recent economic turmoil in South East Asian countries, the fare war initiated by British Airways have all led to an accumulated loss of nearly Rs.1,000 crores upto March 1998 as given below:

Year ending	Loss Rs./Crores
March 1996	275
March 1997	296
March 98 estimated	402

AIR CORPORATIONS ACT REPEALED

The Air Corporations Act, 1953 was repealed through an Ordinance by the President of India even when a Bill was pending in Parliament. Both the Indian Airlines and Air India were converted into companies under the Companies Act on 1st March 1994. The monopoly of Indian Airlines in respect of domestic air services was ended and an era of competition set in. East West Airlines, Damania Airways, Skyline NEPC, Modiluft, Jet Airways and Sahara India which were operating air services as air taxi operators became scheduled airline companies. All these airlines, except Jet Airways and Sahara India had to wind up due to their inability to run air transport services. These companies had collected several crores of rupees from the public through the share market and the face value of their shares have come down below par. Of course, as usual, they

blamed the Government policies for their winding up. Large number of workers were thrown out of jobs without, of course, any compensation and they keep floating media reports of plans to reopen. Having found that the private companies are unable to operate the airlines, the government has now started thinking of allowing the foreign airlines to operate domestic air services in our country. The proposals of the Tata-Singapore Airlines (Tata-SIA) is being hotly debated. The United Front Government had also brought out a new civil aviation policy, which if implemented, will allow foreign companies to operate domestic air services in our country. Mr. C.M. Ibrahim, the then Minister for civil aviation, was found resisting this move but ultimately he had to agree that foreign companies, other than airlines, will be allowed in the domestic sector. With this new Civil Aviation policy, the Government owned Indian Airlines and Air India will face further problems, both economic as well as operational.

IMPACT ON LABOUR

The burden of the crisis created by the Govt. of India's new policies, is being shifted to the labour. The Management of Air India has openly advocated a reduction in the emoluments of the workmen through a revision in the Productivity Linked Incentive (PLI) Scheme.

The Managing Director of Air India made an appeal to the workmen for a voluntary reduction of 5% of their emoluments to "save Air India" from the financial crisis, but it did not evoke much response. Recruitment has already been stopped and a Voluntary Retirement Scheme (VRS) is planned. Thus Air India is attempting to pass on the responsibility for the loss on its workmen. In Indian Airlines also, recruitment has been stopped and a VRS is in the offing.

MERGER MOVE

Govt. of India is planning to merge Indian Airlines and Air India into one company and/or introduce a holding company. The Board of Directors of Indian Airlines and Air India have recently decided to ask A F Ferguson



and Co. to give their recommendation on merger. It is reported that this Company (A F Ferguson & Co.) will be paid US Dollars 200,000 as professional fees for making the study. If Indian Airlines and Air India are allowed to merge, it will create huge surplus manpower.

The trade union movement in the Airlines were against the formation of two companies immediately after Nationalisation in the year 1953. However, at the instance of the big capitalists, the Govt. decided to have 2 companies to keep in check the labour force. Now after 45 years of existence growth and establishment of 2 different systems, they want to merge the two in the name of meeting global competition. This is a major problem the industry will face in the coming days.

EMERGING SCENARIO

On a cursory look at Civil Aviation in our country after introduction of the new economic policies, broadly the following scenario will emerge:

- a) Air India which was a profit making national carrier has landed into deep financial crisis losing its premier position in the country;
- b) Air India's share in the passenger traffic to and from the the country keeps on declining year after year;
- c) The foreign airlines, its share of passenger and cargo to and from India, its revenue and profitability in doing business in our country has progressively increased benefitting from Air India's inability of catering to the market needs.
- d) The burdens of this crisis is being shifted to the shoulders of Air India employees;
- e) Indian Airlines suffered a loss of nearly Rs.1,000 crores;
- f) Private domestic airline companies unable to run their companies, closed down throwing out several thousand employees and share holders suffered;
- f) The foreign companies, including the foreign airlines will be allowed to exploit the domestic market at the cost of the National Carrier, a phenomenon unheard of even in the advanced countries;
- h) Huge financial loss



in Indian Airlines with adverse impact on labour.

POLICY ALTERNATIVE

The IMF dictated policy on Civil Aviation has in no way helped the Civil Aviation in our country; on the contrary it has seriously affected all sections of Civil Aviation. It is, therefore, imperative that these policies should be reversed and substituted with a policy of strengthening the National carriers, both IA and AI.

A national transport policy covering air, sea, road and rail services should be planned and introduced in the country for balanced growth of the transport Sector as a whole. The price charged for the aviation fuel for the Indian Airlines fleet are higher compared to the price charged to foreign airlines and, therefore, the charges for the fuel for IA should be brought down to at least on par with Air India. The Government should subsidise Indian Airlines for operating the uneconomic and nonremunerative routes in North Eastern sector, Jammu & Kashmir and Andaman & Nicobar islands. The Government should also reimburse the loss suffered by both the airlines as these are losses directly linked to the Government's policy. In short, the policy alternative should be to withdraw the open sky policy and plan for a balanced growth of civil aviation in the country.

(R Ramanathan is formerly General Secretary of Air Corporation Employees Union)

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Globalisation and Telecom Industry

V.A.N. Namboodiri

The announcement of National Telecom Policy (NTP) in May 1994 by Narasimha Rao Government was a drastic and sudden change from the then existing policy of keeping the telecom services under Government control and operation. The stated objectives, in brief, were:

- 1) Telephone on demand
- 2) Access to all people at affordable and reasonable prices.
- 3) Widest possible range of services of world standard and
- 4) To emerge as a major manufacturing base and major exporter of telecom equipment.

But the basic and main intention of the NTP was to induct private sector in basic services. The objectives were presented only as justification for the same. The NTP was part of the New Economic Policy with its thrust on liberalisation, globalisation and privatisation.

The telecom services being an important infrastructure for the growth of economy and a big source of profit (about Rs. 7.5 crores daily profit at that time. Now the profit is Rs.16.5 crores as per the Annual Report of DOT 1996-97), the IMF, World Bank and WTO were compelling India to privatise the same. The pressure from the Multi-National Corporations and private sector was also mounting. Narasimha Rao Govt. succumbed to these pressurers. Even without a discussion in the Parliament, the National Telecom Policy was presented as a *fait accompli*.

Telecom experts and the employees' unions in Telecom pointed out that the objectives of NTP can be realised by the Department of Telecom itself by providing additional finance through loans and public issues or by forming a Telecom Finance Corporation as in the case of Railways. The danger to the security of the nation in entrusting the most vital infrastructure to MNCs and private companies was also pointed out. But Communications Minister, Sukh Ram had his hidden agenda and the process of privatisation was started with the calling of tenders

for providing basic telecom services.

The five day glorious strike of entire telecom workers against privatisation was betrayed by a section of leadership signing an agreement accepting privatisation and competition in Telecom. This paved the way for issue of licences to the MNCs and private companies. (See Table I)

The Government had earlier issued licences to private sector for operating Value Added Services like Cellular, radio-paging etc. (See Table II)

Private sector had already entered the telecom manufacturing sector. Indian Telephone Industries (ITI) and the Telecom Factories under DOT were sidelined and marginalised in giving orders for equipment in favour of the MNCs.

In addition, licences have been issued for radio-paging in almost all the circles.

All the licenced Indian companies are tied up with

Table I - Licence Awardees for Basic services and Licence Amount.

Circle	Company	Licence Amount (Rs. In millions)
Delhi	HFCL	150.850
Haryana	HFCL	40.600
U.P.(W)	HFCL	65.800
Orissa	HFCL	20.650
Maharashtra	Hughes/Ispat	57.960
Karnataka	Hughes/Ispat	57.960
Rajasthan	Tele Link	11.100
A.P.	Tata/Bell Canada	42.000
Gujarat	Reliance/Nynex	34.000
Tamil Nadu	RPG/NTT	116.200
Punjab	Essar/Bell Atlantic	45.934
Bihar	Usha/Moscow	2.266
M.P.	Bharti Telenet	6.460

MNCs. The condition of 5 years experience in operating telecom services as well as the requirement of the huge capital had made it compulsory.



Eventhough the foreign equity is limited to 49%, it is well learnt from experiences that even with a low ratio of 25%, the MNCs will be in control, because of finance and high technology.

The cellular and radio-paging services have started in many circles. But the private companies have not been able to operate the basic services so far even though licences were issued two years back. In the meantime, the existing waiting list for telephones have almost been wiped out by DOT itself.

REGULATORY AUTHORITY

The Telecom Regulatory Authority of India (TRAI) was formed to ensure technical compatibility and effective interconnection between service providers, to regulate arrangement for sharing of revenues, to protect the interest of consumers etc. But the recent decisions of the TRAI on these issues smack of an anti-DOT and pro-private companies direction. The lowering of connectivity charges for regular to cellular phones have caused a loss of about Rs.48 crores to the DOT during a span of 15 years. The decision not to allow MTNL to operate cellular services is against fair competition, and will also adversely affect the customer in terms of tariff. The DOT's interest policy also has been stopped by the TRAI. It may be noted that on an appeal made by the Government and the DOT the TRAI decisions have been stayed by the High Court.

Will the privatisation and globalisation of the telecom services and manufacturing benefit the people of this country? No other country with a low density of 1% telephone has privatised the telephone services so far. Privatising and globalising at this juncture will jeopardise the Indian Telecom inasmuch as the DOT will be pushed back to unfair competition, whether in the manufacturing or in the service sector. The MNCs and private companies with the full backing of the IMF, World Bank & WTO and with high technology will land the DOT in red and gradually take over the entire infrastructure.

The hypocrisy of the Government calculation of earning huge amounts through licence fees etc. has been exposed. Many

Table II Licence Awardees - Cellular Services

Circle	Cellular	Cellular
Gujarat	AT&T/Birla	Fascel
Maharashtra	AT&T/Birla	BPL/US
WestDelhi	Bharti	Essar/Swiss PTT
Karnataka	Modicom	JT Mobile
Tamil Nadu	BPL/US West	HHS Comm.
Andhra Pradesh	TATA/Bell Canada	JT Mobile
Kerala	BPL/US West	Escotle
Punjab	Modicom	JT Mobile
Haryana	Aircell/Essar	Escotle
Madhya Pradesh	RPG/NTT	Reliance/NYNEX
Uttar Pradesh (E)	Aircell/Essar	Koshika/Pil Tel
Uttar Pradesh (W)	Escotle	Koshika/Pil Tel
West Bengal	Reliance/Nynex	Nobidder
Bihar	Reliance/Nynex	Koshika/PilTel
Assam	Reliance/Nynex	No bidder
Himachal Pradesh	Reliance/Nynex	Bharti
Rajasthan	Aircell/Essar	Hexacomm
Orissa	Reliance/Nynex	Koshika/Pil Tel
Jammu & Kashmir	No Bidder	No Bidder
Andamans	No Bidder	No Bidder

companies are yet to remit the fees. The private companies which have started cellular and radio paging services are complaining of loss. These companies have formed a consortium and have started pressurising the Government and TRAI to declare moratorium on the licence fees on the plea of loss. Similar restructuring and privatisation process launched in few other countries has been disastrous to the workers. More than 50% of the work force was retrenched.

The globalisation and privatisation process in the Indian Telecom Sector will not only result in retrenchment of workers but will be an opening through which this entire important infrastructure will be in the control of the MNCs. This will adversely affect the security of the nation.

The present BJP Government has already declared to corporatise the Telecom Department.

The working class cannot be idle spectators to these attacks. They have to take up these issues to the people, organise stiff resistance and change these wrong policies.

(V.A.N. Namboodiri is the General Secretary of All India Telecom Employees' Union Class III (N))



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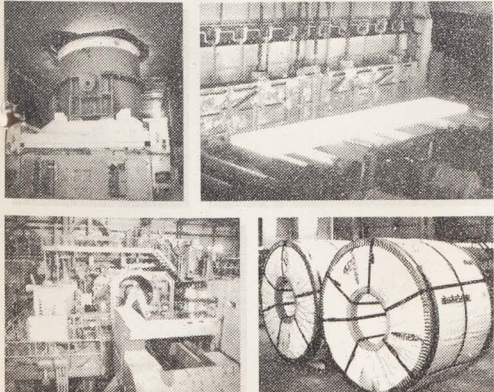


Visit of Indian Delegation to International Conference Against Globalisation, Havana, to the Centre of Cuban Trade Unions(CTC)



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