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EDITORIAL HIGHLIGHTS

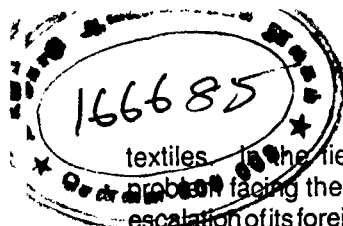
Introduction

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THIS editorial for the month of August covers major developments at three levels - State, National and International. At the state level, the good performance is in the plan execution for 1991-92 and 1992-93. The agricultural development and power cut free operation has meant an all round good performance in the state in the preplan year and the first year of the plan. In the field of power the huge Rs. 7000 crores lignite project at Jayamkondam being executed by private parties - Indian and foreign is highlighted. Another important development is the approval by the central government, of the southern states gas grid which not only will use the gas now wastefully flared by Bombay High, but will also be supplemented by gas from Oman. In the field of water, the northern districts received continuous and light rains in August, but the drinking water scarcity continues. For the use of water by industry, a number of desalination plants have been set up. In the area of industry the state will be looking up not only at the upcoming power projects but also the broad gauge connecting Tuticorin with Madurai. Standard Motors is once more facing problems, but Ashok Leyland is expanding rapidly. At the National level the poor plants performance of most states in the first year of the VIII Plan is regrettably noted. In the case of five states the plan expenditures are less than 50 per cent of the approved outlay. This limits their medium term development. In regard to pricing, the contradiction between the government's reporting the continued decline in inflation and the common man's necessities not having any price reduction is discussed. Turn-

ing next to the economy, the problems of GDP growth, rate of poverty alleviation, the effect of economic reforms, together with the problems raised by liberalising foreign investment rules, the mess caused in the disinvestment process, the effects of SEBI streamlining and the proposed deregulation of interest rates are reviewed. In agriculture, the bumper wheat and rice crop and its procurement and the problems of plenty that they create are reviewed, with the proposals for export of wheat. The problem of agricultural investment not rising at the individual farmer's level is discussed together with the means of correcting it. In regard to plantation crops the Coffee Boards decision to replace the Free Sales Quota (FSQ) by the Export Sales Quota (ESQ) is important, as the individual growers will be entering foreign trade directly and not through the coffee board. Tea records a sharp increase compared to last year's fall particularly in the North and to lesser extent in the South. In the case of rubber, the government reports a stepped up perspective plan. At the industry level, the stagnant and even declining level of industrial growth is discussed, together with the positive developments recorded in information technology, sugar, bank credit, and the opening of the single window for mining projects. In foreign trade the confusing data on the first quarter of the current year is referred to which shows the rise in exports compared to last year's fall. The good performance of the small scale units including their bright export progress is reviewed together with the individual industrial items such as sugar, coal, SAIL, marine products and



textiles. In the field of aid and loans, the problem facing the country as a result of the escalation of its foreign debt, increasing sharply its debt servicing ratio, and the problem of evolving a common lending policy for states resulting from disintermediation by the central government are discussed. In the Human Resource Development area, four events in the education field namely the monitoring set up to oversee the implementation of the Yashpal Committee report, the problems faced by the 320 Navodhaya Vidyalaya, the Sports Institute at Nemli and the setting up of a women college at Bargur are discussed. In the field of science, the agreement between Japanese environment institutions and NEERI represents a landmark in ecological protection field. Under International affairs, reference is made to the Uruguay round of GATT, the Dunkel Draft and Southerland's call to rid protectionism for the benefit of consumers is referred to. The World Development Movement report on how commercial banks are making up for their losses from recession by drawing on their loans and their repayment of interests from the third world countries are briefly reviewed. Under other items, the M.S. Swaminathan foundation anniversary, the independence day celebration in Raj Bhavan and the India International Centre panel discussion on the Dunkel draft are briefly commented on.

State

Plan and Programme Implementation

The plan execution and programme implementation for the year preceding the VIII Plan and the first year of the Plan are, unlike some other states to be referred to in the national section, satisfactory. In the year before the Plan, 1991-92, the Plan programme execution was Rs. 1725 crores against the outlay of Rs. 1600 crores. In the first year of the Plan, 1992-93, the programme execution was Rs. 1935 crores against the outlay of Rs. 1766 crores. Thus the state programme implementation has improved and increased in size and

depth and quality particularly, the social safety net for the poor. This record may be the reason for a higher plan outlay of Rs. 2101 crores for 1993-94. The programme execution in 1992-93 was good in the power generation field which kept the state free of power cuts, and as far as agriculture is concerned has been good mainly due to a good monsoon which helped to produce 100 million tonnes of rice. As noted earlier the social services execution was particularly good with an expenditure of Rs. 693.06 crores against the outlay of Rs. 623.29 crores. This covered particularly the special self sufficiency scheme in all the 387 panchayats at a cost of Rs. 387 crores and on water supply and sanitation at Rs. 294.85 crores in 1992-93. This record of combining both growth and services to the poor is interesting.

Power

In the power field the record is some what mixed. The hydel reservoirs after half the monsoon period is half the storage at 1200 million units against the full storage capacity of 2400 million units and last year's 2100 MU. The present daily flow is around 13 MUs compared to 19 MU last year. Even the Cauvery, whose irrigation should be met by Mettur, farmers are using ground water for the kuruvai crop. The TNEB generation at hydel plants is at a peak level of 1058 MW in order, mainly to save the thermal plants which have a low stock of coal reported at 2.5 lakh tonnes all put together. In addition there is 1.84 lakh tonnes at Haldia and 51000 tonnes at Paradeep. It is against this background that the state government applied to the centre for permission to import coal and received the permission to import 2 million tonnes. There seems to be some lack of coordination between Union Government and Coal India which objected strongly to Tamil Nadu importing coal when it (CIL) claims that there are sufficient stock in the state and in the pitheads all over the country. Now a further area of disagreement is the quality of coal imported which should not be below 6000 Cal/kg. The first shipment of 1.75 lakh tonnes from Indone-

sia was first held up by the customs because it wanted to be sure that the coal imported conform to the quality laid down so that it could be eligible for the 30 per cent concession due as against the normal 85 per cent. On the insistence of the state government, the coal was provisionally released but when tested at the Central Fuel Research Institute, Dhanbad, the calorific value was at 5650 well below the minimum of 6000. On this basis on a writ petition filed in the Madras High Court, an interim injunction restricting the Board from opening any fresh letter of credit for importing coal was issued. In this tug of war there is also politics that is the fall out of the strained relations between the ruling party in the Centre and the AIADMK in the state. This is regrettable as the coal needs of the state should be established and should speedily be met. The state government at the end of the month appointed a commission of inquiry with Mr. Chandelkar, retired Chief Justice of the Madras High Court as one man commission to inquire into all aspects of controversial import of coal. A co-promoters agreement was signed during the month between TIDCO, McNally, Bharat Enterprises and four German companies to implement the Rs. 7000 crores Jayamkondan Lignite Power Project referred to in the previous issues. The Corporation will now induct as equity partners, two of the four German Corporations who are acknowledged experts in Lignite mining and the two others in power generation. This combination will also help finance the loan required for the project including the foreign exchange of Rs. 5000 crores. The project when completed will be a major fillip to the state's industry, as will be noted later.

Water

As noted earlier, the Mettur level is uncertain and fluctuating. On some days there it is reported to have a heavy flow and other days a poor inflow. The water level at August 30 stood at 71.3 feet against the full level of 120 ft. This is a matter of concern for the farmers. Further, the World Bank has agreed to fund the new Veeranam scheme which is to bring

drinking water from the Veeranam lake to Madras which could provide the citizens 40 million gallons a day. The government states that it will ensure the completion of the project by June 1995. The other programme to meet the water scarcity in the state is the Madras Fertilizers Sewage Manali plant based on the reverse osmosis built at a cost of Rs. 25 crores. TIDCO also reports that it is planning to launch a Rs. 100 crore project in Manali to set up a massive desalinisation plant financed by MRL, MFL, TN Petro Products, AROCHEM, UN PETRO, Kinetic engineering, Indian Adhesives, Titanium Equipment and other plants located there. Further, the state government reports that it has sanctioned Rs. 53.04 crores for setting up 40 desalination plants including a major one in Ramanathapuram district which will meet the serious chronic water supply problem in that region. It is hoped that these plants will fructify and quickly.

Southern Gas Grid

On the basis of the Union Government's forecast in addition to the current 27 million tonnes of crude production, there will be an additional 5 million tonnes during the next three years. The Union Government also announced that it has approved a Southern Gas Grid which because of the Memorandum of Understanding signed with Oman for gas supply, should come into being in 1997 or 1998 instead of the originally envisaged 2002. It is therefore a matter of satisfaction that the four southern states and Pondicherry have set up a committee at the level of chief ministers as well as the technical committee of the chief secretaries in order to speed up the realisation of this project. In addition the project is supported strongly by the Confederation of the Indian industry and by the commercial industries association which are pressing for speedy execution of Southern Gas Grid by bringing a pipe line which will also use the surplus natural gas from Bombay High as well as the gas flowing from Oman. This will be a major boost to the industry in Tamil Nadu.

Agriculture

As noted earlier, the monsoon this year has been good which has helped agriculture production to exceed 100 million tonnes. This also helped in strengthening the need and the demand for changing the cropping pattern in the state and make it more diversified. At present 92 per cent of the irrigated area under cereals is accounted for paddy. Paddy irrigation suffers from significant design and management inadequacies particularly in regard to drainage in the HYV paddy areas. Further, in a situation of water scarcity the aim should be to economise the use of water by changing over to less water intensive crops and a more efficient water managing system. The factors determining the states cropping pattern are: 1) technical - soil suitability, irrigation and water availability, landscape position, demonstration effect, seasonal rainfall; 2) economic - the needs of the family, governments economic incentives, production of resource base; 3) adoption of new technology with regard to plant food materials, crop rotation and soil design; and 4) institutional factors - land tenure and constraint on resources particularly as 80 per cent of ground water have already being used. It is against this background that the medium term plan for agriculture should be developed. The state government has made a major decision to allow the private trade to purchase kuruvai paddy directly from the farmers in the open market. This puts an end to the procurement by the Civil Supplies Corporation and its direct procurement for the government in any part of Tamil Nadu. As free trade has been allowed, the cash incentive of Rs. 35 per quintal given by the Civil Supplies Corporation when monopoly procurement is in force will now be discontinued which means a saving of Rs. 35-40 crores for the government. For the current kuruvai season the saving will be only Rs. 7 crores as the corporation has procured two lakh tonnes of paddy. This good flow was due to the bumper harvest in the delta regions which in turn was due to the availability of water in the cauvery system. This abundance of production has caused

serious problem of storage and hulling which have been made not very satisfactorily by the government with the abolishing of levy trade and the monopoly procurement and letting the market operate (some farmers resist the abolishing of Civil Supplies Corporation Centres). These problems will not be faced in the future.

Industry

The fillip that the Southern Gas Grid would give industry in the state has been earlier referred to. A similar effect would follow from the new Tuticorin-Madurai-Dindigul-Karur line which by linking the port town of Tuticorin with the rest of the state and the country, would bring freight movement into the mainstream and be of great help to the joint sector fertiliser project, SPIC. Industrial raw material would henceforth be brought directly through this line for setting up new industries. Small industry is reported to be optimistic about the future industrial development. CII conducted a survey covering 177 small industries which reports that 39 per cent foresee an improved business situation and only 19 per cent are pessimistic about the future. The majority of small industry is patently positive about the trend in value output and only 28 per cent expect no perceptible change. SIDCO reports that it will develop three high tech industrial estates including a knit ware industrial estate in Tiruppur with a 3.2 million yen credit from Japan plus an auto ancillary estate at Ambattur and a food processing industrial estate at Madras. SIDCO plans to use the yen credit also to upgrade technology in industrial estates, particularly in the Tiruppur hosiery export industry. The industrial climate is also pushing forward, Ashok Leyland's launching a new range of trucks a 7 tonner, a 9 tonner and a 5 tonner which will have to be spread over some years. The demand for the lower pay loads is expanding faster and that is what Ashok Leyland is responding to. Standard Motors however is facing problems from the fact that as against the target of 9-10 vehicles per shift from August 1 when it was reopened

it is producing only 3 or 4 per shift. The workers attribute this slippage to inadequate supply of components while the management claims it due to a lack of leadership acumen in union office bearers who have increased the workforce by 200-300. This led to a temporary closing of the company which has been reopened on the urging of the government but its long term functioning is still not assured. Should it be referred back to BIFR? Another development that needs to be watched is the takeover of Enfield by Eicher. This takeover of the oldest two wheeler manufacturer is reported to be part of Eicher's strategy to focus resources on its two wheeler business. This has led it to conclude agreements to sell its agro engine and Genset manufacturing facilities at Ranipet and Thoraipakkam to Greeves Ltd. This amalgamation has many problems. The industrial scene in the state is thus a mixed one.

National

Planning

The Planning Commission reports a sizable shortfall in the annual plan expenditures of a number of states, the shortfall recording Rs. 4565.28 crores. The actual expenditure may be even lower. Taking account of the 10 per cent rate of inflation, the state's plan investments in 1992-93 are really static. The main states effected are West Bengal, which has not met the promised investment, Bihar which reduced its plan outlay by near 50 per cent, Orissa which pruned its plan from Rs. 1405 crores to Rs. 1055 crores in 1992-93, the actual expenditure for the previous year being Rs. 1029.74 crores against the approved outlay of Rs. 1400 crores, and Madhya Pradesh whose revised plan outlay for 1992-93 was Rs. 1792 crores against the original approved outlay of Rs. 2400 crores. This record takes us back to the Rangarajan Committee report on these states. That committee recommended that the central assistance to them should be gradually reduced and that they should be asked to cut their steeply rising non

plan expenditure. There is reason in its analysis that these states though small in size (except Madhya Pradesh) have very large administrative set ups matching that of big states. For the current year, it looks as if last year's record were repeated and so it is important to act on the Rangarajan recommendations.

Power

In the area of power, the startling fact reported is that the northern power grid is about to collapse because of the large and growing demand-supply gap. While the daily demand has shot up to 320 million units, daily generation is only around 270 million units. On top the load frequency has collapsed to 48 hertz instead of it being 49-50. With power generation thus unable to meet the excess demand particularly from farmers during the summer dry spell, the only hope is that the heavy rains would have filled hydel reservoirs and enable increased hydel generation. This is particularly important for paddy cultivation in Punjab, Haryana and West Bengal and Uttar Pradesh. The State Electricity Boards owe the power grid corporation Rs. 750 crores as transmission charges and the World Bank has stated that it would cancel the 350 million loan to the corporation unless these outstandings are realised.

Prices

While on the one hand the government keeps reporting that the annual rate of inflation is falling (5.83 per cent at July 31) as against 9.9 per cent last year, its action plan to contain the prices of essential commodities is really an admission that its claim to control inflation rates to a single digit seems to be irrelevant. Even in terms of wholesale price index, the indices of food articles, and food products and clothing record rise which means that when the government says that it is containing inflation, it means that it has slowed down the rise month after month and year after year of the general price level. While this downward cost push will benefit industries, the price of

commodities entering into common consumption, particularly of the poor, continue to rise which can be halted to some extent by the PDS uninterrupted supply of essential commodities. Hence the appeal of the union minister for civil supplies at the last meeting of state food and civil supplies ministers to lift the entire grant of foodgrains allocated to them under the PDS whether it be for building up the buffer stocks or as the deterrent against hoarding and price rise should be immediately acted upon. This urgency also follows from the record procurement of 117.7 lakh tonnes of kharif crops during the current season. There is also the problem of producers of foodgrains resorting to distress sales of foodgrains because the farmers prefer to sell at lower prices in the open market, to escape the harassment by state agencies with regard to specifications and parameters of moisture etc. This is a short run problem. In the medium term, the success in clearing the prices of essential commodities particularly foodgrains depends upon a continuous step up in production to meet also the needs of a growing population. These questions also relate to the ongoing debate on the subject of chemical and organic fertilisers. But the essential point to be borne in mind is that the food availability should be plentiful as this amount will enable a continuing progress of the economy.

Economy

There are several factors currently facing the economy. To start with, the GDP growth rate which RBI places at 4.2 per cent during 1992-93, due largely to good agricultural performance, when the foodgrains production is forecast at 180.3 million tonnes and among non foodgrains, oil seeds output is expected to touch a new peak of 22.2 million tonnes and cotton at 12 million bales. The industrial sector continues to lag, recording a growth of 1.3 per cent during 1992-93 due mainly to the poor performance of infrastructural industries. On this basis for 1993-94, NCAER forecasts a GDP growth of 5 per cent due to: (a) a growth oriented budget; (b) substantial increase in public sector expenditure; (c) ad-

equated levels of foreign exchange reserves; (d) a positive environment for exports; (e) lower excise and customs tariff; (f) increased commercial credit supply; and (g) a normal monsoon. India's foreign exchange reserves as at the end of March 1993 were \$9,832 billion (an increase of \$947 million) over the level at December end 1992. The main factors contributing to the reserves rise being higher aid receipts, increased inflow under NRA and purchase from IMF under the standby arrangement. A trade surplus also emerges during the quarter as a result of improved export performance (+5.8 per cent) while the imports growth stagnated. The exchange rate was hovering around Rs. 30-32 per \$. This positive picture could be effected adversely by: (a) the public sector investment declining; (b) the excise duty reduction not being passed on to the consumer; (c) restrictions on Indian exports of textiles, steel and engineering group; (d) dumping of goods in the Indian market resulting in loss of domestic production; (e) lack of an industrial restructuring policy which accounts for industry performing poorly in the last three months of 1992-93; (f) monetary expansion (M_3) being higher than the targeted 13 per cent. We need to wait for the GDP figures and its breakdown for the current year. With regard to poverty declining, the extent of decline seems to be over stated by the government. The ADB sponsored National Institute for Public Finance and Policy points out that the government figures show that poverty of the urban population had declined from 41 per cent to 20 per cent between 1972-73 and 1987-88. Another estimate shows a decline from 46.5 per cent to 36.5 per cent, and when another poverty line is used from 29 - 27.5 per cent. All the estimates show a lower rate of decline of poverty than government estimates. This ADB sponsored study also shows that contrary to general belief, there are more poor in the less urbanised states than in the more urbanised states which means that poverty cannot be attributed to urbanisation. A necessary though not sufficient condition for lowering poverty levels is high income in comparatively fast

growing states. It is not a coincidence that public expenditure on education and literacy are rather uniformly low in all states, with primary education receiving a small part of the education subsidy and health expenditures inadequately targeted and inefficiently delivered. This means that the future of poverty alleviation depends upon extensive labour intensive employment strategies through appropriate pricing of capital. Turning to the fact of the Economic Reforms under way, the evidence from several countries is that the process has a serious impact on the relationship between agriculture and industry, widening the gap between them particularly because globalisation helps sensitise agriculture, while domestic industry reorients its products and technology mix to suit the competitive and high technology world market. The relatively low technology items that dominate rural market are neglected. The government's response to the need to deal with effects of the reforms on the linkage between the two sectors has not been very successful, particularly in the case of agriculture where farm exports and procurement support prices are loaded against it. Where the agriculture sector is supplemented by some welfare measures, it encourages more people to continue being dependent on agriculture. There is also the problem of the rate of poverty reduction being faster in the urban areas compared to the rural areas. Another issue is the rise in the fiscal deficit to unsustainable levels within the first quarter of the current year. The official figure shows that the RBI credit to government which is an indicator of the deficit financing in the economy has more than doubled from last year to reach Rs. 17,000 crores between March 31, 1993 and July 9, 1993. RBI credit to the government more than doubled from Rs. 9193 crores during this period in 1992 to Rs. 18900 crores.

Does this doubling come about because of the withdrawal of the close monitoring of the major economic indicators by the IMF? The net RBI credit of the central government which increased by Rs. 18,889 crores between March

31 and July 9 as stated by the government has not been due to either revenue shortfall or expenditure increase during the first three months. There is some accounting jugglery in last year's accounts to meet IMF targets. This forces the government to show certain amounts as its income so that there will be no problem in the release of the last instalment of IMF's standby credit. These have been corrected now to the extent of Rs. 7000 crores. Another problem with the economic reforms is that after two years of the various reforms under the liberalisation policy, these have yet to seep down to the policies of the states due to information gap, the inspector problem, the absence of single window clearance, the problem of land acquisition and unstructured development and labour problems. Maharashtra and Gujarat, Karnataka and Kerala have announced new industrial policies but they are yet to be implemented. There has been also a three fold growth in the current year of currency with the public because of the huge expansion in the current year component of M_3 . Despite this growth in money supplies, M_3 has been comparatively moderate at 5.9 per cent because of the high level of food procurement. The food credit for the fortnight ending July 23 stood at Rs. 2943 crores compared to Rs. 477 crores for that period last year. The increase in RBI credit is due to several reasons, the shortfall in revenues, sanctioning of major instalments of expenditures, the continued depression in the stock market and the comparative failure of the public sector equity, its disinvestment which should be referred to later. This means that there is need to increase tax collections sharply and cut back on fiscal profligacy, for example in the scheme allowing all subsidised bank account scheme for women announced on independence day, the government will be spending Rs. 1000 crores. This means that we will have to spend two or three more years before the economy is stabilised in terms of fiscal discipline.

August also saw a rather serious tussle over Octroi and Pathkar. In order to have these two levies imposed by 7 states in the

country, the All India Mode of Transport Congress called a strike of all truck movements which lasted for over a week. The Octroi was a tax levied by the British with a different objective and the road transport system was then non-existent. Most goods moved by railway. Today 55 per cent of the goods transport is by trucks which are interrupted in their journey between Hyderabad and Bombay alone for example trucks at 60 points. The strike led to widespread disruption to the economy in the country which could have been avoided as the 7 states concerned could have followed the example of other states in levying a surcharge charge on sales tax as an alternative. The states using these levies are well to do ones as in the case of Maharashtra, Gujarat, Haryana and Punjab as well as states like Orissa, West Bengal and Rajasthan. Once more it is pressure which leads to a desirable reform. All the states in the case of Pathkar and the seven Octroi levying states decided to abolish the levies from September 1, 1993 after a meeting of the Transport Development Council. To make up for the loss of revenue by the abolishing, the states concerned have decided to hike the composite fee on national permits from Rs. 3000 to Rs. 5000 from September 1. The Council also urged the Union government to deal with pricing of tyres and chassis and expedite the amendment of the motor vehicles act. It is to be hoped that this kind of holding the country to ransom will not recur as it is happening also in other cases like the Indian Airlines.

Reference is made earlier to the mess in the execution of the policy and disinvestment of public sector equities. Due to deliberate under valuation of the equity (a fact underlined by the Controller and Auditor General), the first three rounds of the disinvestment resulted in heavy losses in the public sector. The objective of this investment has still not been clarified - whether the resources so raised should be a means of closing the government's revenue gap or retiring public debt and so reducing the burden of future

investments. The role of the official committee which organises and monitors the off loading seems to raise some questions particularly in stemming the losses referred to, which amounted to Rs. 3442 crores in the first two rounds of disinvestments in December 91 and February 1992 according to CIG. In this connection the question should be raised whether the government should have taken advantage of the up trend in the stock exchanges granted that in neither of the two rounds anything was known officially of the security scandal. Also the government should not have made substantial gains at the cost of banks and mutual funds as the boom in the stock market inevitably burst and caused huge losses. The department of public enterprises reveal an area of ignorance in allowing the disinvestment to be handled in a bureaucratic manner. In spite of some of the shares being listed in the stock exchange, there is really no market for PSU shares which in a sense reflects the failure of liberalisation under way. Disinvestment is not recorded as a first step towards privatisation of the PSUs, limiting itself in accordance with the accurate observation of the CAG "that disinvestment serves only to contain the fiscal deficit". The government of course has its fiscal imperatives which however, have to be reconciled with the wider goal of corporatisation of the public sector. In this connection the non implementation of the Rangarajan Committee report which suggested a ceiling on preferential allotment of shares and other important recommendations are not referred to and have not been followed up. Therefore it is not surprising that the record for the third round is even more dismal. The need for a cabinet minister for industry and the setting up speedily of the recommended standing committee on disinvestment which played a part in this fiasco should no longer be delayed. The government has plumped for using the third round, as a source of raising Rs. 3500 crores to bridge the budgeted deficit and finance the national renewal fund which are short term and incomplete objectives. Another important development during the month was the

IBRD proposal of deregulation of interest rates which will remove the minimum lending rate on commercial banks and advances. It also wants the government to reduce further the statutory equity ratio. The problem with the World Bank proposals is that it does not take into account the fragile financial position of banks when substantial past losses have to be recouped. This points to the sequence in which the maximum deposit rate and the minimum lending rate are deregulated. Further, with the minimum lending rate still in force, the profitability of commercial banks will come under pressure and inter-bank competition resulting in raising bank lending rates would further dampen investment demand and raise the period for credit worthy borrowers. A better sequencing of the Bank's proposal would be to remove the minimum lending rate before the maximum deposit rate, allowing better bank customers to bargain for lower rates, but the banks should also reduce their deposit rates. During the month, SEBI has made a number of important decisions including streamlining the disclosure norms on investor protection. The issue of capital premium by a new company being promoted by a good existing company is also in the guidelines for disclosure. Where projects are highly capital intensive with large equity base and long gestation period, the promoting companies have to bring in 50 per cent of the issued capital. Further changes in the guidelines include their applications only to those issues of the new companies which provide for charging of premium, not extending the face value of the shares and a revised promoters contribution for which a scale has been established. The brokers in Bombay have accepted the SEBI guidelines regulations. SEBI in its turn has clear proposals to let companies issue non converting shares. The SEBI chief's warning against Badla trading is an administration of the Boards watch dog role but may not improve matters. Badla has its use, which its flourishing existence proves but the SEBI chief's warning should be taken seriously to correct the irregularities in the mechanism's self regulation particularly the

brokers evading their margins. Here the question to be investigated is whether options trading is an alternative.

One further issue is that there is now clear evidence referred to in the Joint Parliamentary Committee report investigating the security scam that the issue of public bonds has been used to fuel the scam. The funds so raised became the principle source of finance for all varieties of speculative and illegal transactions in the stock and security markets. The finance ministry and the parent ministries of public sector units should take note of these deficiencies and irregularities which have led not only to the present scam but to similar deceits over a number of years.

Agriculture

Reference is made earlier to wheat and rice procurement for the current year being at an all time high. The procurement of wheat and rice during 1993/94 rabi and kharif marketing seasons amount to over 13 million tonnes each surpassing the previous peak of 11 million tonnes for wheat and 12.67 million tonnes for rice in 1990-91. With this adequate stock of foodgrains, the Public Distribution System functioning as the major support of these essential commodities should begin to decline. This situation does not take account of the severe damage caused to the kharif crops in Punjab and Haryana by the floods. The damage is estimated at Rs. 500 crores, in many places the crops have been washed away and the one month paddy crop are struggling to survive. Thousands of tonnes of wheat stored in the open have been damaged. Fertilisers, urea and DAP have been washed away. Oilseeds crops have also suffered. In fact a crisis is reported developing in the edible oils front with the price of groundnut shooting up by Rs. 9 per kg followed by groundnut, rape seed and soya oils which touched their peak in August 1992. This means their prices today are Rs. 23 - Rs. 45 higher than they were last year and may call for imports. To return to the kharif problem, of the Rs. 300 crores of kharif crops in

Punjab, Rs. 140 crores have been lost. In Haryana the loss is estimated at Rs. 467 crores. However, the government states that the total kharif production will be 2 million more than last year's 103 million tonnes. Perhaps it is on this basis that FAO forecasts that India may export wheat. India's export of rice principally to Saudi Arabia, Netherlands and US are expected to record sizable increase. Wheat shipments to the Commonwealth of independent states should also rise sharply. These positive events do not hide the disquiet caused by the recorded decline in gross agricultural investment in constant prices from Rs. 4636 crores in the 80s to Rs. 4357 crores in 1990-91. The disquiet is caused not simply by the decline in public investment in agriculture but also by the rapidly rising subsidies in most of the inputs in agriculture which means that even if government finances improved it may result in increase in subsidies from the states and central governments. There is need for the distribution of resources between current expenditure and capital formation in agriculture in such a way that the latter is increased and the former comprising subsidies is cut back. In addition there should be no leakages in any savings on subsidies and public investment, because only the efficiency of the latter still induces farmers to pay the price close to the market prices on the currently subsidised inputs. Investment in irrigation where returns are high could lead to generation of surplus resources for reinvestment without continuous increase in prices. Pattern of agricultural investment should not further move in the direction of private investment being only on individual farms and public investment on irrigation and water shed development projects. Now private investment should also enter the latter field, and this can be done by individual farmers pooling their capital to take on investment in large projects.

In May, 29 research records were recorded, with a heavy lead in fruits and vegetables which number 18 reports, cereals at 4, other agricultural products 3 and animal husbandry at 4. Again there is no record of the

use being made by farmers of these results in the large number of research exercise in fruits and vegetables. However as an indirect evidence of the use being made by farmers of this area of research is to be seen in the market data on fruits and vegetables. In regard to the other agricultural areas, sericulture is developing rapidly as the cottage industry is being integrated into farming system, particularly as a supplement to the seasonal farming system. Mulberry is being grown from coastal plains to high attitude areas with variety of soil types, black, red and alluvial. Research shows that the farmers are beginning to developing seri culture in their integrated farming programmes.

Plantation crops

In the tea sector, production, exports and prices are increasing against last year's decline. The national estimates are: total production of 745 million kg, with a contribution of 570 million kg from the North and 175 million kg from the South. For the current year, the North output is forecast to increase by 25 million kg, in the South the increase by 17 million kg as against last year's dismal 7.02 million kg. 1991-92 recorded a decline of 150 million kg (6 per cent) and the export declined by over 100 million kg largely on account of the poor off take by Russia as noted in the previous issues. Now with Russia resuming purchase of the year at 190 million kg which even so is higher than last year's 172 million kg. Despite lower exports in 1992 Indian tea expanded in the hard currency areas so that what was lost at the national level from Russia opting after tea options, was made up by sale in the general currency area. 1993 is being observed as the year of Indian tea, where developments on the export front will be putting pressure on domestic availability but will also record a capturing of new markets. In regard to coffee an important new development is that the Coffee Board has recommended that in place of the Internal Sales Quota (ISQ) a Free Sales Quota (FSQ) be operated, which would provide for direct

export of the coffee produced by the coffee growers up to a certain percentage. This recommendation was adopted by the Coffee Board in full with all but two strongly supporting it. This would make for the large growers getting out of the coffee board stranglehold and searching for export markets themselves. Now the Board should take the next step and decide on the percentage of the coffee grown by each grower which is eligible for FSQ. The extent to which this will lead to an expansion of exports and relieve the pressure on domestic sales which is the alternative will have to be seen in the next year and the year after. This will also speed up the pressure on government to alter the way this industry is organised and correct the inequities of ISQ. In the case of rubber, the government reports that it has drawn up a perspective plan for rubber which will achieve self sufficiency by 2000. It calls for an outlay of Rs. 270 crores and will involve expansion of the area under rubber by bringing more non traditional regions speeding up replantation of old and low yielding areas and modern HYV, and raising productivity of existing plants.

Industry

The low industrial growth rate as the negative growth rate at -1.25 per cent for 1992-93 was earlier referred to. As against this, the all India Manufacturer's Organisation (AIMO) proposes several measures to revive industry, if the current year also is not to record a low 2 - 2.5 per cent growth. AIMO emphasises that for this the focus of industrial reforms should shift to the state level where unnecessary controls which still exist should be removed to promote investment in industry and employment. It points out that the fall in the inflation rate (there has been no fall in prices, only in the rate at which they are rising) has been neutralised by the lower industrial growth rate so that the purchasing power of the people is less than what it was two years ago with the demand in the domestic market stagnating. Manufacturers are aiming at expanding their export markets which will cover their fixed cost but not

meet the Indian consumers needs. Even at the centre, the controls continue so that the organisations feels that the much publicised dismantling of the licensing raj is a myth. Ofcourse the DGTD and the controller of capital issues have been abolished and the secretariat of industrial approval only handles EOUs and EPZs but the many licenses continue - advance licenses, intermediate advance license, value based licenses, EPCG licenses, customs clearances, special interest licenses, gems & jewellery licenses, second hand capital goods licenses and so on. The number of customers for the licenses is less but the scrutiny and delays are more. Therefore the task facing us is to reduce and abolish these many licenses and not keep issuing orders of regulation and restrictions as is being done in the case of textiles. Infact the latest order, while freeing handlooms to produce a certain quantity of hank yarn requires spinning mills to perform this obligation within a period of 90 days which is an impossible practical stipulation. With regard to industrial sickness, the Goswami report referred to in the last issue refers to the position of BIFR which feels that the committee puts too much emphasis on debt recovery in place of other issues. The Bureau is not responsible for delays which is forced on it by the Silk Industries Companies Act (SICA), the critique being that the committee's recommendations ignore both public interest and labour points of view,, which is not true. A key issue of the committee is the definition of sickness which is valid and conforms to the Narasimhan Committee recommendation. The government states that the committee recommendations for speedier closure of sick units with adequate compensation for workers is under consideration and the ministries are examining the various suggestions made by the committee. One question which should be examined is whether foreign investors, particularly multi nationals, are reluctant to invest in India because of bureaucracy, corruption, inadequate infrastructure, poor quality of locally supplied components. There is truth in this assessment of the foreign investors atti-

tude to India as made by the London Economist Intellectual Unit. Industrial Policy and Economic Policy must correct these shortcomings. The positive side of this issue is seen in the Data Quest Survey which on the basis of the information technology industry in the country growing by 27 per cent (Rs. 3454 crores), shows that the country being ready to enter the second phase of computerisation, that is a shift from manufacturing system to trading categories. This is true of both small and large plants in the market. Another development is the signing of Memorandum of Understanding by the Small Industrial Development Bank (SIDBI) with Indian Bank for the joint financing of the larger units within the small scale sector. SSIs involved in export oriented or import substitution or high technology products will be given priority. This action of SIDBI is to be followed by similar memorandum with other banks both to finance expansion/modernisation, encourage new entrepreneurs and avoid sickness which is becoming endemic in the small scale sector. The Small Industries Development Bank of India is gradually shifting from indirect financing to direct financing. It has come out with several schemes and programmes to assist the small entrepreneurs in their business, including schemes for expanding term loans to leasing companies which assist small units. These perspectives has led the government to fix the 8th Plan outlay for SSI at Rs. 697 crores for the centre and Rs. 2115.14 crores under the states. At long last a single window clearance has been established for mining projects. This window will get the clearance from both forestry and environmental departments. This kind of simplification would also help FDI on which it is reported that the committee has cleared 24 proposals for foreign investment of Rs. 500 crores. This means that since the new government took over in July 1991 foreign investment clearance amounted to Rs. 2300 crores. In this connection, it should be noted that the Union cabinet has cleared the proposal for foreign equity investment in Indian aviation companies upto 40 per cent. The clearance would be on a case by case basis.

On individual industries, CII makes a significant critique of the government on the tariff structure as being in a mess and needing speedy rationalisation. The capital goods and machine tools industry are facing severe competition from foreign competitors on uncompetitive terms due to the inverted tariff structure, and multiplicity of tax and levies. There is urgent need to rationalise the tax structure along lines of the Chelliah Committee report. The Bombay High reports, as noted earlier, that its restructuring will enable a higher level of production which will go up by 5 million tonnes each year for the next three years. The automobile industry which has faced recession during the past two years is now showing signs of revival, production of all its units, passenger cars, commercial vehicles and two and three wheelers record an upward trajectory during April-July. Is this recovery atleast in part a sequel to the wide ranging reliefs and concessions announced in the budget, the benefit of which was passed on to the consumer in the form of lower prices of most categories? Here the fact that the automobile market is looking up has led some manufacturers to increase prices. This will weaken the industry to face escalations in input costs unless there is an increase in the selling price of the vehicles. The coal industry records pluses and minuses. CIL is ranked 4th in the world coal production, producing 211.19 million tonnes which was a growth of 4.5 per cent in 1992-93. 20 out of 50 ongoing projects of Coal India are running behind schedule. Some of them are 5 year behind. The row on coal imports by the Tamil Nadu government has an important aspect which should be pursued. If it is true, as the CIL states that its coal sold to Tamil Nadu is 25 per cent cheaper per kilo calories than that imported, then CIL will be competitive even at a lower tariff of say 25 per cent. Why then are both CIL and the ministry of coal against any reduction in the present tariff of 85 per cent of coal imports? SAIL reports that it has decided to diversify entering new lines of business like cement manufacturing, power generation and software development in addition to generat-

ing design, research and development, management, manufacture of bricks from fly ash and rerolling of semis. As the producer of over 10 million tonnes of steel, its large accumulation of slag and flyash can be used for some of these product lines. Maruthi Udyog reports that its expansion programme will be raising its production capacity from 1.20 lakh units to 2 lakh, in addition to introducing a new model, Zen, at an estimated cost of Rs. 764.50 crores. On the pharmaceuticals industry, the government announced that it is reexamining the entire gamut of the target and price control mechanism to ensure supply of quality drugs to the common man at affordable prices. This has long been the stated objective of the drug price control mechanism which has not been realised as far as the common man is concerned. The ongoing review is therefore awaited with interest.

Foreign Trade

The trade front presents a somewhat ambiguous picture. RBI refers to the current account deficit during 1992-93, the country's current account deficit increasing by over US \$2 billion compared to the previous year and so it concludes that exports must pick up quickly to relieve undue pressure on reserves. As against the year 1992-93, when the previous year's 3.1 per cent exports to CGA countries was raised by 10.4 per cent, that too RPA declined by 62.2 per cent. Imports on the other hand grew by 11.9 per cent in sharp contrast to a fall of 19.4 per cent during the previous year. Secondly, the trade deficit has more than doubled from \$1545 million in 1991-92 to \$3305 million, mainly due to the increase in the oil deficit by over \$1.1 billion. However, during the first quarter of the current financial year the performance seems to have improved, with the exports rising in both rupee and dollar terms and uncomfortable rise in imports. But the question arises whether this falling imports is a pointer to the continuing recessionary trends? The import performance is a puzzle as apart from the increase in crude imports, the low level of raw materials and components

imports is worrying. During the quarter the trade deficit fell to \$301.49 million against \$1583.67 million in the first quarter of the previous year. Exports have performed well and the question is whether the growth in exports will be maintained at the rate of the first quarter increase. In the current year, there will be an increase in imports of fertilisers, crude and edible oils but these will not be run away increases. The trade data for April to September if it follows that of the first quarter should record a declining deficit. The 8th business outlook survey on small industry conducted by CII referred to earlier shows the 39 per cent of firms see the general improved business performance including export performance. This is good because small industry is the major player in the export field. There is a fear that the exports are increasing at the cost of the economy. The export policy is based on the imperative of earning foreign exchange in larger and larger amounts, to pay the cost of foreign technology, foreign aid and foreign crude and fertiliser in increasing amounts. This has resulted in increasingly accumulating foreign debts which need to be paid out of our own foreign earnings during current year. All the policies, fiscal and finance seems to be dominated by this imperative and so exports were made competitive by allowing the rupee to depreciate from Rs. 4 a dollar in the 70s to Rs. 32 today, which is a depreciation of 800 per cent, caused by our weakness as well as the dictates of foreign financing agencies. Further, financing exports trading is the priority sector by Reserve Bank, resulting in the pre-emption of 40 per cent of the total credit by banks amounting to direct financing of exports by the RBI. Also the fiscal policy was framed keeping in mind the best interest of the exporters who enjoyed several other benefits such as the exemption from the income tax of the entire export proceeds, being allowed to sell their licenses in the open market for premium, besides provision of imported raw materials to exporters at international prices. Under the exchange control rules, customers were allowed to pay commission to foreign buyers, settling liberally their quality claims and incur-

ring advertising and promotion expenses in foreign currency. Foreign exchange was released to them liberally for their export promotion tours, with the RBI permission to exporters to allow credit upto 180 days to foreign importers for the repatriation of export proceeds. Given the record of exporters during the last two decades these aggregate concessions at the cost of the economy and the other producers are being questioned. As noted earlier, the pressure on Balance of Payment's position is easing somewhat with a satisfactory trend in foreign trade, so far in the current financial and the inflow of sizable funds as a result of FERA company increasing their stake by 51 per cent and remittances from NRIs shooting up. This is good but a definite improvement in Balance of Payment can only take place if the trade deficit is contracted significantly. In April/June this year the trade gap has contracted to less than that for 1992-93 as world crude prices have fallen further. As the value of aggregate exports was \$18.40 billion, imports \$21.71 billion in 1992-93, the deficit was \$3.31 billion. If exports this year rise by 20 per cent and imports by 8 per cent, the deficit will be reduced to \$1.35 billion. Turning to the individual export items, exports of marine products record an increase of Rs. 1767.43 crores in 1992-93 against the previous year's Rs. 1475.89 crores. It is to be hoped that this would reverse the declining trend in India's share of global sea food trade during the 80s from 1.68 per cent to 1.09 per cent due to lack of sufficient number of deep sea vessels, lack of technology, slow development of aquaculture and its low productivity, shortage of seed and food for its development and some defects in storage and packing. Pepper exports did well despite its sluggish production almost doubling to 9900 tonnes in 1992-93 compared to that of the previous year. It is important that the value realisation of the small but important exports should not be allowed to decline, as it is currently. In 1992-93 processed food exports have grown by more than 100 per cent within a four year period and are further expected to double by the end of the VIII plan.

Loans and Aid

In August the proposal of the central government for the public sector undertakings of the state governments to borrow directly from external agencies without the intermediary of the central government has raised some issues. The finance ministry has asked donor countries to evolve a common policy on lending to the state governments since it would be difficult to implement different policies for different states. This move of the central government is aimed at increasing the pace of utilising all external loans and assistance but the reaction of the donors is not favourable to this kind of direct lending to the states and the evolving of two policies, one for the centre and the other for all states put together. Donors do not have confidence in the states about the recovery of their loans. Further, the centre has now agreed that all prospective disbursements to states would be on the same terms as received by it instead of the earlier pattern of passing on only the addition to the states, which meant receiving 30 per cent as grant and receive 70 per cent as loans. This formulae with its high loans ratio has been acting as a disincentive to the states. This issue of speeding up the use of foreign loans and aid is important for dealing also with the balance of payment issue in 1993-94. The current account deficit of \$4.5 billion is to be financed by speeding up the use of external resources. All this is now in question. August also saw the successful negotiations of an Asian Development Bank loan for \$600,000 for rehabilitating the poor facilities at Bombay, Goa and Madras. India's external debt repayment will go up from \$3.25 billion in 1992-93 to \$8.03 billion in 1996-97 according to World Bank's projection, sending up the debt service ratio from 27 to 31 per cent excluding the debt to former Soviet Union and other military debt. According to World Bank, India's aggregate external debt will keep rising from \$76 billion in 1992-93 to \$80 billion in 1993-94, \$84 billion in 1994-95, 86 billion in 1995-96, \$89 billion in 1996-97, and \$91 billion in 1997-98. The repayment obligation referred to earlier

include repayment to IMF of \$326 million in 1992-93, \$132 million in 1993-94, shooting up to \$1104 million in 1994-95 and \$1429 million in 1995-96 after which it begins to taper down to \$540 million in 1997-98. The estimated portfolio of net direct foreign investment is set at \$390 million in 1992-93, \$600 million in 1993-94, \$750 million in 1994-95, \$1 billion in 1995-96, \$1.25 billion in 1996-97 and \$13.75 billion in 1997-98. The bank also estimates that foreign exchange reserves in 1996-97 would cover only 70 per cent of India's debt service obligation in that year compared to over 90 per cent in 1992-93. These estimates do not take account of the effects on India's external debt caused by external shocks as well as the rouble sector. The aid/loan picture is therefore grim.

Human Resource Development

In regard to Human Resource Development, in the Education field, a special group has been set up to monitor the implementation of the Yashpal Committee report on minimising the workload of students of primary classes. CABE in September is to consider ways to meet the problems in the implementation of the New Education Policy. From the next academic year the government is taking special measures like doing away with admission tests to the primary classes as a means of reducing the work load for children.

In the last issue reference is made to the problems faced by the state of Tamil Nadu in accepting the Navodhaya Vidyalaya scheme because of the compulsory Hindi required. But now in the 320 Navodhaya Vidyalaya operating in 23 states there are reported to be problems: 37 students are reported dead in the schools since September 1990, two being murdered, five committing suicide and seven drowning. There seems to be no guidelines about action to be taken when students die like this and in many of the school the errant officers escape. Inquiries continue endlessly into these deaths. This needs early attention and action. The Union government department of Youth Affairs and Sports announces

the setting up of a national apex body called the Rajiv Gandhi National Institute of Youth Development at Nemli to concentrate on (a) training and orientation; (b) documentation; (c) research evaluation; and (d) extension services. Its initial concentration will be on training youth. The institute is important because nearly one third of India's population is youth and by 2030 one third of the world's youth will be living in India. The state government announces the establishment of a government arts college for women at Bargur. It has been allotted Rs. 60 lakhs and will really help the backward district of Dharmapuri when it starts functioning from this year. In the area of Science an important development is the 50 million yen memorandum of understanding signed with the Japanese Midsewing Company by the National Environmental Engineering Research Institute (NEERI). Scientists in NEERI have made great strides and now through this memorandum they will exercise their knowhow to package and market their technologies to suit the demand of the international market. From the revenue of 650 million yen environmental preservation technologies are to be developed and disseminated, exchange of technical communication between Japanese institutions and NEERI/CSIR joint study, research and development relating to environmental protection are to be undertaken, activities, systems and programmes for environment protection activities are to be implemented. This could be a major scientific and technological issue.

International

The Uruguay Round and the Dunkel Draft

The OECD reports that since the Uruguay round in GATT started in September 1986 an increasing number of developing countries have liberalised their trade regimes in order to boost their participation within the process of GATT. This shift from protectionism offers hopes for a lasting and equitable expansion of trade except for the US which is wielding the

big stick of Super 301 and against the developing countries and special curbs by the industrialised countries like Japan. The trend now is for the former high protectionist developing countries to join the ranks of highly outward oriented countries engaged in remarkable opening of market reforms. Countries whose involvement in GATT have been marginal have now joined those actively participating. Countries that are among the poor and least developed join with those with higher per capita incomes for diversifying their trade activities. This trend is now affecting the majority of GATT members - 80 of the 108 members. The new GATT Director General, Peter Sutherland, is drumming up support of the consumer world in order to speed up the end of the Uruguay round. Pointing out that consumers could only benefit from the reduced protectionism through lower prices, he points out that the poorest sections in the society are forced to spend the highest proportion of their household budget for necessities like basic food, clothing and footwear and it is in these area that protectionism is most common and intense. For him the Uruguay round is not the answer to all consumer problems but it would be a considerable service of relief. This call is timely because when the trade policies are discussed internationally as consumers are largely forgotten and it is national government policies particularly protectionist policies which are to the fore. For instance, it is pointed out that agricultural protection cost the consumer in the European Community \$450 per year, in Japan \$600, in Switzerland 840, in Finland \$910 and in Norway 970. In the end it is doubtful whether protectionism guarantees employment as the protected industries usually employed labour saving technologies. Among the changes in the Dunkel Draft being negotiated by member countries, India is seeking four major changes: first for additional flexibility in respect of product specific support so that the countries domestic support programme remains intact; second, exemption from reforms for providing minimum market access even after the balance of payment constraints

do not apply; third, the countries public distribution system and consumer food subsidies should remain unaffected; fourth, a change in the text to make explicit the farmers right to retain a part of his crop as seen under the suigeneris system for plant variety production which the country plans to adopt. How far these minimum demands of the country will be finally conceded in the Dunkel Draft negotiations remains to be seen.

World Development Movement Report

The World Development Movement Report states that British commercial banks are filling their coffers from the developing countries debts to make up for the losses incurred on account of the poor domestic performance of their economy due to recession. About three fourths of the British banks total third world debt is in Latin America, and the rest in other countries including India. It estimates that India's total debt of \$71.5 billion includes \$8.5 billion of debt with commercial banks in UK arranged through multilateral institutions. This means that indebtedness to the World Bank and IMF does not insulate a country from the pressures of the commercial banks of the US and UK as was seen in Latin American debt negotiations. According to Unicef in Brazil, the UK's midland bank which has the largest British debt, nearly 250,000 children under five years died in 1991 and only one in 5 were in primary school, the under 5 mortality rate in that country is 67 per 1000 compared to 9 per 1000 in Britain. The third world debt activists in these countries are slowly bringing out a change in the banks attitudes to the developing countries.

Society for International Development

The Human Development report of UNDP referred in the last issue shows that only four out of 24 Asian countries are in the highly developed category and 9 in the medium category and the remaining 11 in the low category. South Asian region as a whole occupied the first position in the prevalence of human deprivation and poverty, with India

leading the poverty morass in terms of absolute numbers. According to the Human Development Report, 423 million people are below the poverty line in 1991 in India and of these 321 million live in rural areas. This contradicts the claims of the government that poverty is declining. The question that should be addressed are: What is the impact of liberalisation policies? Who has benefited from them? What are the prospects for cooperation among countries of South Asia to combat this evil and develop an integrated approach to improve the standard of living of the poor.

Other Items

M. S. Swaminathan Foundation Anniversary

In mid-August, the anniversary of the M. S. Swaminathan foundation was held at which the fourth annual report was presented. It was remarkable and gratifying that in the course of three short years the foundation has fanned out to all the vulnerable rural areas, has collected the dying and disappearing plant species, has developed a eco geo survival bank. The majority of its staff are working in the rural areas with rural people and watching and identifying rural plants. Their finances have been computerised by the Foundation which has the only power system in the city which runs on solar energy.

Independence Day

The independence day was celebrated in the Raj Bhavan with the Chief Minister, members of the Legislative Assembly all being present with the senior citizens in Madras. The function is becoming increasingly popular and is

an occasion for exchanging news and views; there is also a good cultural performance at the end.

India International Centre Panel

India International Centre's August panel held at the end of the month drew an exceptionally large audience as it was on the Dunkel Draft and the Uruguay Round. The history of the Uruguay Round and the controversies concerning it were traced in detail by three speakers who had participated in the Round. The general consensus was that the round was not completely satisfactory from India's point of view but India has no option but to sign the final agreement. The most serious issues for India are the intellectual property rights and intellectual commercial rights. There was agreement that now it is too late not to sign the agreement and therefore we should sign it, but continue developing our industry and agriculture and our foreign trade components to maintain a certain degree of autonomy.

First Article

In the absence of the receipt of the September seminar paper, a paper on "Globalisation of the Economy" is published as the first article.

Second Article

A statement of the Twenty-third Inter Disciplinary Research Methodology Workshop held at RUHSA, Vellore appears as the second article.

Book Review

The review of the book "Decentralised Planning: The Karnataka Experiment" appears in the book review section.

MIDS News

Dr. C.T. Kurien delivered a lecture on "Globalisation and the Service Sector" in Thiruvananthapuram on September 26, under the auspices of the Kerala Shastra Sahitya Parishad (KSSP).

Dr. A. Vaidyanathan participated in a Conference on "Health Sector Reform" organised by the Harvard School of Public Health, Durham from September 10 to 13; gave two seminars in the Department of Agricultural Economics, Colorado State University, on Productivity Impact of Irrigation in India, and The Structure and Functioning of Irrigation Systems in Tamilnadu. He also participated in a Workshop organised under a UNDP funded project on Human Development, to evolve a research agenda on access to and financing of education, in ISEC, Bangalore, from September 28 to 30.

Mr. S. Guhan gave a talk on the "Impact of Fiscal Adjustment on the States" at the National Institute for Public Finance and Policy, New Delhi, on September 15.

Dr. Nirmal Sengupta participated in a Conference at Trichy on Farmers' Participation in Irrigation, organised by the Irrigation Management Training Institute, on September 6 and 7.

Dr. S. Janakarajan has returned on September 25 from Cornell University (USA) after 9 months of stay as part of Ford Foundation's post doctoral fellowship programme.

Dr. Padmini Swaminathan presented a paper on "Bridging the Technology-Gap: How Far-sighted and Dynamic is the Indian Corporate Sector" at a seminar on Structural Adjustment Policy in India, organised at Bangalore jointly by the ISEC, Max Mueller Bhavan and HIVOS, from September 12 to 14.

Dr. Nasir Tyabji presented a paper on "Transformation of Skills into Manufacturing Activities: Policies for Rural Non-Farm Sector" at a national seminar on Policy Environment for Rural Non-Farm Sector, at the Institute of Development Studies, Jaipur, on September 10 and 11.

Dr. Paul Appasamy participated in the Second Royal Colloquium on "Tropical and Sub-tropical Coastal Zone Management" organised by the Royal Swedish Academy of Sciences at Stockholm, Sweden, on September 5. He also gave a lecture on "Employment in the Informal Sector with special reference to Madras" at a Training Programme on "Need Assessment, Monitoring and Evaluation Techniques for Management of Informal Sector" organised by the MMDA on September 22. He presented two reports on "Urban Environmental Management" and "Small Water Bodies" at the National Workshop on Environmental Action Programme, India, organised by the Ministry of Environment and Forests, New Delhi, on September 28-29.

Globalisation : A Description

Malcolm S Adiseshiah

WHAT is globalisation? It is a term that has recently come into use, (along with liberalisation and privatisation) covering all facets of life - political, economic, social and cultural. It means, not merely looking at every facet/ problem internationally, that also has to be taken into consideration, not merely looking at issues from a world point of view, that too is part of the process, it means that the global dimension is emerging and has emerged as a reality today. In this note which is concerned with the economic aspects, globalisation of the economy may be defined as the global dimension of the evolving world economy.

Globalisation : causes and consequences¹

- a) The rapid improvement in communication media and facilities which is resulting in a growing degree of uniformity and homogenisation of wants through out all countries, developed and developing;
- b) further strengthened by the rapid growth of research and development which is setting the pace both for economic growth in the expansion of agricultural and industrial output and for determining the scope and content of economic growth, creating higher value added products imbued with increasing knowledge content;²
- c) leading to global businesses concentrating on increased real values to their customers in high quality and low cost products, and selling into a larger market to finance their growing expenditures and to lower risks;

- d) accompanied by deregulation of money markets which is freeing financial flows from national control, and resulting in transnational financial flows and transactions, aiming at optimising the returns on resources anywhere in the world, this financial globalisation outpacing the internationalisation of both industry and trade;
- e) which means that investment moves about over the greater part of the world freely, making national economies less and less national and moving towards interlinked, interdependent national economies, which are embryo global economies;
- f) one result of which is that large companies spread out their manufacturing processes, getting different parts and components to be produced or processed in different countries, (Japan for instance purchases 83 per cent of its electronic entertainment equipment from outside Japan);
- g) another result along with the compulsion to reduce costs and to absorb in part the appreciation of the currencies, the business are expanding foreign 'sourcing' of their assemblies and even finished products. Thus many large US, UK, Germany and Japan businesses have set up factories in Latin America, NICs, newly industrial countries, like Korea and Taiwan, and more recently in the transforming economies of Eastern Europe and the Commonwealth of Independent states (ex-USSR), everywhere accompanied by a more ready transfer of technology.

Globalisation : the Time and Distance Dimension³

From the above production systems which aim at eliminating all forms of wastes, at total commitment to quality, there is growing in such global business houses the establishment of a partnership between management and workforce committed to continuous improvements which will cut product development cycles. They are under a double pressure to compress a) the time between designing, making and selling a product, and b) the distance between national economies, which leads them to set up integrated production facilities around the world and leading to inter firm agreements to enlarge the scope of their R&D efforts widen production and marketing facilities and so win competition in the global market. There are the same compulsions in the global businesses on the time front. What took 200 years, for instance, to move gun powder from the laboratory to the artillery, is today taking a few months to move from the lab to the firm or farm, where the dominating factor was trial and error, the watch wards today are innovation speed, service and quality to serve the global market demands. With fast diminishing boundaries, borders and controls between countries, the traditional "Nation State" with clearly marked frontiers is becoming obsolete and is being replaced by globalisation of business firms which see the wide open world market available to them to be shared and managed globally.

Globalisation : the Volume Dimension

Under globalisation, every product and every service, every capital investment, every plant capacity, every production volume grows big and bigger to meet global business needs. In this country, power plants, for instance, of 200 MW were considered as giant size: these were replaced by 500MW and now 1000MW turbo sets are considered normal. Sugar plants with 1250 tonnes crushing capacity a day regarded as the economic size are being replaced by 10,000 tonnes crushing capacity which are just passing the test of viability.

Automobile production is today a trickle compared to the plant capacities which are over 1000 times. Similarly investment levels are increasing - from Rs.200 crores in a plant regarded as mega size, to Rs.500 crores which now considered meagre, on to Rs.1500 crores needed for process plants. But all these volumes in India are puny in relation to world standards.

Globalisation : Currency Mixes⁴

Reference was earlier made to financial globalisation. The kind of heavy investments called for by the global producer firms, mobilising the necessary resources at reasonable costs calls for currency arrangements and mixes that are still in the womb of the nature. But already the European Community market is helping to bring into being the Euro Currency system which avoids the hassles of inter currencies conversion in cross border trade. Businesses are watching this developing with interest. The future global financial corporations will be therefore quite different from the present banks and financial institutions in that they will be dealing with currencies and financial investments which will have a certain degree of uniformity and so not give rise to conversions problems.

Not only that, the Bank of International Settlements (BIS) has committed the group of industrial countries to introduce common standards of capital adequately by the end of 1992 with the aim of: a) strengthening the balance sheets of many banks and so generate greater confidence in the international banking system and b) creating a better competitive environment by reduced inter bank customer charges through low capitalised and fuller use of capacity of the banks. BIS has divided capital into two basic components: a) core or basic equity as First tier capital: and b) supplementary capital to be used in time of difficulty and classified into seven groups ranging from undisclosed reserves to deductions from capital, such as deducting from total capital non consolidated subsidiaries engaged in banking financial ac-

tivities. Further agreement has been reached on: i) the Minimum Capital Ratio which is set at 8 per cent, ii) Bank Regulation and Capital Requirement within the European Community leading on to the creation of a single internal financial market within the community, and iii) bank capital from the rating view point, seen not as means of protection of depositors but as risk instruments with ability to absorb losses, as having indefinite or very long maturity as being free from covenants and as subordinated to claims of all other creditors.

Capital is only one of the problems that banking and financial institutions face today. The creation of new instruments - such as the action rate preferred stock in the late 80s which seemed to satisfy the needs of both investors and issuers but which showed a disturbing degree of volatility with investors demanding ever increasing yield, or subordinated debt which was regarded as capital but showed that it could not absorb losses - so that the real means of assessing capital adequacy is profits, particularly high profit through retained earnings and raising new capital through new issues.

Globalisation and International Trade

Earlier reference was made to the globalisation of International trade not proceeding at the same pace as the globalisation of financial markets. Also it was noted that because of the appreciation of currencies and because of the high and escalating labour costs, many cross national business firms are relocating their export production in countries with weaker currencies and lower costs.

The globalisation of international trade involves the study of the effects of fiscal and monetary policies on the trade, the consequent trade and payment imbalances, the level and quality of industrialisation and sourcing of intermediates, alongside of the growing international indebtedness and the health and viability of the banking system.

Because they have developed a global outlook in balancing supply and demand and weighing profits and losses, alongside of their global connections and widespread production facilities over one third of international trade is today managed and controlled by multinational companies. Their trade is in semi products, whose entry is controlled by them in various kinds of oligopolies.

Also more and more of international trade is based on international tenders in which the multinationals are well ahead, with their low cost structures and increasing R&D producing and providing the latest technology for the kind sophisticated products which these tenders call for.

Globalisation and India

In this penumbra of globalisation where does India stand?

The Priority Between Poverty Remedial and Globalisation of Our Production

If a choice has to be made between switching over to a wage goods production frame to meet the mass poverty of the people and the corporate sector entering the area of globalisation along the main lines set forth earlier in terms of time, distance, volume, currency conversion frames and international trade, the priority lies in the development of the wage goods model which will address our immediate problems of poverty and inequality.

That is the priority and not the whole scenario. That is also our immediate problem and not also our long run needs. From this point of view there is no need to pose this issue as an Either or One, Either the wage goods model or globalisation of Indian industry, agriculture, services and trade. Both are needed and both can be accommodated provided the timing and phasing are carefully watched and attended to.

The Wage Goods Model

In this note, the programme of the wage goods model which is the priority for the country and will meet and correct its short term pressure points of mass poverty and growing unemployment is not dealt with. This priority frame will meet our immediate problems of deprivation through reviving the growth of agriculture and allied activities including small, tiny and village industries, it will also be accompanied by and initiating an agrarian reform - of tenancies, levels of minimum wage and land ceilings and redistribution - ensure falling unemployment and under employment and transfer of assets from the well to do and the ill to do.

A Globalisation Start⁴

Here the concern is on our entering the area of globalisation for which we have many starting points and advantages. A start could be that the open door to foreign industries that has been initiated be used for "sourcing" of some of our imported components and assemblies - such as motor car components and assemblies, electronic software, CNC tools and by the multinationals which are on the look out for location where high order technical and managerial capabilities are available at a lower cost.

A further globalisation prospect is for those of manufactures - of finished products like Marutis, leather garments, or semi products like processing agro industrial goods which are now wastefully catering to elite consumption in the country - being exported through multinationals, as is being done in the case of our tea exports. But for this, as for expanding home consumption of wage goods, there is one precondition. The goods and services produced must conform to quality standards. As of now only one product has gained the ISO mark, 1000. Earlier reference was made to the imperatives of quality, service and robustness and here we need to follow the ISO system which UK, US, Japan and others are changing over to.

We too can do that and then we will be in the quality and low cost, league which is in the interest of both the domestic consumers and the international importers of our goods and services.

Another entry point to our move towards globalisation is for our industries which have reached international standards to slot themselves in international tenders. This is already the case with some of our firms like BHEL, Hindustan Lever, but these should become more general for those few firms which have graduated to international standards. This involves study of international journals and advertisements, as national journals and advertisements are being studied. Not only will this entry into international tenders push our R&D forward and integrate in in production facilities - of agriculture, semi manufactures and some equipment, - it will also improve our quality and lower our costs, professionalise the management institutes and adapt foreign technology and improve our marketing techniques as a result of this inter country competition.

The revised policy framework in regard to FERA provisions in their applicability to prospective global business units has now been adopted. This change corrects the 60 per cent Indian equity participation which tended to isolate Indian production from the global net works. By this change which points majority ownership by overseas collaborators, the participating Indian firms are being exposed to world class manufacturing techniques and technologies with immediate and ready access to the latest R&D activities. This change may also lead to the multinationals who are currently satisfied with just being sellers in the Indian market to move on to integrate their Indian production into their global set up.

These changes may also be the stepping stones to our major business firms developing their scanning capacity to examine and analyse the world system and spot in the slots which could become avail-

able to them and their colleagues in the corporate sector. Our business units are now content with a few joint operations with some firms of and in the south and south east asian countries. From this collaborative business links, our firms must move on to establishing global connections for their production facilities to become a world wide endeavor. And in this our business community which has more than its share of business acumen and dynamism must move beyond the traditional areas like textiles into innovative areas, concentrating on product differentiation and carving out market segments in the global trade and business overseas.

Some Crucial Conjectures

Not only is our clear and overriding priority for poverty eradication and employment and equality generation, these priority programmes are not in compatible with our entering the world of global trade and commerce, there are also some meeting points, points of convergence between the two. These points of conjectures are that the corporate sector which globally has contributed to the creation, development, transfer, diffusion and adoption of technologies which contribute to the accumulation of knowledge and generation of wealth of the countries, has in India and the developing countries generally manifested technological weaknesses which are both the cause and effect of the poverty, inequalities and underdevelopment characterising their economies. Hence there is need for widening the market for technology, towards improving the demand for technological products which will also harness the potential of countries like India to contribute to the expansion of global economic activities. Because, as has been pointed out,⁵ a world in which poverty and inequality are endemic will always be prone to economic, political and ecological crises which are global in their outreach and impact. This is the point of conjuncture and convergence.

Globalisation and Immediate Foreign Trade Concerns

Again, these issues on globalisation in relation to India may seem somewhat remote from our immediate foreign trade concerns, of balance of payment problem, the Ex Imp policy and loans from the International Institutions.

Balance of Trade Problem

The Economic Surveys for 1990-91 and for 1991-92 present the details as well as the overall crucial balance of payments situation.⁷ The trade balance was recovering from an annual average of -3.4 per cent of GDP in 1980-85 to -3.2 per cent of GDP per annum in 1985-90, -2.8 per cent of GDP in 1990-91, but the current account balance was worsening from -1.3 per cent of GDP per annum in 1980-85 to -2.2 per cent of GDP per annum in 1985-90 and -2.5 per cent of GDP in 1990-91. This worsening situation of the balance of payments was due to a) rapid increase of imports, particularly the bulk imports by 30 per cent in 1990-91 which table 5.5 highlights and b) the sharp decline in net invisibles from 2.2 per cent of GDP per annum during the VI Plan to 1.0 per cent of GDP during the VII Plan with a further calamitous decline to 0.4 per cent of GDP in the terminal year 1989-90. The immediate policy response to this comprised fiscal correction, a 7 points trade policy reform, and an 8 points industrial policy reform including public sector reform, - all of which is concluded by the section of the Economic Survey with the caption, - Capability for Self improvement, which brings us back to the globalisation world economic trend in the words of the survey: "world markets are more competitive than some hitherto sheltered domestic markets. If our agricultural and industrial products are to compete internationally, their producers will have to improve their own competitive position continuously through technological and managerial improvements and adopt themselves rapidly to changes in international market condi-

tions. This capacity for unceasing adaptation and innovation would need to be developed⁸ - which is an imperative for our domestic as well as our foreign trade.

The Ex-Im Policy

Similar is the story on the Ex-Im policy which in effect replaced imports licensing and linked import entitlements to export earnings. From July 1991, these entitlements called Ex-Im scrips were freely tradeable and had a premium of 30 per cent for most part, and from March 1992 this system was supplemented by the partial convertibility of the Rupee, under which any foreign income coming into the country could be converted upto 60 per cent at the market exchange rate and the balance of 40 per cent at the official rate. All this was a means of opening the doors of the country's foreign trade a little to world forces of exports-imports but has proved to be inadequate, as it is resulting in a sharp increase in imports, with a near stagnant export performance; so that this further limited opening to global forces, is leading to a decline in the country's reserves which till March end was Rs.14.5 crores and declined steadily to Rs.13.9 crores in May end. And so the debate is on, as to whether the policy should be reversed and the foreign trade doors bolted once more, using the licensing and the imports compression weapons or whether the doors should be opened more fully by going in for full convertibility of the Rupee. On this latter option, full convertibility, there are two caveats. The first is an economic one, that full convertibility means that exchange rate changes must be reflected in domestic prices of the commodities which cause them (which are called "bulk imports"). The second follows from the first and that is that the use of bulk imports, which in our case are defence, crude oil and fertilisers, is rationalised and controlled and when simultaneously exports resume their upward trend - in the 50s our share of world trade was 1.96 per cent, in the 60s it fell to 1.15 per cent, in the 70s further to 0.7 per cent

and in the 80s to a meagre 0.45 per cent. In 1990 it has picked upto 0.54 per cent and should continue this uptrend. The moral here once more is that an Ex-Im policy followed by partial convertibility is conditioned by global forces of international trade.

Loans from International Institution

The World Bank and IDA have till 1990 been lending for the Plan programmes. However the loans from the international institutions - World Bank, IMF, ADB - referred to here are in relation to the economic and fiscal crisis that the country has faced since 1990, for correcting some of our macro economic imbalances and for effecting structural adjustments. The first loan from IMF in July 1990 for \$600 million which was from our share, the second was the standby loan of \$2.2 billion in November 1991. The real loan, and issues arising from it began with this IMF loan for \$2.2 billion in 1991 November and the World Bank loan of \$500 million in 1991, followed by a bank loan of \$1 billion for structural adjustment including the National Renewal Fund and ADB loan of \$213 million in 1991, the MFCCF loan of \$230 million in July 1991 and \$635 million in September 1991. Now the government reports that it is negotiating an Extended Financial Facility (EFF) loan, which will include the standby credit of \$2.2 billion, for \$5 billion to \$7 billion. The problems faced by the country with the loans are two fold. One is the burden of their repayment which is reaching rather heavy proportions given the total foreign indebtedness of the government rising from \$69.78 billion in 1990 to \$78.42 billion in 1991, excluding NRI deposits. The repayments to the IMF and World Bank will begin in 1994-95 at SDR 666 million and continue for 10 years and that is when the crunch will be faced. The second problem is the conditions attached to the loans (the World Bank and IMF call them 'conditionalities' when the term conditions is perfectly clear and understandable). Ofcourse every loan has conditions attached to them and I was one of those who

supported the borrowing from IMF and the World Bank at the start, because I saw no alternative to them. Now more than a year later I find that the conditions are getting more onerous (the government reported to parliament accepting 16 conditions in December 1991 vis a vis the Bank and 9 further conditions in February 1992) and in particular their implementation is turning into a form of sanctions - as in the case of the loans for what the World Bank calls structural adjustment and the rate of the reform process demanded by the IMF. As for alternatives to the loans from the World Bank and IMF, there are two alternatives - the first is for us to save a little more (say 0.5 per cent of GDP to meet our capital needs and to change our life styles so that the import intensity of our consumption goods and the capital goods used for their production is decreased. Further even as the efficiency of the production and distribution systems is improved and the small starts towards globalisation suggested earlier are put into effect which will improve productivity, the flow of Direct Foreign Investment will begin to reach levels envisaged in the VIII Plan, creating in the process the competitive environment which is also a hall mark of the global system.

Some Cautions on Globalisation in India

There are also a few cautionary notes that need to be struck even in the small start to globalisation of the Indian economy that has been advocated.

The first caution is with regard to agriculture and the primary economic sector. In the many sided structural adjustment programmes being operated in the country as from July 1991, there is not one word about agriculture. There are a few and limited provisions made for the socially broad rural development programmes on which the National Development Council was so exercised. This lacunae and silence with regard to agriculture in our economic reform strategy currently under way both puzzling and ominous. It is puzzling in that the absence

of any systematic approach to the agrarian question and to the possibility of raising the productivity of agriculture in the future shows a kind of changed government perception of what is important. In the past agriculture was regarded as important both as the source of food security and the major means of employment generation. But today that emphasis has shifted to the market. Today the government believes that agricultural growth, increased foodgrain production can be attained by a greater resort to markets and by allowing the price mechanism free play to the point where relative price movements and profitability ratios will be adequate for the higher agrarian growth rates that are expected and needed. (This explains the concentration in both attention and discussion on deregulation, reduction and withdrawal of subsidies, exchange rate flexibility and replacement of government intervention.) This agricultural strategy is puzzling because the basic structural and other problems in agriculture have not been touched, let alone resolved. They are straining rural stability. This hands off policy with regard to agriculture is also ominous this year, because it is recognised that a 5th year of good monsoons will be unusual almost miraculous, and that placed alongside of the perilously low level of our foodstocks particularly wheat, plus the current low rate of procurement, is placing the Public Distribution System in some danger.

A second caution is the pace at which the food processing industry is being set up. This is linked to the development of what is called diversified farming, which is moving parts of agriculture from growing cereals to commercial crops. This is a sound and necessary development to increase rural employment and incomes but its phasing should be such as not to cause uncertainties in the rural production, distribution and employment market. These commercial crops provide the raw material for the food processing industries, which are necessary to meet the growing and effective demand in the domes-

tic market and for India taking its place in the competitive global exports area. This again must be related to their effects on the existing rural economic structure, where 70 per cent of the people depend for the livelihood on small scale family farming, which the agrarian reform programme recommended, will stabilise if not augment.

Finally the agricultural commodities processing industry provides the link, the nexus between agriculture and manufactures, and is the area which foreign multinationals will be attracted to under the open door and direct foreign investment policies earlier referred to. India's entry into the global production area to develop it as a quality and

low cost activity is inevitable. The way to counter its negative features is for the Indian counterparts, the few Indian businessmen, referred to earlier, intelligent, mature, professionalised, to use technology including computerisation and robotisation to stand up to and equate their production volume and marketing techniques to any of the multinationals. Only in that will our entry into the globalised world economy not lead us to adopt foreign tastes and standards, benefiting the 3 to 5 per cent of the population which will always be the direct effect of globalisation and leads us into a debt trap under which, in accordance with Susan George's finding, the poor are made to pay back something they never wanted, never got and never benefited from.⁹

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Health and Human Resources Development *

GOOD health is not simply an objective of development. It is a positive force driving development. Investment in health would increase both the size and the productivity of the human capital of a society. "... it has become more and more clear that health goes hand in hand with economic and social development. The questions are - how serious is the threat to health, what is to be done about it and who will do it?" - Hiroshi Nakajima, Director-General, World Health Organisation.

These questions and related issues were the focus of the twenty third interdisciplinary research methodology workshop organised by the Madras Institute of Development Studies in collaboration with the Indian Council of Social Sciences Research. The workshop was attended by over 40 participants comprising economists, sociologists, medical experts, environmentalists, statisticians, voluntary health organisation representatives, health activists and health researchers.

The nineteen papers presented and the discussions and deliberations at the workshop were on three broad ranges of issues. The first category dealt with problems of defining, measuring and assessing the health status of a society. The second category was about the provision of health care - the demand for it, access to it, the role of private and public sector in its provision, policy is-

sues relating to it and so on. The third range of issues were regarding health and society, highlighting the interrelationship between various socio-economic, cultural and technological factors and the society's health status. The overall emphasis was on methodological aspects relating to health research.

Health Status

Health is in fact a multi-dimensional phenomenon. The WHO defines health to denote "a state of physical, mental and social well-being and not merely the absence of disease or infirmity". Thus, given that health is not just the absence of illness and given that various social, economic, cultural and technical factors of a society influence and are in turn influenced by its health status, the very definition of health status becomes fuzzy. Measuring and assessing the health status gets further complicated.

Five papers of the workshop dealt with these issues. One of them specifically discussed these problems of definition and measurement. Two of them dealt with aspects of health surveys and two papers presented some information and analysis on the present health status in India.

Currently used measures or indices of health status like infant mortality rates, per capita food consumption, weight for age and

* Statement of the Twenty-third Interdisciplinary Research Methodology Workshop, held at RUSHA, Vellore, from June 8-10, 1993. This was the second in the series of three Workshops on "Human Resources Development".

occupational health problems. Epidemiological studies or impact studies with an interdisciplinary approach need to be systematically carried out in order to understand the environmental and occupational health dangers. The approach has to be holistic in order to encompass the economic, social and political factors as well as the medical ones. Such studies are extremely significant, especially for developing countries like ours that are following the development models of the North, with increasing use of polluting and toxic technology but without the necessary awareness about and precautions against its genetic and other health hazards.

As an extension of the gender bias existing in the social, cultural and economic spheres in this country there is also a gender bias in health care aspects. It was pointed out that when it comes to investment in health, boys were seen to be given preference over girls especially in rural areas. Similarly, the family planning programmes in India have treated women more as targets to enable carry out the programme of population size reduction rather than as decision-makers who would be able to exercise a choice regarding acceptance of the programme and of the specific mechanisms of the programme. It is essential to have policies that would provide women equal education and equal bargaining powers and

that would provide them equal rights for decision-making regarding choice of family planning programmes. Only then these biases could be removed.

Role of Voluntary Organisations

There was also a panel discussion on the nature and changing role of voluntary organisations in provision of health care particularly in the context of the structural adjustment programme. The discussions highlighted the fact that in the light of the structural adjustment programmes there was a greater role to be played by voluntary organisations, as the share of public provision of health care services was likely to come down. These organisations should play a greater supportive and supplementary role. They should get more structured and more interlinked organisationally and can work very effectively in tandem with the government. But with the World Bank and other international organisations being interested in selective interventions and in funding specific health programmes the priorities of voluntary organisations are bound to change. The questions are how much autonomy they would have, how much would the felt needs of the community be met and what would be the social and financial accountability of the voluntary organisations and to whom?

Book Review

Of Panchayati Raj and People's Plans

R. Hema

Decentralised Planning : The Karnataka Experiment by Abdul Aziz, Sage Publications, New Delhi, 1993, pp. 148, Rs.195.

SUBSEQUENT to the adoption of a socialist form of governance after independence and with the national objective being 'growth with equity and social justice', planned development was the path chosen for the Indian economy. The planning procedure adopted sought to achieve global (i.e. at the national level) objectives in terms of increasing the rate of economic growth, reducing poverty, unemployment and inequalities, accelerating industrialisation and so on. It had a macro-level, top-down approach, where central agencies at the national and state levels formulated plans both for the macro and for the lower spatial levels. This centralist bias of the planning process led to an enclave type of growth giving rise to regional, sectoral and sectional inequalities.

The need to achieve growth with greater equity at the local levels, to make planning more responsive to local needs, and to ensure better implementation of the plan programs, has made a strong case for decentralised planning. Two major changes witnessed in the seventies have created the necessary climate for this. One was the shift from the sectoral approach of earlier plans to a regional approach adopted during the Fourth Five Year Plan. The other was a shift from 'command polity to demand polity' where allocative decisions were increasingly subject to control by voter sovereignty.

In this background Abdul Aziz critically evaluates the formulation strategy, the priorities and the implementation of decentralised

plans based on the Karnataka experiment. He presents a brief discussion of the theoretical issues regarding the priorities and strategies of decentralised planning, sketches out a normative model that provides guidelines for its implementation and an evaluation of the Karnataka experiment with reference to this normative model. The politico-administrative institutional structure within which decentralised planning has to be undertaken is dwelt upon at some length.

In his brief theoretical discussion the author rightly stresses that in order to be regarded as decentralised, planning ought to be carried out by the local bodies, involving local people and with local perspectives regarding needs and resource use. What this calls for is true participation and autonomy in decision-making at the grassroots level. To achieve this, Aziz points out that, it would not be enough to have just the physical institutional structure (in terms of decentralised political bodies, administrative and data collecting organisations) in place but was also essential to have the suitable environment in terms of both political and financial autonomy for these local bodies. On the issue of top-down and bottom-up linkages of decentralised plans the author states that the local plans should be well meshed into the macro plans. However, he does not suggest any effective mechanisms that could resolve the conflict between global optimal and local optimal solutions. This issue is particularly crucial because it is this diver-

gence between global optimal and local optimal solutions that is responsible for the failure of macro plans in meeting local needs.

In the chapters on institutional structure for decentralised planning and finances of the Panchayati Raj (PR) institutions, Aziz presents a very comprehensive description of how the PR bodies have evolved and developed over time. He traces the changing powers and duties of these bodies, their relationship with other institutions (government, bureaucracy) and the degree of political and financial autonomy they enjoy. The picture that emerges is that local governments are not recognised in the Indian Constitution as a distinct layer of authority like the union or state governments. The state governments are vested with the authority to legislate on all matters relating to local government bodies. As a result there is considerable diversity in the structure of and powers accorded to the PR institutions in different states. However, in general, these institutions have come a long way from the ineffective, nominated local bodies that were in charge of the community development projects of the fifties. Though the degree of financial autonomy allowed to these bodies is still limited, they are witnessing greater representation of local people (particularly because members are co-opted from weaker sections) and are serving as forums for articulating the local needs and implementing the provisions of the macro (national) plans more effectively and efficiently.

Karnataka has made a good start in this. Drawing upon its long pre-independence tradition and experience with regard to local self governments, Karnataka has developed its Panchayati Raj institutions. From a two-tier structure introduced in 1952 it moved on to a three-tier structure in the sixties. This system was then replaced by a new PR system comprising several politico-administrative bodies, with the passing of the Karnataka Zilla Parishads, Taluk Panchayat Samithis, Mandal Panchayats and Nyaya Panchayats Act in July 1985. The notable features introduced by this new system were:

- i) separating the development and regulatory responsibilities such that while the PR institutions were in charge of the developmental aspects the regulatory functions were vested with the state government officials. Moreover, the administrative machinery of the state government became accountable to the elected representatives of the PR institutions;
- ii) setting up of a state finance commission, on the same lines as the national finance commission, to make recommendations on the devolution of funds; and
- iii) setting up of the State Development Council, chaired by the Chief Minister, as an apex body of the PR system.

Regarding the financial sources and financial autonomy of the PR institutions, the author presents a fairly detailed picture and this shows that like the PR institutions in all other states, in Karnataka also they have to rely very heavily on government grants while their other sources of tax and non-tax revenues formed only a small fraction. The 'free outlay' that was made available to the zilla parishads and mandal panchayats was only 5 per cent of the total plan outlay. However, the state finance commission has made certain recommendations in this context which is being considered by the Government of Karnataka.

After discussing at some length the mechanics of the district level and mandal panchayat level plan processes in Karnataka, the author sets out to assess this experiment in decentralised planning. The assessment is in terms of the efficacy of the district and mandal level plans in:

- a) meeting better the local needs and utilising the local resources;
- b) meshing into the national/state level plans; and
- c) monitoring and implementing.

To examine whether decentralised planning served local needs better, the author compares:

- i) the inter-sectoral allocations of the plan outlays at the state and district levels since 1987;
- ii) the district plans of 1987-88 (when they were formulated by the state level heads of departments) and those of 1988-89 and 1989-90 (when the zilla parishads prepared them); and
- iii) the district plans across four regions grouped by agro-climatic conditions.

These comparisons reveal the following:

- i) While the state plans accorded highest priority to irrigation and energy the district plans allocated larger proportion of funds to rural development and social and economic infrastructure;
- ii) there is no divergence between the priority structures of the district plans formulated by state departmental heads and those formulated by zilla parishads; and
- iii) the sectoral allocations at the intra-district level were in tune with the agro-climatic conditions.

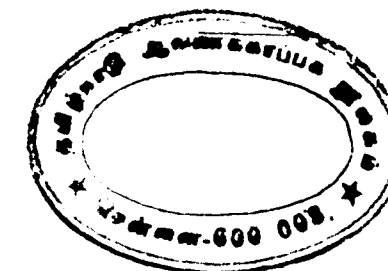
The author also observes that the new PR institutions are more effective in monitoring and implementing the Plan programs. There is also greater integration with the state and macro plans witnessed in the Karnataka experiment.

This book by Aziz makes a significant contribution in highlighting the merits of decentralised planning and provides a very good insight into the institutional aspects and the politico-administrative framework needed

to successfully implement it. A good description of Karnataka's pioneering experiment in this direction is provided. However, the arguments and tools of analysis used for the assessment seem to be lacking in strength and rigour. Apart from the fact that the period of analysis is very short (the differences in allocations could well have been due to annual variations rather than any intended shifts) it is also not clear as to how sound it is to make judgments on priorities, based only on the proportion of funds allocated. An analysis of the rationale for such allocations may have provided greater insights. Moreover, when the state level sectors and the district level sectors for plan allocations are demarcated (and are not identical) and when bulk of the district plan resources are funded from state government grants, comparing the inter-sectoral priorities at these two levels does not seem to be significant.

The message that decentralised planning is important in order to have a more socially equitable development and that a good system of Panchayati Raj institutions, that are democratically elected, truly representative and politically and financially autonomous, need to be in place to effectively implement these, is well brought home. The Seventy Fifth Constitution Amendment Act does hold out some hope in this direction. By making it mandatory to institute PR bodies and hold elections regularly, this Act recognises the local bodies as a distinct layer of authority and by providing for the constitution of state finance commissions it allows for greater financial autonomy.

This timely contribution by Abdul Aziz would be a useful source of reference for researchers and for people involved with policy-making in this area.



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- 1 Publications brought out by Messrs Sangam* Publishers :** These consist of a series of monographs mainly relating to Rural Development of Tamil Nadu brought out between 1972 & 1980. Detailed list including prices available on request from the Programme Coordinator of MIDS. Orders may be placed with Sangam Publishers, 11, Sunkurama Chetty Street, Madras-600 001 for these.
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- 3 Occasional Publications of the Institute Include :**
 - a) *A Manual of Sources of Data on Tamil Nadu Economy* (1979) published by MIDS, pp. 92, priced at Rs. 10/- per copy and Rs. 6.50/- for bonafide research scholars.
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 - c) *Social Science Research in South Indian Universities—Listing and Review of Ph D. Dissertations* (1989) Published by MIDS and ICSSR, SRC, pp. 260, Rs. 20/-
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- 4 Special Publications***
 - a) *Poverty — An Interdisciplinary Approach* edited by B. Sarveswara Rao and V. N. Deshpande (1982) & published for MIDS by M/s Somaiya Publishers Pvt. Ltd., Bombay, pp. 296, Rs. 125/-
 - b) *Guide to Research in Economics*, edited by C. T. Kurien (second edition) (1985) & Published for MIDS by M/s. Rainbow Publishers, Coimbatore, pp. 390 Rs. 100/-
 - c) *Some thoughts on the Seventh Plan* by Dr. Malcolm S. Adiseshiah (1985) and published for MIDS by M/s. Dialogue Publishers, New Delhi, pp. 136, Rs. 70/-
 - d) *Shaping National Events* by Dr. Malcolm S. Adiseshiah (1985) and published for MIDS by M/s Dialogue Publishers, New Delhi, pp. 335, Rs. 180/-
 - e) *Tamil Nadu Economy : Performance and Issues* by MIDS (1988) and Published for MIDS by Oxford and IBH Publishing Co. Pvt. Ltd., Delhi, Rs. 60/-

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Evaluation : Some Recent Trends

Impact of Liberalisation on the
Sugar Industry

EDITORIAL HIGHLIGHTS

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Introduction

FOR this month of November, the editorial covers somewhat briefly three levels, state, national and international. At the state level the revival of district planning and the call for the states to fall in line with the national economic reform policy, together with the problems involved are indicated. In the power area the coal row between the centre and the state has been provisionally settled with the centre's position upheld by the courts. The overall power position for the moment is satisfactory, with some black outs and power cuts to balance supply and demand. The North Madras Thermal station has raised problems because of its cost escalation. In the water area the establishment of Water Management Cells in the districts, the growth of salinity because of defective irrigation and the World Bank's appeal to the two states, Karnataka and Tamil Nadu, to settle the Cauvery issue speedily are noted. In agriculture the South West monsoon effects in the districts and the peaking of the kuruva harvest at month's end along side of the long range plan for livestock and poultry in the state are noted. The problem of aiming at the objective of self sufficiency in foodgrains is analysed, with no solution proposed. In the industrial area the further planning for the industrial park and corridor to Singapore is discussed. The month's development include the building of the oil bank terminal which would also help expand exports, Ashok Leyland's expansion, SPICs new plan along side of some problems raised by its foreign investment buying into this well run company, Binny's diversification, Madras Relineries

progress and the set back in Madras Fertilisers, ELCOT's expansion and TIDCO Tyres with Raunaq's enterprises are detailed. The developing of a new fishing harbour is also highlighted. At the national level, in the power field the growing indebtedness of State Electricity Board to both NPC and CIL and the unease caused in the World Bank about this are referred to. The new developments are the 66 power projects applied for by the private sector and the plans for expanding non conventional energy. In the economy area the rate of inflation is referred to along with the effect of economic reforms on the economy. The Bombay stock exchange after a period of panic trading has recorded a rally. The RBI's annual report refers to the deleterious effects on the economy of the increasing RBI credit to the central government and the distortion of the reform effort. The worsening of the fiscal deficit is also referred to along side of the IMF advice for India to move faster on the reforms. The RBI annual report projects an improved rate of economic growth for 1993-94 mainly based on the good performance of agriculture following from the good monsoon. The effects of the reduction in the lending rates and the deposit rates are discussed along with the rising indebtedness, domestic and foreign, of the government. The 13 days truck strike which ended on September 28 has caused a serious loss of industrial production and the reduction in exports. In agriculture a good south west monsoon is referred to with its positive affect on the kharif crop which is forecast to reach the same level as last year. It also improves the terms of

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of the farmer. The relation between the growing food stocks and the state of the poor is briefly discussed. The 24 research reports are also analysed, noting the increasing research effort in the cereals field. The new regional programme, namely the Farmers centred Agricultural Resources Management (FARM) was launched in the month with UNDP assistance of \$12 million. In the area of plantation crops, the increased tea production vis a vis last year, the Coffee Board resolution for a Free Sales Quota (FSQ) are referred to. In the industrial area the rate of industrial growth which is slowly picking up in the first two months alongside of a decline in the current year is discussed. Along with the performance of the private corporate sector where the annual report of ICICI shows falling profits, the latest data reported by CMIE shows a slight recovery. The SSI developments are also discussed particularly in relation to IRBI sanction. The new textile policy is referred to along with some questions. In the foreign trade field, the improved export growth rate of around 21 per cent along with the decline in the growth of imports is shown to reduce the trade gap and facilitate the Balance of Payment position. The good individual export performance are also briefly outlined. The foreign loans and aid are briefly discussed. In the Human Resources Development field the relatively satisfactory progress in the literacy campaign is indicated. Also the preparatory work and documents for the summit meeting of the nine most populous countries in the world is discussed. In the health field the growing population control programme is noted. In the employment area the latest, 48th round of NSS data on employment and unemployment is analysed in some detail - with its effect of poverty. The new youth employment scheme launched by the government is referred to. In the international section, the IMF annual report indicating sluggish economic growth in the world except in some East Asian countries is discussed. Also the IMF decision to increase the next issue of SDRs and provide for a continuation of the Enhanced Structural Adjustment Facility

(ESAF) are noted with satisfaction. The World Bank's caution on the results of not going in for higher investment of Human Resources to fight world poverty is noted as one contrary element in relation to its advocacy of the free market economy. GATT's negotiations and discussion of the Dunkel Draft are referred to. UNCTAD's proposed review of GSP are rather pessimistically outlined. The falling international trade trends in the developing world are noted. The ILO's programme to fight child employment is also indicated with some satisfaction. In relation to other items of interest to the institute, the debate on social economic problems facing India organised at the Anna University, the discussions of the meeting of Commission of Direct Taxes for the Southern Region, the SRC/TNBCE bi monthly meetings together with the International Literacy Day celebrated in Madras by SRC and the award of certificates at the conclusion of the training programme of the literacy instructors, the meeting of the Tamil Nadu State Council for Science and Technology, the India International Centre monthly panel discussion on India, East Asia and the Pacific and their economic relations and the meeting of the Planning Group of the Economic Affairs Group and the choice of the Vice Chancellor of the Banaras Hindu University are referred to.

State

Plan

A right step is the state's decision to prepare master plans for each district, in relation to its population growth, increase in traffic and other related economic matters over the next four decades. This will also be a reference document for the government's building grants for factories, schools, colleges, hospitals etc. An important issue has been raised at the National Development Council by the Prime Minister in his statement that the state should follow the economic reforms initiated by the centre. But the states have been fighting

against over centralisation of powers by the centre, which for instance in the case of industrial regulations has reduced the states to just large size municipalities. The states now following the economic reforms of the centre (which includes decentralization which is a non starter) experiences a different scenario. The rationale, however, for centralization in industrial development which the new economic policy would accelerate is that such centralisation is required to ensure a proper linkage of the country, due to wide spread of scarce raw materials like coal, oil and minerals to help the spread of industry all over the country. But the concentration at the centre has only resulted in extension of power by the vast bureaucracy which has delayed decision on licenses for setting up units. Even so, Tamil Nadu was one of the states which did fairly well in industrial development upto the mid 60s mainly because of the dynamism of the then chief ministers. But for a rational and fair industrial policy, these personal and political factors should not be the major factors and as long as these are not dealt with, the prime minister's appeal for the states to follow the centre in its reform policy will receive no response. The response calls for a fair apportioning of the investment flows between the states taking into account their infrastructural and other facilities.

Power

The coal import controversy between the state and the centre referred to in the last issue is now in the high court which has asked for all the documents to ensure the real position with regard to the coal stocks in the state, the quality of imported coal etc. It has in the interim vacated its injunction preventing Tamil Nadu Electricity Board from opening fresh letters of credit. However, TNEB has itself decided not to go in for them. On the power front for the state, the situation is somewhat confused. On the one hand there are encouraging signs such as the outstanding dues of the Electricity Boards totalling Rs. 4000 crores beginning to decline, the increased

interest of foreign companies in the power sector, particularly if the demand is expedited to assure their profitability. Further PLF is doing well and is likely to cross 58 per cent in 1991-92 and the following year against 53 per cent in 1990-91. This means for instance that even a one per cent increase will mean an additional availability of 723 MW or Rs. 2500 crores. For this state however, there seems to be difficult days ahead caused by the poor storage position in hydel reservoirs and inadequate coal stock. In this connection, the loading ports of Haldia, Paradeep and Vishakapatnam not having such stocks is also worrisome. This in a sense is the back drop to the coal import controversy. Further, the North Madras thermal station in addition to the slippage it has suffered, has been hit by the huge cost escalation. This makes the project impossible for TNEB which has been helped so far by the ADB.

Water

The water situation in Madras and its district continues to be extremely serious. All three city storage reservoirs - Poondi, Red Hills and Sholavaram (the combined storage is 6483 mc.ft.) are continuing to be totally dry. In the months of August and September there have been rains, rather light but which have prevented the ground water level from further declining. In industries, the response to these severe water shortage has been to recycle water which is being done regularly by industries such as FI, MRI etc. CII proposes to set up a water management cell with government's cooperation to bring about effective action for industrial use of water. It estimates that while the alternative demands of industry in all areas for Madras is 30 per cent of the metropolis overall demand, the 32 industries in Manali and Ennore need about 30 million gallons per day. They need to set up an increasing number of desalination plants specially in the coastal areas of Manali, Cuddalore and Tuticorin. It is now expected that the water management cells jointly by CII and MMWSSW will be explored. In this

connection one further important development is the decision of the state government to go in for seed clouding, with the contract being concluded between metro water and the Atmospheric Incorporation USA. As a result, the first seed clouding was undertaken on September 1 on an experimental basis. This trial run produced good rains in the catchment areas but its quantification will take about a week to 15 days. This cloud seeding is now the second experiment after a gap of 8 years and looks as if it is likely to be successful. In the water field, the lack of Cauvery agreement between Tamil Nadu and Karnataka has attracted the special attention of the World Bank which is concerned about the problems created for water users in both states. In its report on water management world wide, it urges the two states to arrive speedily at an agreed position on the use of Cauvery waters. It is critical of Karnataka for misusing its position of being the upper riparian state, equally of Tamil Nadu for standing on its acquired rights. In this connection Guhan's brochure on Cauvery Water Dispute is important as referred to in the last issue.

Agriculture

For the state as a whole, agriculture has profited from the normal rainfall in the South West monsoon. 12 out of 22 districts in the state have registered "above normal" rainfall namely Pasumpon Muthuramalinga Thevar (50 per cent above normal), Kamarajar (41 per cent), North Arcot (25 per cent), Dharmapuri (27 per cent), South Arcot (23 per cent), Periyar (23 per cent), Salem (17 per cent), Madurai (15 per cent), Dindigul - Anna (5 per cent), Tiruchy (7), Nilgiris (3 per cent). The districts which received deficient rainfall were Nellai Kattabomman (23 per cent below normal), Kanyakumari (-44 per cent), Thanjavur (-37 per cent), Ramanathapuram (-28 per cent), Sambavarayan (-23 per cent), Coimbatore (-16 per cent), Pudukottai (-6 per cent), VOC (-5 per cent), Quaid-e-Milleth (-2) and Chengai MGR (-1). Thus all the districts of Tamil Nadu should see either normal or

excess rainfall during the year, with 5 per cent excess during the South West monsoon. The Kuruvai paddy harvest is now completed by the end of the month and the arrival of freshly harvested paddy is picking up in Nagapattinam, Quaid-e-Milleth districts and Thanjavur. The first analysis shows that the average output is more than 6 tonnes of paddy per hectare. This is good, given the uncertainty faced by the farmer due to the Cauvery disagreement. In the area of horticulture Tamil Nadu occupies the first place in the country in the production of banana, mango and other fruits which however is not being used for adequate processing and preservation both for internal and external use. Looking at the agricultural economy of the state, it is noted that it has stagnated considerably from the start of planning in 1950 to 1989-90 where total foodgrain production had been more or less stable running from 47.39 lakh tonnes to 42.40 lakh tonnes with varying rates of growth at 5.3 per cent in the 60s, 1.2 per cent in 70s and 16.39 per cent in the 80s. In the case of non foodgrains covering - sugarcane, cotton, groundnut and others there has been a similar trend with the 60s recording 7.8 per cent annual average growth, 1970 recording 3.32 per cent and -10.24 per cent in the 80s. This record goes along with the small size of holdings (1 hectare against the all India Average of 2 hectares), the skewed distribution of land asset, the dry wet ratio -55:45, and the food and non food crop ratio of 75:25. The instability in foodgrain production is a reflection of the erratic monsoon. The income elasticity of demand for foodgrain in the state is 0.58, rate of population growth is 1.75 per cent and per capita income growth 2 per cent. This gives an anticipated growth of demand at 3 per cent and the demand for foodgrain at 106.65 lakh tonnes in 2000 AD. With water resources a major constraint, the net area irrigated rose from 21 lakh hectare in the 30s to 25.49 lakh hectare in the 80s. The decade trend in yield rates shows a moderate increase in the three decades since planning, showing a good production performance of foodgrains but which is never adequate for the state,

which is always on the margin of lack of adequate food stocks.

The state government in September announced a long needed long range plan for development of livestock and poultry including both the brand of local livestock as well as the large scale production of fodder and effective health care. The World Bank assistance will be available for this long range programme costing Rs.46.62 crores which will arrest the dwindling pasture, improve the cultivation of fodder crops including nutrition fodder, which will be made available to the farmers.

Industry

In the industrial area in the state the development of certain industries need to be noted. The Rs.125.64 crores modernisation cum rehabilitation programme of the textile mills of Binny is being revised with the help of IDBI, the State Bank and ICICI. These clearances however are taking time mainly because the modernising has been delayed so long and the increasing competition faced from the decentralised sector. Ashok Leyland reports that in the current year 1993-94 its programme of consolidation of its truck and bus production shows improved performance during the year. In this connection it is being helped as a result of its alliance with the Hinduja Group and Iveco which is helping it to weather the worst of the recession effects and promote the beginning of a recovery. MRL referred to earlier announced an ambitious 10 year perspective plan for a major diversification and expansion at a cost of Rs.5000 crores. This involves ensuring new areas such as trading, energy management, consultancy, fertiliser production and delicensing. While expanding its existing activities, the company terms it as its contribution to the process of globalising of the Indian economy. A help to industry in the state is the \$100 million oil bank terminal being set up near Madras with the cooperation of a consortium of Dutch, Singapore as

well as SPIC and TIDCO companies. Its first priority is the increased supply of chemicals which will meet not only the needs of the state but also the South Asian region. Another external company, the Apollo Tyres (chairman Raunaq Singh) in collaboration with TIDCO is setting up a nitro phosphate complex at a cost of Rs.760 crores. This is stated by the company to be the start of a host of other investment projects now under consideration in the state. The state is also embarking on a new area. The Singapore Corridor will also involve an industrial park. It is making a formal application to the foreign investment promotion board for this, as part of the India-Singapore fast trade corridor. This calls for several concessions from the state government in order to attract foreign investment into the industrial park and to improve trade with Singapore. The industrial deregulation programme is having some negative effect on some of the industries. The decontrol of fertilisers and the fall in its consumption has adversely affected the production and financial results of Manali Fertiliser Ltd (MFL). The company reports that fertiliser consumption has decreased by 25 per cent since August 1992 when decontrol was announced. The question is whether the decontrol should have been gradually phased because in the long run there is no alternative to the deregulation. Another company which is also moving in a new direction is ELCOT, the New Era which is raising capital from the market to finance its 100 per cent export oriented project located in MEPZ. The project will go onstream in December and its technical cooperation in Switzerland is helpful. The state level export promotion committee at its first meeting in September recorded two contrary trends in the state's export performance. Reserve Bank reports that a major part of the Southern region annual exports is from the state. But this trend in the last few years has been a declining one, particularly in relation to the state domestic product in the years 1990-91 and 1991-92. These need attention by the state. SPIC's decision to dilute 35 per cent of its equity in favour of foreign investors raises

questions about the future of foreign investment in this country. While SPICs offer itself cannot be objected to on the basis of which it is being offered to is questionable. It looks as if SPIC is promising more than it can deliver, which might disrupt orderly overseas equity participation in the country and our investments being fair unreal and coloured facts.

National

Power

The very large indebtedness of over Rs.4000 crores of the SEBs to the National Power Corporation was earlier referred to though with a slight positive note in the volume beginning to decline. But additionally the SEBs owe a huge Rs.2800 crores to IL. Also reference is made to the positive impact of the interest of the private sector in the power field. The government reports that the private sector has signed 66 power projects involving a generation capacity of 28044 MW and investment of Rs.83,993 crores. This is certainly a quantum jump in the private sector's interest and entry and is a positive factor in relation to the funds starved Indian Power sector. In order that these private sector interests may be actualised, it is important as noted earlier that the prices of power and the price per unit of power and the payments should be regularised and speeded up.

In the power area the ministry announced that a programme to achieve a target of 2000 MW energy from non conventional energy sources will be targeted during the 8th plan. Of the 2000 MW envisaged, wind energy will account for 80MW for which 500 sites have been identified where large wind mills could be set up. Here again even more than in the wind energy field, in the solar energy field, the private sector has already become active. Majority of the villages of the country particularly those not fully electrified could reduce the time involved if solar energy is used. 90 per

cent of the budget of the Ministry of Non Conventional Energy is being allocated for the exploitation of renewable energy sources in the rural areas and to create a new set of energy entrepreneurs who would set up units to generate power from non conventional energy sources.

Prices

The annual rate of inflation as at August 28, 1993 is recorded at 6.57 per cent. The official wholesale price index for the week ended August 28, was 244.8 with a 1 per cent increase in the index for primary articles particularly the food articles which have gone up by 1.5 per cent. It is important to recall that what is being reported is not decline in prices, but a decline in the rate of increase of prices for the year. The truckers thirteen day strike was ended on September 28. The extent to which the industrial production and exports have been disrupted will be carefully weighed during the coming days. The South reports that 50 per cent of its industrial output and Rs.1000 crores of its exports were lost during this period.

Economy

Continuing the analysis of the impact of reforms on the economy undertaken in the last issue, the Reserve Bank of India report confirms that it does not have the instruments to implement the targets set by structural adjustment programme. That is, it holds inflation to be resurgent and at the same time providing cheap credit and redirecting financial resources from the government to the commercial sector. What the Reserve Bank is stating is that there is incoherence and weaknesses in our reform policy which causes the resurgence of inflation and the counterpart devaluation of the rupee - which could undermine the structural reform of the financial sector. Despite cutting back on public investment, deficit financing is increasing as will be noted later. Fiscal profligacy has injected too much money into the economy and into the commercial

banks this year. To correct this and avoid the spurring of inflation, the cost of credit will have to be raised which cannot be done because the CRR is to be reduced from the current 16.5 per cent to 10 per cent by 1997. Withdrawal of money through the sale of government securities from the Reserve Bank is a non starter because such withdrawals can only be at a discount of government securities which will make nonsense of the programmed reduction in SLR to 25 per cent by March 1996. Fiscal policy has thus widened the access of both government and business to money and credit. The RBI solution for the government to cut back the liquidity would also raise the question of going back on economic growth moving into recession. Thus the country's economic reform programme which should be raising the growth rate of the economy is not doing so as the Reserve Bank in its annual report shows. The economy now is in a situation where it needs far more investment than in the past for a given unit of output. In the 80s Rs.360 crores of new investment gave an additional output of 100 crores (an ICOR of 3.6). According to RBI during 1990-91 to 1992-93, ICOR has shot up to 6.6, that is a new investment of Rs.600 crores is needed for a Rs.100 crore output during this three year period covering the reform programme. This is also borne out by the fact that in the 80s an investment of 21 per cent of GDP has now become the equivalent of 23 per cent which points the urgent need for increasing productivity in the economy to bring down the disturbing rise in the ICOR. Against this background the IMF advises in its current global economic survey that India should move faster and take more decisive action in the implementation of tax reform, develop a more competitive banking system and take steps for further consolidating credit. This may be good advice from the IMF point of view but cannot be implemented in the Indian conditions. Hence the IMF and World Bank aid needs to be tailored to what is possible for the economic reform programme of the country, which also means that the action on the resources of these two agencies should begin to

decline. This necessity should not be overlooked by the laudatory IMF reference to India's reform effort which as noted earlier requires to speed up the pace and quality of liberalisation. The irreconcilable problem here is that the finance minister has rightly emphasised the possibility of a large scale of deficit than has existed with the proposed adjustment programme, while the fund states its opposition to any such increase. This means that there is need to evolve a package of policy measures covering trade, fiscal, monetary and industrial policies which can both meet the needs of fiscal consolidation and micro economic adaptations. This transition to the market economy is not painless and so there must be action to ensure that the burden of adjustment is proportionately shared by different classes. While the growth towards privatisation is part of the push towards the market economy, apart from the problem of sick public enterprises, the privatisation of public enterprises in general has to be limited and selective as the example of China and Poland show. The liberalisation process also seems to attract some colourful but irrelevant statement by the finance minister as in the case of promoters being allowed to hold an equity stake of 75 per cent, when their present stake is microscopic. If the suggestion for 75 per cent equity stake to be held by domestic promoters is meant to counter balance the 51 per cent stake of foreigners, it is a case of comparing incomparables.

RBI's annual report for 1992-93 basing itself on the high growth of agriculture and projected improvement in industry forecasts that real GDP growth in the current fiscal year will be around 5 per cent, with the real industrial growth rate at 4.5 per cent, which in a sense is the result of the improved agricultural output. This trend strengthened by agriculture should also lead to lower import intensity of output and the recovery in the industrial growth rate referred to earlier. However the medium term export growth is projected at about 15 per cent per annum in dollar terms with a significant narrowing of the trade defi-

cit. This positive scenario is also confirmed by IMF which in its latest annual report refers to India as the future front runner in the growth of world economy and moving rapidly towards close integration with the world economy. However, a sober note is struck by the finance minister about the concern caused by the present fiscal situation of the country. The deficit of the centre is computed at a high Rs.17,000 crores and that of the states an additional Rs.7000 crores for the current financial year. The RBI annual report refers to the alarming increase in the centre's budget deficit during the early months of 1993-93 which by August 20 was of the order of Rs.21,065 crores involving a high net RBI credit to government at Rs.16,245 crores. Unless these trends are reversed there would be a large monetary expansion and a sharp rise in prices.

In July, there has been a slow down but is this part of a trend? The key is for government expenditure not to exceed government revenue. That is the only way in which the RBI credit to government can be kept under control. However, the prospects are not favourable. As of August 6, 1993, the monetised deficit stood at a high Rs.16,445 crores far in excess of the Rs.4314 crores budget for the entire year 1993-94, and far above the Rs.7872 crores during the comparable period of 1992-93. Further, disorderly movement in the central deficit will get reflected in the development effort and nullify the government's promises about improved social welfare planning and have deleterious effect on poverty alleviation and employment generation as we have noted earlier. Here the centre's announcement of the appointment of a new pay commission has a pointer in the direction of their being a growing gap between the precept of fiscal prudence and discipline and the practice of meeting of populist demands. The RBI annual report refers to the rising share in direct tax from total tax collection during the three years 1990-91 to 1993-94. But this is due to the low overall tax revenue base following the cut in customs tariffs. The question is whether the

contribution of direct tax to the exchequer will grow for reasons other than softening the regressiveness of indirect taxation. In the 1993-94 budget, excise dues were reduced to counter the recession in a number of industries. Similarly the promise to enlarge MODVAT is motivated by reasons of fiscal efficiency. Since the regressiveness of indirect taxation is a fact, there is a case both for making indirect taxes progressive and for getting more out of direct taxes. Unfortunately the government has eschewed both measures. The government should not give into pressure from the middle classes on raising the exemption limit for income tax and providing increasing reductions. Instead there should be a widening of the personal income tax net.

During September there have been important changes in bank rates. Bank lending and deposit rates were cut by 1 per cent (15 and 10 per cent respectively) as from September 1. Is this an affirmation of the governments' commitment to an interest regime that is consistent with the rate of inflation. Banks' profitability will not be affected because the two rates are moving in tandem but will the growth of bank deposits be assured?, a question which arises from the previous experience in cutting the deposit rate. There is also the question whether this is a move towards adopting a market determined rate structure which has its pros and cons.

On the stock exchange there was during the month a period of panic mainly due to the attachment by the income tax department of shares in some prominent companies like Apollo Tyres, Castrol, ACC, Great Eastern Shipping etc. this block listing of nine companies shares of Rs.300 crores by the tax department. But this dip in prices was short lived reflecting the buoyant mood of the market. The BSA sensitive index rose by 41 points, in expectation of that the Income Tax Authorities would make known the names of offending stock brokers. Also during the month the Securities and Exchange Board of India (SEBI)

announced its plan to introduce a comprehensive legislation for setting up norms for share depositors.

The Tenth Finance Commission now visiting various states, states that the debt built up for all the states stood at a massive Rs.1,25,000 crores. The Commission expressed its concern at this massive indebtedness and wants the states led by the most developed ones like Maharashtra to take the lead in reducing their indebtedness.

Agriculture

In September the revival of the monsoon rains provides bright crop prospects. According to the agricultural secretary, the monsoon rains in the North and North West increases the soil moisture for a good rabi crop and has saved the kharif paddy crop. Between July 1 and September 1, 26 of the 38 meteorological sub divisions received normal or excess rainfall covering 67 per cent of the districts. This removes fears of shortfall in kharif production because of the prevailing dry spell in parts of North India, in late August and early September, relieved however later by the revival of the monsoon. Hence for the kharif season the expectation now is that the crop will be 103 million tonnes which is the same as that of last year, with the paddy crop being lower than that of last year and coarse cereals better at 32.3 million tonnes which would balance a shortfall in paddy. The positive outlook for rabi wheat is strengthened by the development of 7 new HYV seeds which will take rabi production above the previous year's 57 million tonnes. The grain target for rabi 1993-94 has been set at 82.5 million tonnes compared to last year's 79.75 million tonnes and the actual production of 78 million tonnes. The total kharif production is being estimated at 100 million tonnes and the oil seeds output at 11 million tonnes. This was the outcome of the national conference of agricultural campaign held at the end of September. To keep down open market prices and release storage space,

FCT announced at the end of September that it will sell wheat from its buffer stock in the open market from October. A positive development is that the bountiful rains in the major soya bean growing regions have made possible a bumper crop of soya beans grown over 43 lakh hectares. The disturbing thing about our agricultural situation is that it is so heavily dependent on the monsoon. There is particular relevance with regard to the advice of the World Resources Institute, Washington that Punjab should move away from rice cultivation and concentrate on less water demanding crops, letting other areas than Punjab which have more suitable soils and climate to take up the slack. The reliance on the monsoon might also decline with the new HYV varieties referred to earlier now in use and optimum doses of inorganic fertilisers and pesticides. But all this is part of the change in farm policies which are described as far reaching to match the industrial and trade reforms. If agriculture is to be a major participant in the reform process it must be made less nature depending. But whatever policies may be formulated, the financial crunch faced by the country is forcing a decline on essential farm research. The All India Coordinated Wheat Improvement Project for instance which is the engine of the wheat revolution is heading this process. The 8th plan allocation of Rs.10.50 crores is not sufficient to meet even the pay and allowances of the staff at its centres. This need to be faced and more resources, internal and external, moved into this area. Here a report by operation evaluation division of the World Bank that the World Bank should stop funding projects in India which require forcible resettlement may release funds for intensifying operation research. There are some 8 large projects such as Karnataka irrigation, Gujarat medium irrigation, second Singrauli thermal project, Tharakpur Thermal project, Madhya Pradesh medium irrigation, MP major irrigation, Subbar Marekha irrigation, and the second Orissa irrigation which require such review and recasting. This may also ensure that agricultural policy is aimed at sustainable farm development.

In regard to the problem of foodgrain stocks, procurement prices and the rural poor, foodgrain stocks are climbing up in response to the record increase in procurement/support prices which benefits the large farmers and private traders who held back foodgrain stocks last year. The problem is not only optimal realisation from experience which the Union Minister of Food crops emphasised but also the imperative need of ensuring the country's genuine food security. The coexistence of some 40 per cent of the people being under nourished and about the same number living below the poverty line not being able to have two square meals a day along side of a surplus of 20 - 25 million tonnes of foodgrains is not only a mark of social inequality but also one of lack of agricultural stability. In this context taking account of the future uncertainties as regard to supplies and prices of foodgrains in the domestic market, there is no real genuine foodgrain surplus. On the suggestion to export in sizable quantities, even the alternative suggestion of exporting the fine quality foodgrains like basmati and importing the cheap varieties is no solution. In this context the launching of the new regional programme of integrated farmer centre agricultural resources management (FARM) with a \$12 million UNDP grant might enhance the resources of the poor and marginal farmer which would be helpful.

On farm research 24 reports have been recorded in the month of September with 5 in the area of cereals (both seeds and control of pests), fruits and vegetables 8, flowers, seeds and soil 6, animal husbandry 3. This is a better planned research record with stronger emphasis on cereals than in the past, as well as on fruits and vegetables. The area which is lacking is in regard to animal husbandry which needs a strong push.

Plantation Crops

In September, UPASI has asked for a separate plantation policy resolution which is important and worth careful attention. There are

targets for each of the plantation crops, but what is needed is a large consistent framework which can help determine changes in the targets, and their priorities. It would also help the government to react more quickly to the rapid and unpredictable changes in the world and domestic markets on plantation products. This would also acknowledge the need for a separate policy frame for the plantation sector from the rest of agriculture. As this sector is much more sensitive to world market trends, this would also call for our definition of the role of commodity boards to allow them to grow into effective marketing and development agencies which may also enable them to generate adequate resources. One principled condition is that production in this sector should not fluctuate too widely from year to year. An effective policy framework would help raising production to levels where the export surplus is always available at minimal costs. In the area of Tea, a project to revive tea cultivation in the hill regions of Gharwal and Kumaon is being launched, both to create employment for the hill people and promote the country's tea exports. A large number of old tea gardens are being regenerated and new estates being developed. Saplings have been brought from Silliguri and Palampur for the 23,000 hectares of land being developed in the project. With regard to Coffee, the Coffee Board projects a bright outlook for the year. It is very much hoped that the increase in prices recorded in the last 10 months will continue through the year. The introduction of ISQ had benefited the growers particularly large ones by enabling them to fetch higher rates. It is hoped similarly that the introduction of FSQ now under study by the government will solve the perennial problem of surplus faced by the coffee industry.

Industry

At the macro level, the index of industrial production shows an increase by 1.5 per cent in April and May 1993, the first two months of the fiscal year against the rise of 5.9 per cent in that period in 1992-93. Manufacturing was

up by 1.9 per cent against last year's 4.8 per cent, electricity by 7.9 per cent compared to last year's 5.9 per cent and mining declined to 7.7 per cent against last year's growth of 12.2 per cent. According to CMIE industrial production has started picking up from May at 213.2 (+3.9 per cent). But CSO's quick estimates of IIP show a decline by 0.2 per cent in June against an increase of 3.4 per cent in June 1992. This was mainly due to manufacturing registering a negative growth of 2.5 per cent. Thus for the first quarter April-June industrial output recorded a marginal rise of 0.2 per cent, and manufacturing a decline of 0.4 per cent against a rise of 4.4 per cent in the first quarter of 1992. Good performers in the first two months were rayon yarn (48 per cent), cars (44 per cent), LVCs (39 per cent), Caprolactum (+31.7 per cent), while the poor performers were sugar (-60 per cent), phosphatic fertilisers (-57 per cent), medium and heavy vehicles (-42 per cent), steel output up by 3.4 per cent, though its consumption declined by 7.3 per cent. The improvement in the financial performance of 72 companies for the period ending June 1992 points to the possibility of better resolution for this year. This one reason for more companies raising more funds from the market - Rs. 1742 crores were raised during the first quarter. The government reports that it has approved 343 foreign technical and financial collaborations from January to June 1993. A sector wise analysis suggests that many of the domestic appliances units, computer, auto ancillaries, steel scraps and petro chemicals are still suffering from a lack of demand. While others like the four Lever companies, Bata, CEAT report sharp increase in sales. The reduction in the interest burden has also helped the corporate sector which in the last two years has been forced to restructure itself to meet the competition, internal and international, unleashed by the reform process. One of the major bottlenecks facing the industries are the poor infrastructural facilities as well as the procedures and labour laws which also act as a deterrent to FDI. The data also shows that there seems to be the start of a turn around in the recessionary phase

in the automobile industry which characterises the last two years. With a pick up in demand, the cut in customs duty on imported components needed by LCV producers, and cheaper credit, the turn around should be a long term trend. Reversing ICICI's conclusion of a decline in the overall profitability of the private corporate sector in 1992-93 it reports that total cost increased at a faster rate than sales, gross profits (profits before interest but after depreciation) grew by 12.3 per cent to 13,209.28 crores, (the escalation "in other income" being a major element in sale of bye products, cancellation of forward foreign exchange covers excise refunds, income from investment).

The steel electronic arc furnace units are passing through a difficult time with 78 of them closing down. For them the demand recession and the cost of imported steel scrap keeps rising. This 50 per cent closure is worrying and seems to be further increasing. This secondary sector is also hit because it is power intensive and the rise in power tariffs bears hardly on them. The budget which gave relief in import duty to so many industrial items increased that for the steel scrap by 50 per cent and excise duties on the sector's output of ingots and billets was also raised. To arrest this trend of closure of units, these issues would need to be attacked in a coordinated manner and relief given to the sector.

Restrictions on manufacture of 28 items result from the small sector by units set up in the backward states have been removed. This will enable new industrial units set up in these states to obtain 5 year tax holiday for the manufacture of 28 items listed in the 11th schedule of Section 80-1A of the Income Tax Act. This should also promote more growth schemes and help develop both small scale units in these states. Another positive development is the marked improvement in the production of infrastructural industries reported during the first four months of the current year. The production of coal, steel, automobile, power and cement recorded upward trends,

while crude oil and freight traffic declined. This overall trend in infrastructural production should begin to remove its acting as a bottleneck referred to earlier.

With regard to sick industrial units, the Industrial Reconstruction Bank of India (IRBI) has taken legal proceedings against 48 sick units for the recovery of Rs.55 crores which are their over dues. The IRBI portfolio contains 294 large and medium sick units with outstanding credit of Rs.380 crores. 226 of them are under nursing programme with Rs.270 crores outstanding, and the remaining 48 non viable units are being taken up legally as mentioned earlier. Industry wise, the largest are textiles (96 units) followed by basic metals (32 units) and food (29 units). In terms of states, West Bengal has the largest number (78 units) followed by Gujarat (74), UP (72 units), Maharashtra (29 units), Andhra Pradesh (22 units) and Tamil Nadu (20 units).

A new textile export quota announced in September increased the preferences for exporters with a good record of performance. It abolishes the special entitlement of public sector units. Special incentives have been given to handloom exports. This three year quota policy 1994/96 for textile exports and garments is designed to be export friendly, encouraging an enhanced value realisation. It will also stop "quota frauds" for which an enforcement committee headed by the textile commissioner has been set up. The committee would debar any defaulting exporter from obtaining or utilising export entitlements for a specific period of time. Thus the policy aims at planning the twin objectives of liberalisation of some of the allotment provisions of the present policy, while tightening and monitoring the quota utilisation and the prevention of quota frauds.

Foreign Trade

Crude oil imports continue to form a heavy part of our foreign trade burden at 28.90 million tonnes for 1993/94. This plus the an-

icipated domestic production of 27 million tonnes will make available a total of 71 million tonnes against a projected demand of 63.1 million tonnes for the year. This disappointing record of not increasing indigenous production for narrowing the gap between demand and availability is worrisome. What is disconcerting is that domestic production is declining from 35 million tonnes in the 80s to 27.82 million tonnes in 1991-92 and 24.43 million tonnes last year. The failure of ONGC to nurse the Bombay High wells account for this set back. Now the response to the government's invitation to foreign oil companies to invest in India's oil exploration is awaited. So far the response has not been good. The major effort must therefore be ONGC and the private sector in India.

The trade gap and current account deficit seem to be looking up a little. This is important in view of the World Bank's conclusion that India will need substantial external Balance of Payment financing in the next four years which it states at \$8 billion in 1994, \$10 billion a year in the subsequent three years, mainly because of the repayment of 1/3 of the \$76 billion external debt. The trade gap being only around \$2 billion in 1993-94 against \$3.31 billion in 1992-93 and \$5.93 billion in 1991 is heartening. This will ease the pressure on Balance of Payment position which the Reserve Bank states at \$4921 million for the current year. This is the same level as the previous year. This means that the current account deficit may be even lower than in 1992-93, if the export growth of 28 per cent registered in the first quarter is sustained for the rest of the year. Foreign exchange reserves has shifted with a decline in the volatile components such as swaps and deposits under the foreign currency deposit scheme. As noted earlier, export have maintained a growth rate of over 17 per cent for the 4 successive months this year at \$6916 million for a period April - July 1993 which is a growth rate of 27.9. This export rise is mainly due to the exports of agro based products for the period April-July 1993. On the import front

there was a decline of 2.32 per cent compared to last year at \$7364 billion. The strike of the truckers is however affecting exports which are piling up both at rail stations and at the ports. In the first 10 days of the strike between September 15-26, Rs.400 crores of exports have been lost and even more serious there is a irreparable loss in export contracts in the pipe line and in export markets.

The issue of the Dunkel Draft is still a live one in the country. India is seeking changes in the draft to make explicit that its PDS will not be affected and that its consumer food subsidies will not come under pressure. At the end of September, negotiations by the commerce secretary in Geneva reports that assurances have been received from major agricultural producers that the provision of the Uruguay round (the Dunkel Draft) would not affect India's subsidy regime and that farmers rights would not be affected by the TRIPS agreement. Here with regard to agricultural subsidies India's budget situation which is transparent and on open book shows that even raising all agricultural subsidies would not be trade distorting. In part, India's disquiet stems from the major issues revolving round EC and US markets. On individual items engineering goods exports show a heartening 15.7 per cent rise during the period April-July. Textiles and garments from the Southern region exports show an increase of 51 per cent at Rs.1976.50 crores during January-July 1993.

Loans and Aid

The World Bank has provided a loan of \$145 million to the Indian Renewable Energy Development Agency for the promotion of solar, wind and small hydel power projects. This included a grant of \$30 million contributed by the Global Environment Trade Fund and the Swiss Development Corporation. There is a proposal by the Common Wealth Finance Ministers to set up a \$50 million privatisation fund. The fund is privately owned and managed and would take advantage of opportuni-

ties for international investors in state owned enterprises being sold to them. This needs careful watching. There have been loans from Japan during the month and the US for developing the Stock Exchange. Rising interest and principal repayments have led to a massive 76 per cent increase in net outflows under the so called external assistance programme in the period April-July 1993-94. This enhanced debt service payments are due to the bunching of repayment applications on multi-lateral and bilateral debts amounting to \$404 million in the first four months of 1993-94 as against \$229 during the same period of the previous year. The so called receipts also fell by 20 per cent in the current year to \$588 million from \$739 million. The debt servicing raises questions whether our foreign reserves are adequate.

Human Resources Development

Education

Education for All seems to be as distant as ever with India having 30 per cent of the world's adult literates and 21.87 per cent of drop out school children, given an annual population increase of 17-18 million. This situation will worsen in the future. The question is whether India will be able to honour its commitment to the international consultative forum to provide education to 20-24 million children not in school and literacy to 121.3 million in the 15-35 age group by the turn of the century. Minhas' study on educational deprivation using 1989 NSS data shows that a high 42 per cent of children drop out in the first two years because 26 per cent state that they are "not interested in education", 16 per cent because they have failed. The drop out rate today is even higher at 50 per cent. The gender bias is seen in the fact that 60 per cent of the out of school children are girls and 62 per cent of illiterates are women. To meet this staggering educational problem, the education ministry plans to bring together programmes of Early Childhood Care and Edu-

cation (ECCE), ICDS, balwadi, nutrition and primary education. Older girls will drop their little ones at Anganwadis in which primary school teachers will be provided instruction. SCERTs will prepare pre school materials and curriculum in local needs and provide personnel imparting childhood education special training. When Panchayati Raj becomes a reality, village level education committees and panchayat will play a major role in ensuring the education to all children. For this to be realised a new education system is needed where teachers are made accountable and forced to perform may be by being employed on contract for 3-5 years. It is worrisome that Kerala which is the leader in the literacy programme has for political reasons created a 7 month gap between literacy phase I and literacy phase II which may result in relapse into illiteracy of some neo literates. There is also its problem of 9 lakh illiterates who are still to be educated. The results where literacy has become universal are evident such as in the 60,000 Pudukottai women learning to cycle to reduce their labour of fetching water from long distances, or the Nellore women spear heading the anti liquor campaign. While the International Literacy Day was celebrated all over the country with investigation of total literacy programme with its focus on specific districts, Unicef paints rather a bleak picture in its study on literacy in India. It points to the need for population control if the literacy education effort is to succeed. Vocational education at the first degree level will receive a shot in the arm when the UGC committee recommendation for 35 vocational subjects to be introduced in all colleges is acted upon. These subjects include important and modern subjects like tourism and travel management, computer maintenance, principle and practice of insurance, still photography and audio products, these specified subjects, cover arts, human and social sciences, commerce, economics and management, physical, chemical, bio sciences, engineering and technology. Their introduction in the arts college will bring about a little revolution in the education field.

Health

The World Bank aided India population project V being implemented in Tamil Nadu and 3 other states is to be extended to cover more municipalities. This will strengthen family welfare infrastructure, train all levels of health care personnel and provide or repair equipment in the primary health centres and referral hospitals.

Employment

What is the effect of the economic reforms programme on employment. According to the Economic Survey 1992-93, total employment grew by 119.54 per cent in the government sector between 1977 (137.67 lakh) and 1983 (164.57 lakhs), fell to 112.07 per cent between 1983-89 (from 164.57 lakhs to 184.44 lakhs). In the private sector employment grew by 110 per cent during 1977-83 up from 68.69 to 75.52 lakhs but fell in 1989 by over 1 per cent (75.52 lakh to 74.53 lakh). The employment situation under the economic reform programme is somewhat bleak. Even in the west where there are social security and unemployment benefit schemes, the growing unemployment which now comprehend millions of white collar workers is becoming unsustainable. In India, the employment growth in the private sector is sluggish and with greater competition from foreign companies and enterprises there will be no growth in employment. Rather the closing down of sick units in the public enterprise sectors and the squeezing of PSEs and other parts of the structural adjustment programmes which make good economic sense, leaves out the human problem of those who will be rendered jobless and those who are waiting for a job (the so called backlog) and the mounting educated unemployed. The economic reform programme is no answer to this human question. The just published NSS results of its third annual survey of consumer expenditure and employment-unemployment (45th round July 1989-June 1990) show reduced average per capita consumption of cereals in both rural

and urban areas. Some reduction in poverty (from 37.6 per cent in 1987-88 to 32 per cent in 1989-90, in rural areas but even better from 39 per cent to 30 per cent in urban areas). Minhas' analysis however show a lower decline in the poverty ratio (from 48.7 per cent to 41.3 per cent in rural and from 37.8 per cent to 33.3 per cent in urban). In this situation unemployment rates have recorded a sizable and all round decline and the proportion of the employed to the total population has risen. The proportion of the employed under rural males which had been declining from 55.2 per cent in 1977-78 to 54.7 per cent in 1983 and 53.9 per cent in 1987-88 rose to 54.8 per cent in 1989-90. Among women in the rural areas employment fell to 31.9 per cent in 1989-90 from 32.3 per cent in 1987-88 and 34 per cent in 1983. This reversal of rising unemployment is thus even more marked in 1989-90 survey. The usual status unemployment among rural males which had steadily increased from 1.2 per cent in 1972-73 to 1.8 per cent in 1987-88 declined to 1.3 per cent in 1988-89 with a steeper fall to 2 per cent under "current weekly status" from 4.2 per cent in 1988-89. The additional employment generated has been self employment rather than paid employment which has declined. This NSS data is corroborated by the performance of the economy where agricultural production recorded an impressive growth of 23.5 per cent in 1988-89 and 1989-90 as did foodgrain production during these two years. The index of industrial production rose by 18 per cent and so did the organised employment from 257.12 lakh in March 1988 to 263.19 lakh in March 1990. As the stabilisation and structural adjustment programme went into effect, these modest improvement in poverty and employment levels have been arrested. The government proposes the launching of 20 additional projects under the ILO assisted international programme to eliminate child labour. They will benefit 16,000 children directly. A new Rs.540 crores scheme under the prime minister's Rozgar Yojana for educated unemployed youth is to be launched from October 2 with a capital subsidy of

Rs.540 crores providing employment to 10 lakh educated unemployed youth. It will provide each person a loan up to Rs.1 lakh out of which 15 per cent will be subsidy. The implementing instrument for this programme will be the block Panchayat Samithi which means that the Panchayat Raj must come into existence.

International

IMF and World Bank on the Indian Economy

IMFs 1993 World Economic Outlook refers positively to India's economic rebound which it attributes to the strong adjustment policies. Though this has helped to relieve the economy's crisis, it also points to the need for increasing the coverage of the reforms, to fiscal consolidation, scaling back of a large number of distortionary taxes, the lifting of the rigid controls of the consumers needed imports and agricultural exports, the restructuring and privatising of public enterprises. It states that notwithstanding some gradual reforms in the early and mid 1980s, intervention policies retarded India's growth. High and rising fiscal deficits in the 80s led to the foreign exchange reserves crisis, increasing external borrowing on commercial terms. With the West Asia conflict and the sharp deterioration in the domestic political stability, the possibility of India's servicing its large foreign debts was raised. It is here that the decisive reforms policy, again coupled with the international financial support proved effective in restoring confidence and promoting the inflow of capital. Buoyant capital inflows helped to raise foreign exchange reserves, though the latest growth in exports did not provide a strong base. The World Bank in a report on agricultural policies, points to 11 per cent of irrigated land in India being affected by salinity which could have been avoided with more attention and avoidance of wastage of water. The situation in some other countries is even worse -

28 per cent of salinity of the US irrigation, 23 per cent in China, 21 per cent in Pakistan. The need for the World Bank helping to pay attention to the salinity consequences of its irrigation assisted projects is emphasised and should quickly be put into affect.

World Bank

The World Bank President in his statement to the Development Committee made an important policy pronouncement, namely that structural adjustment is primarily the responsibility of adjusting countries themselves and the bank and external actors must not impose it on them. He stated that reforms however, painful are unavoidable necessities, that adjustment is a complex difficult time consuming process, that when seriously implemented it helps the country concerned to a higher and more sustainable growth path, that it has proved more difficult for low income countries to reap the benefits of adjustment, that the transitional costs of adjustment cannot be ignored and so social safety nets must be provided for those who suffer disproportionately. In this statement it looks as if the World Bank itself recognises the limits of free marketing and is advocating some form of interventionism. The World Bank President stated that the efficiency of public sector is necessary to promote sustainable growth in the developing countries because the private sector cannot do it alone, with the Managing Director of IMF making a strong case for evolving social policies to help ensure the broad base of participation by the population in the economy. In regard to the social policies, he states "I include here policies to alleviate poverty, protect the most vulnerable and slow down most excess population growth". This turn around of the two multilateral agencies is both interesting and important for the development of the poor countries. Is the World Bank moving away from complete reliance in markets to advocating selective government intervention as practiced by South Korea, Hongkong, Malaysia, Taiwan, Thailand, Singapore and Indonesia and Japan. Here the systematic

state intervention plays the key role in the development of these countries. These interventions range from targeting subsidised credit to selective industries, protecting domestic import substitutes, and supporting R&D through public investment.

IMF

The IMF management has now turned around and is fully supporting a new allocation of SDRs on the grounds that there is a long term global need for increased international liquidity. It projects that global demand for reserves will expand by 100 billion SDRs during the 6th allocation period (1992-96) as well as the fact that at the end of 1992 a large proportion of its members had low levels of international reserves. Hence its 1993 annual report refers to the declaration of April 30 on cooperation for sustained global expansion on which its interim committee has recommended a new allocation of SDRs. It points out that 20 per cent of the developed countries and 40 per cent of the countries in transition hold non gold international reserves amounting to less than 4 weeks of imports while 34 per cent of developing countries and 61 per cent of countries in transition hold international reserves equivalent of less than 8 weeks of imports. It also points out that a SDR allocation that made only a moderate preparation of the growth in demand for reserves would have no affect on global inflation. A new allocation of SDRs would confirm to IMF's articles of agreement of making the SDRs a principle reserve asset of the international monetary system. It would also help to correct the imbalances in the distribution of SDRs with respect to 38 members including the states of the former Soviet Union which seems to be the main reason for this change in the IMF.

IMF announced a downward revision of the size of the concessionally Enhanced Structural Adjustment Facility (ESAF) from \$8 billion to \$7 billion to the disappointment of the developing countries. Even the original \$8 billion represented only about 4 per cent of the

aggregate financing needs of the eligible countries. It is hoped that the IMF's secretariat's view that the \$7 billion (SDRs 5 million) is only a target and that when it is finally established it will be nearer \$8 billion. However, IMF has decided to extend ESAF beyond its date of expiry on November 30 to help low income developing countries to deal with their Balance of Payment problems.

The World Economy

IMF's 1993 World Economic Outlook points out that developing countries are growing faster and have become a major locomotive for world economic growth now accounting for 34.4 per cent of world GDP against the industrial world's 54.14 per cent. Asia continues to account for 54.4 per cent of the developing countries GDP and 17.7 per cent of world GDP. It expects the industrial world GDP to grow up to 2.2 per cent in 1994 along side of high unemployment exceeding 32 million people in 1993. The 1993 report of UNCTAD reports that the world economy continues to be in the doldrums, with recession persisting in the North, as a result of which commodity prices are falling yet again, intensifying poverty in the south as well as multiplying unemployment in the North. The only bright spot is represented by East and South East Asia which with 6 per cent growth rate in 1992 and 1993 seems to be on the way to becoming a growth pole for world economy. The World Bank study of this East Asian miracle concludes that the process of economic growth followed by the eight countries - Japan, Hongkong, Singapore, Taiwan, South Korea, Indonesia, Malaysia and Thailand - does not differ essentially from the growth pattern in any other regions, being based on the same underlying economic factors as the growth in the other regions, with the important difference that this region has simply done more and done it better. The regions external growth flows from the reservoir of fiscal and human capital built up over the years and resources allocated to highly productivity centres. These eight countries of East Asia (referred to as

Asian Tigers) have growth since 1960 twice as fast as the rest of East Asia, Africa as fast as South Asia and Latin America and five times than sub Saharan African countries. Discussing the role of public policy in the progress of these countries it is found that each country adopted its own policy, with Hongkong allowing full play to market forces but others resorting to a policy of state intervention when demanded. This calls in question, the assumption in the West that state intervention is bad economic policy. In these countries, intervention is directed towards pushing up exports that led to the overall economic growth. The lessons to be learnt by other countries include maintaining macro economic stability, investing in people, establishing appropriate agricultural policies, building safe and secure financial systems and keeping the economy open to foreign technology. This latter is also the World Bank's favourite discipline.

World Trade

IMF's Latest Direction of Trade statistics reports that exports of developing countries increased at a higher rate in 1992 than world trade and their imports also rising faster than in 1991, increasing their trade deficit from \$31.1 billion in 1991 to \$106.7 billion in 1992. This is because their exports increased by 8.8 per cent while their imports grew by 16.2 per cent. The rising deficit was the result of the slow economic growth in industrial countries and the rapid growth of imports in the developing countries. It also shows that the trade balance in Middle East in 1991 was not in surplus, recording a deficit of \$5.2 billion. African countries had a low 2.1 per cent export growth and 9.3 per cent import growth. The industrial countries growth continued to fall by 6.2 per cent for exports and 4.5 per cent for imports. This lower import increase for the second year narrowed their aggregate trade deficit from \$91 billion in 1991 to \$52 billion in 1992. US trade deficit grew by 20 per cent in 1992, Germany's trade surplus increased by 63 per cent and Japan's to \$107 billion.

UNCTAD also points out that the US unilateral trade sanctions ignoring GATT are a major source of concern. This along with the growing protectionism in the developing countries presents an unfavourable trading environment which does not allow for liberalisation of foreign trade. UNCTAD proposes to conduct a policy review of GSP under which developed countries offer concessional duty on imports from developing countries. This is the result of a review of the working of GSP over the past year by the UNCTAD committee, where a number of countries have suggested that the system should be revitalised and fresh and innovative approaches used in its review and proposals for improvement. Thus UNCTAD which has always been more flexible than IMF or the World Bank in their straight jacket deflationary policies cautions against market related reforms which lead to turbulence and conflict. UNCTAD's sane advice is that in the changed structures, boldness is needed but unless these policies are tempered with realism it will result in costly excesses. UNCTAD unlike the IMF and the World Bank is not euphoric about India's reform programme.

ILO

ILO in its report in September states that 60 million people around the world are working only part time, most by choice, but millions because they cannot find full time jobs. Most part timers are women working without the protection given to full time employees. On this, ILO is preparing an agreement for trading part time workers more equitably and uniformly throughout the world.

Other items

Socio Economic Issues Seminar

At Anna University, at the request of C. Subramanian there was a meeting of economists, journalists, social scientists, engineers,

managers and others to consider the results of the disintegration of the Soviet Union. The American view was that this marks the end of socialism and communism, but the large majority of the members considered that with the major economic problem to which we in India should give all our attention is the alleviation and reduction in poverty, of people living below the poverty line. On this all resources, particularly the newly emerging bio technology developments should be used to combat poverty.

Income Tax Committee

A meeting of the Southern Income Tax Commission was held in early September to review the function of income tax and other direct taxes in the South. There was a general agreement that there was a need for further liberalising and the simplification of procedures. The question of increased tax collection as a result of reduction in income tax was discussed, as last year's empirical evidence for the southern region seems to favour this view.

International Literacy Day

September 8, the International literacy day was celebrated all over India. In Madras the celebration involved the release of six excellent text for the education of street children. This was an important and practical way in which the reduction of illiteracy could be attained.

SRC/TNBCE

There were two SRC functions in September. The first was the usual bi-monthly of the Governing Body where the new commissioner of Adult Education replacing the former director was welcomed. The evaluation report of the cadre based programme was discussed and it was decided to print it and make it an item of the agenda for the General Conference. A second SRC meeting was held at the end of the month to present certificates at a

valedictory function of the training programme for instructors. It was a brisk business like meeting with a limitation on speeches. At the TNBCE Executive Committee meeting the arrangement for the forthcoming annual conference were reviewed and arrangements made for the meeting of the General Assembly which would elect the Council and the Council which would elect the Executive Committee. The Triennium reports of SRC and TNBCE as reviewed and approved by the governing bodies would be presented.

India International Centre

In the India International Centre the month's panel discussion on economic relations between India and the neglected East Asia and the Pacific region was reviewed. It was a general feeling that this potentially important area should be more fully exploited through visitations and joint programmes. The other meeting of the Centre was the planning group for the Economic Affairs Group where the new convenor who takes over the Economic Affairs Group from next year presented a very comprehensive list of lectures and seminars. The members made various suggestions on both. It was finally agreed to have one panel discussion every month from the list that is presented and approved and four or five seminars during the year. It was also agreed that

the timing of the panel discussion should move up to the second week of the month.

Banaras Hindu University

The Selection Committee for the Vice Chancellorship of the Banaras Hindu University also met in New Delhi at the end of September. The members comprising the Ex Chief Justice, the ex Cabinet Secretary and the chairman of MIDS agreed upon a panel of four distinguished scientists which was presented to the President of India for the selection of the Vice Chancellorship.

First Article

The paper on "Evaluation: Some Recent Trends" appears as the first article

Second Article

The paper for the September seminar on the "Impact of Liberalisation on the Sugar Industry" appears as the second article.

Book Review

The review of the book "Economics of Child Labour and Fertility" appears in the book review section.

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MIDS News

Mr.S. Guhan presented a paper on "Federal Dimension of India's Economic Reforms" at a conference on Federalism in Diverse Societies, jointly organised by the Center for the Advanced Study of India, University of Pennsylvania and Centre for Policy Research, New Delhi, at Philadelphia from October 21 to 23, 1993.

Dr. Barbara Harriss initiated a discussion at a Workshop on the objectives and methodology to be adopted for a project "Adjustment to Development: Agrarian Changes, Markets, and Urbanisation in South India, 1973-1993" held on October 15, 1993 in the Institute.

Dr.R. Hema gave a lecture on "An Overview of the Electricity Scenario in Tamil Nadu and the need for Energy Conservation" for a training programme at National Institute of Port Management, Madras on October 12, 1993.

Dr.D. Jayaraj presented a paper on "Rural Poverty and Caste Discrimination: Some Preliminary Findings" at a State Level Seminar on "Rural Poverty" at Arulanandar College, Madurai on October 14, 1993.

Prof. Martin Greely, Fellow, Institute of Development Studies, University of Sussex delivered a lecture on "Agricultural Bio-Technol-

ogy and Developing Country Agriculture" in the Institute on October 19, 1993.

Ms.Medha Patkar led a lecture discussion on "Narmada Issue" on October 14, 1993 in the Institute.

Drs.Padmini Swaminathan and M.S.S. Pandian presented a Note on "The Need for Rethinking on the Relationship between Large-Small Scale Production Units" at a Workshop on Impact of New Economic Policies on Small and Tiny Industries Sector, organised by the Entrepreneurship Development Institute of India at Ahmedabad on November 2 and 3, 1993.

Dr.Paul Appasamy gave two lectures: "Environmental Planning" and "Urbanisation and Environment" at the P.G.Department of Economics, Stella Maris College, Madras, on October 5, 1993, and one lecture on: "Science, Technology and Environment" and "North-South Environmental Issue" for the Visiting American Students at CReNIEO, Madras, on October 12, 1993. He participated in a Panel Discussion on "Global Environmental Issues" at Loyola College on October 15, 1993. He also served as a chairperson for one of the sessions at a seminar on "Urban Environment" organised by Annamalai University at Thanjavur on October 26, 1993.

EVALUATION : SOME RECENT TRENDS

Nirmal Sengupta

EVALUATION, as it is understood today, is a relatively new area. Evaluation practices are of course very old. One with a long tradition is the performance evaluation of students, known as the examination system. Though not as old as this, product and performance evaluation works of industry managers too have a long history. But all these practices have gone through radical changes in the more recent period. Evaluation procedures today are far too sophisticated — though not necessarily complex — from their nascent forms in the past. Nor are these developments matters of mere theoretical interest. Of late, significant changes have occurred in the evaluation set up of the country; there are indications that further changes will occur in near future. My purpose here is to introduce those changes along with the background debates that brought out the merits and demerits of each of these approaches.

The age-old terminal examination systems in school education for example, had remained in vogue for hundreds of years. Towards the middle of this century however, serious research in the field of education began to question many of the concepts implicit in the examination system. These included attempts to define the purpose of education. Inevitably, the question was raised whether the terminal examination system was adequate for assessing the performance of pupils in all relevant areas, whether the summated ratings of these examinations actually reflected the total improvement in per-

formance commensurate with the holistic goal of education. Gradually, these ideas have radically changed the education system including evaluation procedure.

It may seem surprising if we discuss the evaluation works in industrial project management in the same breath with evaluation in education. But they need to be. The methodology of evaluation worked out in each area has certain similarities¹, certainly in approaches, if not also in techniques. Developments in evaluation methods in education or industrial projects have benefited from each other. Today evaluation is considered as a subject by itself. So let us introduce the other significant developments from different spheres.

With the intensification of welfare programmes in the post War period the question of effective utilisation of the programme financing became important for several governments. Welfare programme had begun on a large scale in the 1960's in several countries; in USA and Canada, as welfare work and compensatory education programmes; in U.K. as part of their community development programmes. The administrators, directly involved in implementation and investigation, had thought of constantly improving their delivery system by evaluating each step². This was applauded as a new style of administration, as "experimental social administration". The research counterpart was eulogised as "action research".

In the field of education there were comparable activities. By around 'sixties many educational institutions had begun inquiring into the course contents and the teaching methods. At times some schools were used as laboratories for evaluation and validation of specific techniques. In current vocabulary that will be known as "pilot project". But the trend in those days were different. These school-experiments too were known as "action research". Particular mention may be made of researches in U.K. on educational priority areas³. There were similar works in India too.⁴

There are some other names for this group of research e.g. "learning by doing" or "continuing education". While the administrators hailed the process as an experiment in administration, the professional researchers described the meeting ground as a special type of research, directly relevant for action. The impractical and irrelevant nature of research has often been disturbing to a section of researchers. It had developed into a sharp criticism in the hectic years of late 'sixties. There were reflections in India too⁵. The "action research" term was however, more popular because of its radical overtone rather than its well-developed methodology. As early as in the 'thirties Kurt Lewin, a clinical psychologist,⁶ had first coined the term "action research". In the next decade it was popular with a group of researchers arguing for "action sociology". But their impropriety was clear to many⁷. The balance between action and research was never established, they either tended to be more action little research or more research with nominal action. For some time however, this paradigm was quite popular.

The significance of this action research phase in developmental administration is however, immense. The dominant approach in programme administration is what is called "blueprint approach". This is typified in the programme designers attitude that the technological package and programme of action as described in project proposals and guidelines are appropriate. Given good management that will work in any environment⁸. The

"action research" phase brought out a distinct philosophy and accompanying approach where planning, implementation and evaluation are integrated. The set back occurred because their research design was too ambitious. They had thought of imitating the controlled atmosphere for validation procedures of physical and medical sciences. Social complexities, unfortunately, are of such order that proper control can never be exercised and the experiences of social laboratories can never be replicated as was thought by the "experimental social administrators". With the more methodical researchers this problem has led to further thoughts on evaluation designs⁹. But the alternative approach to administration, based on regular performance evaluation, has certainly been established by the highly motivated administrators of the "action research" phase. Significant also is their contribution to the introduction of continuous evaluation and using it as a feedback instead of a terminal process.

Probably the most well-known stream of evaluation is the cost-benefit analysis. In the developing countries, where public investment was an important activity, project assessment became an important task. In the late 'sixties, the works at Oficina de Planificacion Nacional (ODEPLAN) of Chile laid the foundations of shadow-price based Cost benefit analysis¹⁰. With the intensification of project financing activities project assessment methods became essential for international financial organisation. This led to the development of the World Bank and UNIDO guidelines¹². During the seventies these internationally accepted methods spread far and wide. For the Planning Commission in India, cost benefit assessment became mandatory as project selection criterion.

The cost-benefit analysis has become so well-entrenched in the Indian scene that this is considered not as one of the evaluation techniques but almost as THE evaluation technique. By now, there are of course, numerous questions on the methodology. The environmental impact evaluation methods is a major bone of contention. Less known are another

set of criticism leveled against this approach,¹³ a set of criticism which has relevance in all fields of evaluation, financial and non-financial. It has been felt that the apparent rigorousness is rather, pretentious. The information processed in any social cost benefit analysis are varied and often gross approximation or inaccurate. The method demands excessive quantification and creates a tendency to overlook important qualitative changes. It is doubtful whether the analyst¹⁴ has competently used the complicated analytical method. Indeed, the method is so complex that rarely is it used correctly by an analyst. How precise would the results be in such circumstances? To add to the weaknesses such results are obtained often after incurring high cost and large delay. In the eighties these criticisms strengthened the cases for rapid and less costly appraisal techniques.

There are some other fundamental questions which run through all fields of evaluation. One is whether they should be goal-based (GBE) or goal-free (GFE). GBE is the older one, the approach taken by management for product and performance evaluation. Here, the goal is given to the evaluators by the management. It should be mentioned that 'goal' is a general term which includes objective, purpose, target or output - a whole hierarchy of goals from ultimate to immediate¹⁵. The evaluation process consists essentially of studying whether the pre-determined goal was attained or not. The so-called goal free evaluation (GFE) is not without a defined goal. Here the task of defining the goal is left to the evaluators. Naturally, this approach permits inclusion of such aspects which, in management's understanding, would be the side effects of a project. If properly used, this approach should include the totality of consequences, both main and side effects, of a project. Therefore, GFE is also known as social or systems approach.

The second fundamental debate is whether the evaluation should be objective or subjective. At first glance it appears to be a non-issue, for, objective evaluation is certainly the most desired. But the case is not

that simple. The GFE for example, is overtly subjective in approach by allowing the evaluators to define the goals. The contestants however, say that the GBE is also just as much subjective, only that the management hides its subjective preferences under the garb of legitimate project goals. It was a bitterly fought debate in the eighties. The management accused the evaluators of straying all over, raising unnecessary issues, and causing damage to the project. The evaluators had strongly defended their positions from the perspectives of social relevance of developmental projects. In the field of education the debate had occurred in the previous decades, culminating in such radical critics as of Paulo Frieri¹⁶.

Much of the dust has settled by now. An account of the gains and losses may now be made. That evaluations should also be global and goal free is not a disputed issue any more. But the recognition has not helped promotion of this technique. Rather, it has discouraged commissioning of evaluation works in general. The adverse side effects that may be brought to light by a GFE are often inconvenient for managers and planners. Apprehensive as they are, they have lost much of their enthusiasm. Its unfortunate consequence is the reduction in goal-based-evaluations too. GBE has its own case. It is the essential input for the alternative style of administration introduced earlier.

One way of striking a balance is to broaden the goal in a mutually agreed manner between the managers and evaluators, and to conduct goal based evaluation (GBE) within this terms of reference. Thanks to the debates during the last decade, today we have fairly good idea about the different spheres of social activity relevant for each kind of project. Today it is possible for the sponsors and evaluators to enter into a negotiation at the very outset, regarding the goal. The set goals need not be only those envisioned during the formulation stage, but the sponsors should be forewarned as much as possible about the broadened scope. Such evaluations will be easier to carry out and acceptable to manag-

ers, in spite of any critical conclusion. In practice, this is becoming more and more popular.

An off-shoot of this debate is broadening of the eligibility criteria of evaluators. Once it was understood that the goals can be defined only in the subjective manner, claims of all the concerned parties became legitimate. This led to the development of participatory evaluation and stake-holder based evaluation¹⁷. Who is better placed than the beneficiaries themselves in evaluating a public project or a social welfare programme? This led to the development of the participatory evaluation methods. In another approach, favoured by the FAO, all the stakeholder, beneficiaries or not, are identified and actively involved in the evaluation.

These are of course some approaches not specific evaluation techniques. The list of techniques will run into hundreds, so much so that now dictionaries on the subject are compiled. There are several journal and network bulletins dealing only with evaluation. No doubt some of these techniques have been applied by some informed researchers. But usually that remains confined to one or two pieces of research. I will like to introduce some major trends. Although limited, some of these techniques have already made some headway in the Indian evaluation scene.

The greatest success is in the area of education. Reforms in examination system were suggested by the Secondary Education Commission (1953-54) and the Education Commission (1964-66). Ever since the establishment of National Council of Educational Research and Training (NCERT) countrywide changes are being attempted in a systematic manner, in all areas of education including evaluation.¹⁸ In addition to the old style of examination, the evaluation system today also includes objective tests, diagnostic tests, use of school records, and achievements in non-written aspects as performance scores. Evaluation process continues all throughout the year through short questions, weekly tests, semester examinations, mid-term and terminal examinations. At all stages students, teach-

ers and parents can use the evaluation results to improve the performances. Summative evaluation has been partly replaced by grading system. Competence in aspects which are non-quantifiable find places in evaluation. Considerable help is given to the teachers to adapt to the new procedures.

The National Education Policy announced in 1986 proposed a new examination system hoping to bring a proper integration of teaching, learning and evaluation. The goal of examination reform was defined as improving the reliability and validity of examinations and to make evaluation a continuous process aimed at helping the student to improve his level of achievement rather than at certifying the quality of his performance at a given moment of time.

Norms of social cost-benefit analysis have undergone some modifications, like with respect to the question of environmental effect. Mid-term, ex-post and such evaluations are also more frequent. Although desirable, these are not radical or innovative changes. In general the administrative approach is still the blueprint type where it is believed that the general guidelines and techniques are alright; all that is needed for sterling achievements is a group of committed and competent administrators. An approach based on a feedback mechanism integrating planning, implementation and evaluation is almost absent, except probably when it is insisted upon by external donor agencies.

To set the picture right it must be added that there is one important exception to this set up. Centrally sponsored programmes like that of poverty alleviation are implemented by the states. But they need to be standardised for uniform implementation all over the country. This, necessitates monitoring and evaluation of the implementation process by the centre for which there is a Programme Evaluation division of the Planning Commission. It undertakes comprehensive evaluation of programmes from time to time. Some more routine evaluations of a few specific aspects are done by other offices like the Comptroller and

Auditor General. In addition, some specialised agencies and institutions are commissioned once in a while by a Ministry or a project authority, to undertake external evaluations. These constitute a valuable set of well known evaluation studies. If at all, they have some contributions to policy alterations, little in the way of improving project performances.

In this set up the Concurrent Evaluation started by the Rural Development¹⁹ department in 1985 is a distinctive addition. Under this scheme performance data of different rural development programmes are being collected every month on a rotation basis, covering several districts. It may be recalled that the rural development programmes are centrally sponsored but administered by states and local governments. This data, therefore, can be a valuable input for the sponsor in observing uniform and efficient implementation.

The adopted procedure for collection of this data is a radical departure from the common practices. The questions are framed by the central office of the department. But it does not use its offices or the offices of the other government departments at grassroots level for collection of the data. Several Institutes have been contracted, and they are conducting this study for the department. It is not external evaluation, since the planning and processing is done by the department. Thus, the feed back mechanism is in-built. The department claims that the data is collected and processed in three months. In contrast, when other recognised agencies or institutions were commissioned by the department for conducting evaluation studies they take, on an average two years. Lastly, the guidelines for interview are not very rigid which leaves considerable scope for participation for the evaluating organisations.

A third important trend is the spread of Rapid and Participatory appraisals (RRA, PRA). The rapid appraisal procedures were sought in order to collect information in an expeditious manner. In the eighties efforts were made for systematic development of the oft-applied old procedure of "informal" meth-

ods of inquiry. The effort paid rich dividend²¹ and by the late eighties RRA was a well-known technique.²² Sometimes in 1988 in Kenya, where the use of this method was spreading, the term "rapid" was replaced by "participatory", signifying the greater need of modesty while approaching interviewee. Some international organisations favour stress on "rapid" to "participatory", some others the reverse. Thus, both RRA and PRA are in use. Leaving aside the subtle differences, they constitute a specific approach in data collection and evaluation.

The spread of the social cost benefit analysis methods have created a kind of evaluation culture in which all other forms of evaluation are looked down upon. RRA was founded through baring the pretensions of rigorousness and precision of large scale questionnaire surveys and the cost-benefit kind of analysis. Today, it is often a question of choice between the two streams. Supported by some international organisation RRA/PRA techniques have made considerable progress in India, particularly among the NGO's. But lately, considerable interest has been shown in this technique also by state governments and training institutes for administrators and technocrats. Although these techniques are primarily used for acquaintance and information gathering they easily develop into evaluation. Some international agencies have already accepted these techniques as standard evaluation procedures. Stray attempts of evaluation using PRA/RRA are already known, though not yet widespread, in India. Yet, given the fact of external support, often by donor agencies, it is likely to catch up. It may be recalled that some specific methodologies in social cost-benefit analysis had spread quickly after the World Bank and UN organisations lent credence to them.

Probably the most important characteristic of all these evaluation procedures is their rapid nature, which enables their use as feedback for improving the process itself. The following chart summarises their special features:

	Examination Reform	Concurrent Evaluation	RRA/PRA
1	Goal based (widened goal)	Goal based	Goal free
2	Continuous	Continuous	Occasional
3	Partly qualitative	Quantitative	Qualitative
4	Less subjective	Subjective	Highly subjective
5	Not costly (in built into the system) Quality of information	Moderately costly	Moderately costly
6	High	Moderate	Very high
7	Comparable	Comparable	Not comparable

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- 4 Cited in *Educational Innovation in India*, UNESCO, 1974.
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- 7 Vide Whyte, W.F. and Hamilton, E.L. 1973. *Action Research for Management*, Grid Inc. Columbus, Ohio.
- 8 This term is from Skeates, R. and Whillam, G. 1983. "The Role of Performance Evaluation in the Development Process", *Asian Development Review*, Vol 1, no.2.

- 9 This leads to the "committed administrator" syndrome and other subjective characterisation of the success and failure of administration and management.
- 10 This is still a complex area and social evaluations are badly handicapped because of lack of control. The commonly used alternatives are *before-after* or *with-without* comparative designs. There are also numerous improvements suggested within this. In education area across-cultural tests of ratings and scales are considered essential for validation. However, it must be noted that no with-without setting can be ideal, cross-cultural validation has no limit and so on. In essence, the evaluators have to be content with much less than ideal environment for drawing conclusion.
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- 14 Mentioned in the World Bank Conference cited in note no.13.
- 15 USAID recommends an interconnected framework where the lower order output becomes the input of a higher order objective.
- 16 Friere, Paulo 1976. *Pedagogy of the Oppressed*, Penguin.
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Impact of Liberalisation on the Sugar Industry

I Introduction

DURING the past two years, the Government of India has embarked on a programme of liberalisation with the objective of promoting rapid growth and development of various sectors of the economy by ushering a philosophy of economic decision making based on market forces. One of the key elements of this programme has been the removal of various controls which had hitherto kept on leash the enormous growth potential of the country and hampered economic development to an extent that India came to be commonly referred to as a 'Caged Tiger!'. Pursuant to the implementation of this programme, various sectors of the economy, and industry, in particular, have been liberated from the regime of controls such as:

1. those by way of licensing requirements, removal of which has spurred fresh investment in new units as well as modernisation and expansion of existing units in such newly liberated industries; and
2. those on pricing and distribution of various raw materials and finished goods, removal of which has resulted in determination of prices and allocation based on market forces of demand and supply rather than by executive/administrative orders, which in turn has spurred new investments in such sectors.

In this context, this paper seeks to examine the extent to which this philosophy of liberalisation has been made applicable to the sugar industry, which has traditionally been, perhaps, the most rigidly controlled and regulated industry, in all its dimensions.

II Sugar Industry

The sugar industry occupies an important place in the economy of our country, being the second largest agro based industry after textiles. Being necessarily located in rural areas, the sugar factories in the country act as catalysts for rural development. As a matter of fact, there is no other industry in the country where the interaction between industry and agriculture is so direct and intimate as in the case of the sugar industry. The sugar industry is the largest industry in rural areas, providing employment to nearly 3.5 lakh workers with an annual wage bill of the order of Rs.1000 crores, the bulk of which is expended in the rural areas. Besides, sizeable indirect employment is also generated in the ancillary activities of harvesting and transportation of sugarcane. The industry also contributes substantially to the central exchequer with annual excise collections in the range of Rs.800 crores. Besides, State Governments also collect nearly Rs.500 crores per annum by way of purchase tax and cess on sugarcane. The industry is also unique in terms of self-suffi-

ciency in its requirements of power and also derives its fuel from sugarcane itself viz., bagasse, the fibrous residue remaining after the extraction of sugarcane juice. Thus the industry does not depend on any external non-renewable source of energy to meet its requirements of steam and power. The processing of sugarcane also yields invaluable byproducts viz., molasses and bagasse. Molasses is a vital industrial raw material especially for manufacture of alcohol and has enabled the development of alcohol based chemical industries in the country as an economic alternative to the petro chemical route; while bagasse is finding increasing use as a substitute for wood in the manufacture of paper and related products. Of late, bagasse has also turned out to be an invaluable raw material for co-generation of power, with steam generated by burning bagasse in high pressure boilers being used to run turbo generators for output of power. As a matter of fact, a sugar mill with a crushing capacity of 2500 tonnes of cane per day can be configured to generate nearly 7.5 M.W. of surplus power during the crushing season and as much as 15 M.W. during the off season, the latter being subject to availability of alternate fuel. The total potential for co-generation of power by the sugar industry can be gauged from the present population of sugar factories in the country viz., 400 plus! It can be seen from the above that not only does the sugar industry play a vital role in the rural economy of the country and contributes substantially to the Central and State revenues, but also yields valuable industrial raw material for manufacture of chemicals besides offering tremendous potential for co-generation of substantial amount of surplus power which can be gainfully fed into the grid.

III Controls on the Sugar Industry

While the sugar industry with its tremendous potential for rural development and growth of various ancillary industries can be a very dynamic vehicle for the growth of the economy as a whole, the potential is yet far from realisation due to the extraordinarily complex web

of controls and regulations which govern every aspect of the industry whether it be procurement and pricing of sugarcane, or pricing and distribution of sugar and molasses or licensing of capacity, both new and expansion. While the new policy of economic liberalisation had generated a lot of hopes in the industry regarding removal of the aforesaid controls, very little progress in this direction, if any, has been registered so far and it would not be an exaggeration to state that the sugar industry has been by and large kept out of the purview of the programme of economic liberalisation as explained hereunder:

1 Continuing lack of freedom and level playing field in procurement of sugarcane

Unlike in other sugar producing countries, sugar factories in India are disabled from sourcing their requirement of sugarcane from captive plantations due to land ceiling legislation enacted by various State Governments. While sugar factories had at one time been exempted from ceiling laws, they are today permitted to hold only small extents of land and that too for purposes of sugarcane research and development. This has necessitated drawal of sugarcane by each factory from tens of thousands of farmers with its attendant uncertainties from year to year. In this prevailing system of contract farming, individual farmers tend to switch over to different cropping patterns from year to year depending on relative profitability of raising various crops and varying climatic conditions, which in turn means that the area under sugarcane available for drawal by any sugar factory can never get stabilised unlike in the case of captive plantations. This instability in area under sugarcane cultivation naturally gets reflected in steep fluctuations in sugar production with its consequential impact on the price of sugar. It should also be noted that under this system of contract farming, even when the sugarcane crop is abundant, it is not necessarily made available to the sugar factory in the organised sector for conversion into sugar. What is perhaps a unique feature

* Seminar paper by Ram V. Tyagarajan, Chairman and Managing Director, Thiru Arooran Sugars Ltd. presented at MIDS on September 30, 1993.

in India is the substantial and significant presence of alternate sweeteners viz., Khandsari and Gur (jaggery), which also compete with the sugar factories for the available sugarcane. In many parts of India and particularly in Uttar Pradesh competition from these two alternate sweeteners is a major factor and the drawal of sugarcane by sugar factories in Uttar Pradesh averages to only 40% of the available sugarcane in the State. These alternate sweeteners, in spite of their inefficient manufacturing process, are able to outbid the sugar factories primarily because they are not subject to any Central or State controls or levies. For instance, no Central Excise is levied on khandsari sugar or molasses and besides, khandsari molasses has always been kept out of the purview of pricing and distribution controls unlike in the case of sugar factory molasses. These units are also not liable to pay the Statutory Minimum Prices fixed for sugarcane let alone the State Advised Prices which are strictly enforced on the sugar factories. There are also no controls on the sale of khandsari sugar either in terms of levy requirement for the public distribution system or by way of monthly release mechanism to regulate the prices. Likewise, producers of gur/jaggery enjoy total freedom from controls on procurement of cane or sale of the end-product. As a matter of fact, demand for gur has also grown by leaps and bounds in the recent past as an invaluable raw material for illicit distillation, which in turn has enabled the gur producers to bid away cane from the sugar factories by offering highly remunerative prices. Thus it is clear that there is no level playing field between sugar factories and the producers of the two alternate sweeteners, leading to undesirable distortions in the sugar economy and particularly to instability in availability of sugarcane to the sugar factories. In this context, it is imperative to review the existing land ceiling legislation and make it possible for sugar factories to organise captive plantations either on own or leased basis to meet at least 50% of their annual requirements. Failure to do so will necessarily result in persistent fluctuations in sugar production which have traditionally characterised the Indian sugar economy.

Another important facet of the procurement of raw material by sugar factories is the demarcation of distinctive areas for drawal of sugarcane for each factory. This demarcation is done by the State Governments to regulate the drawal of cane but unfortunately not on a permanent basis. Whenever demands are made for establishment of new sugar factories almost invariably, such licences are granted by carving out areas already developed by existing sugar factories in areas hitherto demarcated to them, as opposed to being established in virgin areas. This is yet another major factor which has historically served only to destabilise the smooth working of the existing sugar factories. Only when sugar factories are reasonably confident about the continued availability of cane from the areas presently demarcated to them, will there be any incentive for sustained cane development as also for modernisation and expansion of capacity to more economic levels. In the alternative there should be no demarcation at all so that sugar mills can compete for cane and the farmers also realise a better deal in the bargain.

Further in Northern India, many factories are still compelled to procure cane from the so called Cane Cooperative Societies rather than directly from the farmers. In the absence of direct contact between the factories and the farmers, there is no scope whatsoever for extension of cane development activities by the factories which is sorely needed since productivity in sub tropical India is very low, with an average yield of only 50-60 M.T.s per hectare as against 85-100 M.T.s per hectare in the tropical parts of the country. Strangely enough, even Cooperative factories in Uttar Pradesh are required to procure cane through these Societies rather than directly from their grower members. However some of the newly established factories, have been permitted to deal directly with the farmers without intermediation by the Cane Co-operative Societies, thus leading to an unequal situation between existing and new factories in terms of their ability to directly deal with the farmers and provide cane development services.

2 Continuing fixation of prices payable for sugarcane on extra-economic considerations

As regards the price payable for sugarcane, Statutory Minimum Prices are announced by the Govt. of India from year to year and as per law, the factories are also obliged to share 50% of the excess realisation on sale of sugar with the farmers. However, in reality, factories are constrained to pay the so called State Advised Prices which have no basis in law, but which are always far in excess of the liability under the formula for sharing the excess realisations on sale of sugar. Also, the Statutory Minimum Prices announced by the Government of India are almost always kept at an unrealistic low level, since this happens to be a major component in the determination of the price of levy sugar. So, in order to keep the retail price of levy sugar at a pre-determined level, the Statutory Minimum Price of sugarcane always tends to be fixed at a much lower level than warranted by market conditions and the prevailing prices of other agricultural crops. Announcement of such unrealistic and lower than warranted Statutory Minimum Prices has been the root cause of the phenomenon of State Advised Prices which have come to stay notwithstanding their lack of any legal sanction.

While the State Advised Prices are not legally binding on the factories, in practice, factories have no option except to pay the same failing which local law and order problems are bound to arise, apprehending which, the factories invariably fall in line. Even during periods of glut and excessive stocks of sugar as at the end of the 1991-92 sugar season, State Advised Prices have always been hiked substantially from year to year due to pressure from the politically strong farmers lobby and this in turn fuels excessive planting of sugarcane which again further exacerbates the glut in sugar. The latter invariably results in fall in sugar prices and consequential inability of the factories to pay the State Advised Prices resulting in mounting 'arrears'. This in turn results in drastic fall in planting, and

hence in sugar production, and herein lies the cause of the steep fluctuations in sugar production which have always characterised the sugar economy. If only the sources of demand and supply were allowed to prevail then in a scenario of mounting stocks, factories will pay a lower cane price based on economic considerations and equilibrium between demand and supply is likely to be established much sooner and it is far less likely that one will witness such violent fluctuations in sugar production as the country has traditionally encountered.

3 Continuing controls on sale of sugar both in the domestic and international markets

Every aspect of the sale of sugar produced by sugar factories continues to be closely regulated. In general 40% of the sugar produced by any factory is earmarked for supply as levy sugar to the public distribution system and only the remaining 60% is allowed to be sold in the so called 'free market'. Factorywise release orders specifying quantities permitted for sale are issued every month by the Government of India, both in respect of levy as well as 'free sale' sugar with the latter being further subject to the stipulation that not less than 47.5% of the release for the month should be sold during each fortnight of the month. Thus by regulating the total quantity of sugar released for sale in the free market for a particular month and by further regulating the despatches on a fortnightly basis, the Government is able to effectively regulate or control the price of sugar in the open market. Thus the term "free sale" sugar is really a misnomer and sale of such sugar is also regulated in the aforesaid manner. Whenever prices in the open market exhibit an upward tendency, the Government invariably announces an ad-hoc additional release of free sale sugar for the particular month which in turn will act as a damper on the prices. Even if it is necessary to regulate the open market prices in order to curb inflationary tendencies, there is unfortunately no attempt to define and declare what is an acceptable level of prices

in the open market, taking into account the cost of production of sugar. The cost of sugarcane which again is beyond the control of the sugar factories as stated earlier, constitutes nearly 65-70% of the cost of production and whenever free market prices are depressed by excessive release of free sale sugar, factories are unable to meet their cane price obligations to the farmers on time, resulting in the phenomenon of arrears of cane price which, as stated earlier, inevitably sets in motion the reduction in cane planting and the 'sugar cycle'. A more rational way to regulate the prices in the open market would be to define the acceptable price level, given the cost of production and then intervene only if the open market price fall outside a band of say + 2.5 to 5% around the acceptable price. This concept can even be further refined to allow factories to automatically increase or decrease their individual sale of sugar, as and when prices range outside the aforesaid band. The latter proposal would certainly bring the prices back into control much sooner and at the first sign of any substantial deviation from the norm than the present system of corrective action by Government, which inevitably leads to considerable speculation by the trade as to the likely quantum of the monthly release as also the possibility of any additional release during a particular month. It would not be an exaggeration to state that the amplitude of fluctuations in open market prices of sugar during any given month are considerably more than in the case of any other commodity.

Another important aspect which deserves mention in this context is that sugar factories can still sell only to wholesalers who possess a valid licence / permit to deal in sugar, and they in turn can sell only to licensed retailers.

As regards levy sugar, ex factory prices are fixed on a zonal basis based on the zonal average cost of cane, conversion cost and an element of return. However, it is important to note that the cost of cane adopted in the fixation of levy price takes into account only the Statutory Minimum Price fixed by the Government of India and does not recognise

the additional price advised and enforced by the State Government. Thus a substantial portion of the cane cost is not compensated for in the levy price, resulting in requisitioning of levy sugar for the public distribution system, at a price which is below the cost of production. The conversion cost for each zone is determined on the basis of cost schedules prepared by the Bureau of Industrial Costs & Prices, once in three years, and these schedules are supposed to represent the average conversion cost for all the factories in that particular zone. Implicit in this system is that factories which are efficient and incur lower than the average conversion cost benefit from such averaging while factories who incur above average conversion cost are at a disadvantage, and perhaps rightly so. However, the Government has recently commissioned another enquiry by the BICP for determining the conversion cost schedule which will be applicable for the next three sugar seasons commencing with the 1993-94 season, but with instruction to arrive at two different cost schedules for each zone - one for factories below a crushing capacity of 2500 TCD and another for those above 2500 TCD. This particular directive from the Government cannot be comprehended in the context of the present economic thinking which recognizes the need to build economies of scale by encouraging expansion of existing capacities to global scale - as a matter of fact, it seeks to penalise factories which have expanded to higher capacities while at the same time rewarding those factories which have opted to remain at lower capacities with much higher conversion cost. Also the element of return which is provided in the levy price has a major lacuna in that computation of return is reckoned only on historical cost and not on replacement cost basis and as such is woefully inadequate in the context of the urgent need to mobilise internal resources for modernising the factories which are still predominantly old in terms of age of assets and outdated in terms of technology.

In addition to the regulation on sale of sugar in the domestic market, exports are also regu-

lated and permitted only when the Government determines an exportable surplus. Thus, there have been years when exports have not been permitted at all, keeping in view the requirements of the domestic market and especially the domestic price levels. This policy of permitting exports only as and when the Government determines availability of surplus, will seriously undermine the ability of the industry to effect exports in a market which is characterised by intense competition from several sugar producing countries which are consistently in surplus. For instance, during 1990-91 and 1991-92 substantial efforts were undertaken by the industry to export sugar and new markets for Indian sugar were developed especially in Sri Lanka. But the steep fall in production in 1992-93 has resulted in a ban on sugar export and this will only undermine our efforts to export when we are once again confronted with a glut in the years to come. Instead of this 'on again' - 'off-again' policy on export, given the realities of the international market for sugar, the Government would be well advised to earmark a definite quantity or percentage of production for regular export, irrespective of fluctuations in production and domestic price levels.

4 Continuing requirement of licence for establishing new capacity as well as for effecting substantial expansion

While various sectors of industry have been liberated during the last two years from the licensing regime, the sugar industry is one of the few which still continues to be one of the scheduled industries subject to licensing under the Industries (Development & Regulation) Act. What is especially disconcerting is that even substantial expansion of existing capacity is subject to licensing requirement. Again the present licensing policy for the sugar industry gives priority to the Cooperative and Public Sectors and only in the absence of applications from these sectors for a particular location, will applications from the Private Sector be considered, contrary to the general thrust of the liberalisation programme towards privatisation.

Further, contrary to the recommendations of various expert bodies, the present licensing policy permits establishment of new capacity within a radial distance of 25 K.M. from existing factories relaxable to 15 K.M. if the circumstances so warrant. This is in stark contrast to the recommendations of a minimum of 50 K.Ms. by the Bhargava Commission and 60 K.Ms. by the Reserve Bank of India. As a matter of fact, during the 7th Plan period the minimum distance was first specified at 40 K.M. and then subsequently diluted to 25 K.Ms. so as to accommodate political pressure for licensing more new sugar factories. Establishment of new factories in such close proximity to existing factories tends to deprive the latter of developed cane area and often times such licensing has resulted in both the existing and the new factories eventually suffering for want of adequate cane.

The pressure for granting new licences is also fuelled by the Incentive Scheme for new factories which at present offers total freedom from levy requirement i.e. 100% of the output can be sold in the open market for a period of 8-10 years as against 60% permitted for existing units. Thus, such an incentive scheme places the entire burden of supporting the public distribution system on the existing sugar factories, which, given the fact that levy sugar is requisitioned at prices way below the cost of production, are therefore not able to find adequate internal resources to modernise their plants and invest in cane development. It may also be noted that such incentives are not made available for expansion of existing factories beyond 2500 TCD which has been determined as the minimum economic size for the sugar industry. Thus, the licensing policy instead of encouraging expansion to more economically viable levels, encourages instead the setting up of new grass-root capacities with project costs in the range of Rs.50 crores, and whose economic viability is artificially propped up by the provision of an attractive incentive scheme at the expense of the existing sugar factories.

Further, based on the estimated demand for sugar, the Government also reckons the

additional capacity that requires to be licensed taking into account the capacity already licensed and installed. Herein lies another problem in the under-assessment of the capacity which is already licensed and installed. Since sugar factories are licensed on the basis of crushing capacity per day, the latter must be multiplied by the average duration of the season and the average recovery percent of sugar to arrive at the annual capacity in terms of sugar production. Since recovery and duration vary from year to year and region to region one has to necessarily arrive at an average for both parameters over a period of time, to determine capacity. In this context, the Government adopts a 10-year average resulting in an assessment of licensed capacity of 175 lakh M.Ts. and installed capacity of 102 lakh M.Ts. However, if a more recent average were adopted, the same would work out to a licensed capacity of 203 lakh M.Ts. and installed capacity of 120 lakh M.Ts. on the basis of a 5-year average and licensed capacity of 212 lakh M.Ts. and installed capacity of 125 lakh M.Ts. on the basis of a 3-year average. Thus by adopting a longer term average, the capacity already licensed and installed is understated by nearly 30-40 lakh M.Ts. and gives scope for additional licensing which may not be warranted. In the present context of liberalisation, it would be far more desirable to defecence new capacity but without any incentive scheme to make creation of new capacity artificially viable. Such a policy would also encourage expansion of existing units at much lower costs, resulting in economies of scale and lower cost of production which can be passed on to the consumer.

5 Continuing de-facto controls on molasses

In June 1993, the Government of India removed all price and distribution controls on molasses, which had hitherto been fully regulated under the provisions of Molasses Control Order, 1961. While this move has certainly been in line with the overall programme of liberalisation, implementation in most States,

barring Maharashtra and Tamil Nadu, has either been totally frustrated or not entirely in keeping with the spirit of Government of India's order rescinding such controls. As a matter of fact, inter-state movement of molasses is still not free and strangely enough, movement of molasses and alcohol between States is referred to as "export" and if permitted at all, such movement is only on payment of an export pass fee. Further, the Government of India itself has stipulated that the State Governments should take sufficient measures to prevent excessive diversion of molasses and alcohol to the potable alcohol sector and that the requirements of the industrial consumer should be safeguarded. Such restrictions on free inter-state movement as also the distribution within a State between the industrial and potable alcohol sectors, will invariably and indirectly result in a restriction on price. Thus it can be seen that the guidelines issued for implementation of decontrol have de-facto established partial control on movement and distribution and consequently of price, which once again goes against the spirit of liberalisation.

IV Conclusion

From the above it can be clearly seen that the sugar industry, in all its dimensions, continues to be kept, by and large out of the purview of the liberalisation programme. The operating environment of the sugar industry will never be truly liberalized without the following:

- 1 Determination of price of sugarcane on the basis of economic considerations;
- 2 Allowing sugar factories to own/lease captive plantations;
- 3 Decontrol of sugar and removal of controls on export;
- 4 Delicensing of the industry and scrapping of the incentive scheme for new factories; and
- 5 Effective implementation of decontrol of molasses, both in letter and spirit.

Book Review

Economics of Child Labour and Fertility: Sumanagala, M. and Nagarajan, B.S.B.R. Publishing Corporation, Delhi, 1993, pp.220, Rs.190.

D. Jayaraj

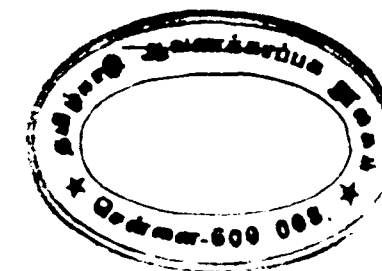
THIS book consists of two parts divided into five chapters, excluding the Introduction. Part I consists of three chapters, on Demographic and Social Profile of Tamil Nadu and India, Child-Labour Profile in Tamil Nadu - Districts, and Determinants of Child-Labour: Micro-Studies, respectively. Part II comprises two chapters on Factors Determining Fertility Behaviour and Major Findings and Policy Implications respectively.

The authors have compiled information on demographic profile of the state and the country. They have also collected valuable data on occupational characteristics of child labourers. The information on earnings and contribution of wage income of child labourers to total family earnings is extremely useful. However, the authors have not organised the information well. Nor have they succeeded in conveying the information to the readers.

In the Introduction, poverty and inequality are identified as primary causes of both high incidence of child labour and fertility. The analysis at the macro level on determinants of child labour ignores both poverty and inequality as causal factors. In fact, the path analysis of the determinants of child labour in Section III of chapter I is of crude birth rate and not of child labour. The micro level analysis of both child labour and fertility loses their significant

because the sample is biased by including only households which have at least one child working with couples living together in the reproductive age group. At best, the results of the analysis explain the fertility behaviour of households which have at least a child working and not the fertility behaviour of households in Tamil Nadu. Thus, the results cannot be generalised.

The analysis on factors determining fertility also loses its significance since it does not include some of the important causes of fertility such as age at marriage, poverty and sex selection. Although the authors have stated that poverty and inequality are the major causes for both high fertility and high labour force participation of children, they have not analysed the data within a coherent framework. It is well known that child labour, fertility and infant mortality are high, and age at marriage and level of education are low among poor households. Therefore, the relationship between child labour and fertility cannot be analysed using single equation framework. It must be explored using a simultaneous equation model, particularly when poverty is not reckoned directly in the analyses. These methodological and analytical inconsistencies limit the value of the book, although the issue addressed is topical, and the book contains rich information.



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 - b) *Area Studies Bibliography Tamil Nadu* (1984) published by MIDS, pp 226, Rs. 30/- for paper cover and Rs. 40/- for bound volume.
 - c) *Social Science Research in South Indian Universities—Listing and Review of Ph D. Dissertations* (1989) Published by MIDS and ICSSR, SRC, pp. 260, Rs. 20/-
a), b) and c) obtainable from the Programme Coordinator of MIDS.
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 - a) *Poverty — An Interdisciplinary Approach* edited by B. Sarveswara Rao and V. N. Deshpande (1982) & published for MIDS by M/s Somaiya Publishers Pvt. Ltd., Bombay, pp. 296, Rs. 125/-
 - b) *Guide to Research in Economics*, edited by C. T. Kurien (second edition) (1985) & Published for MIDS by M/s. Rainbow Publishers, Coimbatore, pp. 390, Rs. 100/-
 - c) *Some thoughts on the Seventh Plan* by Dr. Malcolm S. Adiseshiah (1985) and published for MIDS by M/s. Dialogue Publishers, New Delhi, pp. 136, Rs. 70/-
 - d) *Shaping National Events* by Dr. Malcolm S. Adiseshiah (1985) and published for MIDS by M/s Dialogue Publishers, New Delhi, pp. 335, Rs. 180/-
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The Global Economy of the 1990s

Transformation of Skills Into Manufacturing

Activities : Policies for the Rural Non-farm Sector



are contrasted with the poor outlook for the external sector in the coming three years. The high foreign exchange reserve and the quota on exports to Russia are also analysed. In the aid area, the four loans made during the month by the World Bank and ADB are noted together with satisfaction at their declining rate. In the area of Human Resources Development the major event is the commissioning of INSAT IIB and its effect on making possible and directly universal primary education and mass literacy. The deleterious effect of the earthquake on education in Maharashtra is also noted. In the employment field, the IMFs view that its structural adjustment programme causing only short term unemployment is discussed with the conclusion that the deleterious effect on employment will last through the 8th plan and probably the 9th plan. In the international section, the World Bank and IMF's turn around advocating state intervention in order to promote development as the main lesson of the nine East Asian countries is discussed. The concept of growth regions in Asia as a new form of development is referred to, side by side with what the World Bank calls the East Asian Miracle. The statement of the heads of IMF and the World Bank at the annual two day meeting are analysed with some interest as they represent a departure from their 'additional position cutting back on state intervention and promoting a free market. The GATT stalemate is referred to with the deadline of concluding the Uruguay round by the middle of December receding. The World Academy of Sciences conclusions on population and fertility growth are discussed. Under other items, some 7 items with which the Institute was connected are referred to - AIR broadcast on literacy, National Centre for Industrial Harmony, Science City, Tamil Nadu State Council for Higher Education, India International Centre's Board of Trustees and Seminar on the Gulf, the annual meeting of the Institute of Social Sciences and the Tamil Nadu Board of Continuing Education and the State Resource Centre's Annual Conference.

State

Budget and Finance

The Supplementary Budget presented by the Government to the October session of the Assembly amounting to Rs.23.36 crores shows expanded expenditures not being matched by increased revenue collections. The supplementary budget covers Rs.15.82 crores which was released for the sale of fertiliser at concessional prices. This could have been foreseen in the budget. A second provision is Rs.54.25 lakhs for opening an arts and science college for women in Bargur, Dharmapuri district. This adding to higher education is questionable and in any case could have been in next year's budget. Other equally questionable proposed expenditures are Rs.73.06 lakhs to meet the increased allowances to the staff, Rs.1.91 crores for restructuring TANSI and a grant of Rs.25 crores to the Tamil Nadu Water Supply and Drainage Board which could have been included in the next budget, Rs.2 crores as contribution to the Tamil Nadu Transport Development Finance Corporation assisted by the World Bank and Rs.4.3 crores for setting up an aqua culture estate in the Chidambaranar district. These expenditures could have been foreseen and included in the plan. There is the usual problem of supplementary budgets proposals for expenditures not being covered by indications on how these expenditures are to be met, and whether they will add to the massive budget deficit for 1993-94 (see Vol XXIII No.5-6, pp19-20). Meanwhile the government reports plans for increasing increased mobilisation of small savings which is now necessary with the Centre's withdrawal of incentives to it. One area of special attention is postal savings where an improvement in the savings of investors, as in its equal mutual funds could result in some increase. Further, the State's proposal to use district planning as an incentive for enhanced small savings through the initial provision of Rs.20 crores as unused funds to it with the promise to increase

this allocations in the future, particularly for districts which record better savings. Similarly any village which ensures 100 per cent attainment in this small savings scheme is to be provided with the public infrastructure in the form of water supply, or road or other facilities up to a maximum of Rs.1 lakh. Further, every high school or higher secondary school which attains its target is to be given the incentive of basic sports equipment. There is one puzzle here. While the State has been crying aloud against the abolition of Centre's incentives resulting in decline of small savings schemes, it reports at the same time an all time record of Rs.615 crores during 1992-93, which is one reason for the State reaching and passing the plan quota of Rs.1935 crores as reported in the last issue. Similarly, the central government also reports that the small savings collections have increased by four times during the period April - July 1993-94 as against Rs.542 crores during the corresponding period of last year. If Tamil Nadu shares in this large increase, there is no reason to fear about the decline in small savings and the resulting income of the State.

Water

In October, the State, particularly the northern districts including Madras and Chingleput received rains. As far as Madras city is concerned, the lack of drinking water continues to be a problem and the rains recorded a meagre rainfall in its catchment areas. During the South West monsoon between June and September 1993 three districts received excess rainfall, plus 20 per cent being its measure, plus or minus 19 per cent being normal, minus 20-59 per cent deficit and minus 60 to 98 per cent scarcity. The excess rainfall districts were Kamaraajar (30 per cent), North Arcot (24 per cent) and Pasumpon Muthuramalinga Thevar (21 per cent). Districts which recorded normal rainfall were Madurai (14 per cent), South Arcot (13 per cent) Dharmapuri (8 per cent), Dindigul Anna (6 per cent), Salem (4 per cent), Tiruchi

(1 per cent), Chingleput M G R, Periyar, Nilgiris, Madras, Pudukottai, Nagapattinam Quaide-e-milleth, Chidambaranar and Thiruvannamali Sambuvayar being in the normal category. The districts which had deficit rainfall were Kanyakumari, Tirunelveli, Thanjavur, Ramanathapuram and Coimbatore. The State has received 316mm of rainfall during the period, involving a deviation of only 3 per cent. This is not an unsatisfactory record both for drinking water purpose and for agriculture in the state.

Power

On the power front the three developments noted are, first due to imbalance between supply and demand there is considerable load shedding during the month affecting particularly industry. The supply side represented serious deficit due to reduction in thermal and hydel generation, the shut down of one Kalpakkam atomic power unit and some decline in the Neyveli supply due to a faulty conveyer and the entry of rain water in the lignite mines. There is need to study this situation in order to avoid this kind of load shedding which involves heavy loss for industry. The other development is the German government finance agency's assistance (KfW) to the Neyveli Lignite Corporation's capacity expansion of its thermal power station. This direct foreign involvement in the power sector is a continuance of close association of Germany with NLC and should be multiplied in assistance from other private foreign sources. Finally, the government states that it plans to complete the 120MW Basin Gas Turbine project by 1995 to free Madras from power shortage. Further, the state as a whole faces the problem of low voltage and as a result of the survey of this question a plan for Rs.200 crores for erecting sub stations and transformers has been developed. In the discussion of the power sector the government has raised for the first time the question of free power for farmers which in addition to the target of energising 40,000 pump sets during

the current year and decisions on the 4.8 lakh applications, all involving a revenue loss of Rs.865 crores for the current year, which is met in part through the government's tariff compensation of Rs.350 crores. The government invited the Assembly to debate this question of free power to farmers; only this proposal which is necessary and sound seems to have been prompted by the international lending agencies laying down conditions for charging for the supply of power.

Annual Credit Plan

The government announced that the annual stock taking of Banks' performance in private sectors resulted in the Annual Credit Plan for 1993-94 being fixed at Rs.2572.20 crores as against the disbursed credit of Rs.2318 crores in 1992-93. The break-down is satisfactory; in that agriculture will receive Rs.1642 crores, industry Rs. 563 crores and trade and services Rs. 366.24 crores. There has to be a special plan for cottage industries and service sectors which will enable them to use the funds earmarked for them at 40 per cent. The functioning of other sectors has not been satisfactory and so the decision to review particularly SUME (Scheme of Urban Marketing Enterprises) and SEUUY (Self Employment and Educated Unemployed Youth) is timely and should result in removing their slow and defective working and in generating adequate appropriate reforms. Another area which needs to be evaluated is the extent to which Annual Credit Plan promotes decentralised district planning including the allocation of Rs.20 crores for the current year for it as referred to earlier.

Agriculture

The results of South West monsoon for the State has been referred to earlier as a positive factor for both the kuruva and samba crops. It is Mettur water supply which is causing a certain amount of dislocation in farmers' planning of their crops. For instance in the first

part of October, Mettur dam's storage was very low and hence its outflow had to be sharply reduced. It has of course resulted in disarrangements to farmers' plans. In mid October there was some rise in the Mettur inflow which increased the storage. Towards third week, because of rains there was no discharge from Mettur whose level was raised to 70 ft. by the end of that week. This kind of fluctuation in the Mettur dam storage is very bad for agriculture planning and the growth of crops. In particular, the cauvery delta of Thanjavur and Nagapattinam Quade-e-milleth is entirely dependent on Mettur for its samba crops. The Interim Award of the Water Tribunal or some compromise on it should be implemented by the Government of India through the neighbouring state government of Karnataka. For the ensuing samba crop, monopoly procurement of paddy which was not in force during the kuruva season will be in operation in order to help the public distribution system. The Government already has a large stock of 9 lakh tonnes of rice and so the system of unforeseen monopoly procurement scheme is in some question. This issue is also worsened by the unavailability of further storage space in the State and the lack of wagons which involves a problem for moving of paddy procured from the delta region. Agriculture policy needs to be reformulated taking into account all these factors. While the allocation for agriculture in Annual Credit Plan was referred to as satisfactory, NABARD points out that the State's Banks faced serious overdues especially in the last two years which amount to nearly 50 per cent of the loans. This mounting overdues could become an obstacle in making available short term, mid term credit to the farmers. This needs to be avoided in view of the State's further tight food situation. A new initiative in agricultural front in the State is the building of 1000 model farms using locally available resources and using progressive farmers. Every district should at least have a model farm. The project is to be devised by a State level, and district, block and Taluk level committees. It is to be

hoped that operational procedures and fixed conditions being set up will not hamper the operation of this much needed programme.

Industry

The failing infrastructure of the state is adding to the many causes which make the industries sick. The 10 per cent of the country's registered factors i.e. (in this state) are faced with serious shortage of power including the interruptions caused by load shedding referred to earlier. MALCO has had to close down and Standard Motors is facing similar problems. The other factor leading to industrial sickness are the ongoing labour struggles. In addition to the Standard Motors, the Gangaikondan Centre, Perunthurai Centre, the Nannilam Centre are caught in this area of industrial unrest. Further the Madras labour union of the B&C Mills opposed the BFIR's decision to grant permission to the management to restructure the company, without the consent of the Union. This might lead to a serious situation in the company. The result of all this is that the industrial map of the state shows an aggregate loss of Rs.155.81 crores against their aggregate capital of Rs.124.09 crores. The major part of these losses arise from 21 units which have contributed Rs.43.89 crores. Given the recession in the country and in the state, these negative factors are holding back the state's industrial development. They are the points to which special attention needs to be given even as there is talk about the state regaining its past industrial position in the country. One positive fact in this direction is the conversion of the metre gauge into broad gauge of the Karur-Dindigul-Madurai-Tuticorin line and the development of several direct services from Madras-Madurai-Kanyakumari which will help to spread the effect of the products of the industrial firms. On specific industrial performance, the Khadi and Village industries sector reports a production level of Rs.408.89 crores in 1992-93 with similar sales records during the current year. Another innovative development is the steel plant

to be fed by Neyveli Lignite at a cost of Rs.800 crores sponsored by TIDCO. The plant is to have a capacity of 3 lakh tonnes in the first stage and is to be increased in phases to 7 lakh tonnes. A negative development is the higher pricing at Rs.2200 per tonne for propylene for the Manali Petro Chemical firms. This higher price does not apply to public sector units of MRL. Though the issue is under the High Court investigation, the firms at Manali are worried. SPIC reports its plans to invest Rs.2500 crores in several downstream petro chemical projects for benzene, paraxylene, PTA at 2 lakh tonnes per annum and PFY at 60 thousand tonnes per annum. As a result, SPIC shares are commanding a high programme in the market. Thus the industrial scene is a mixed one for the state in October.

National

Plan

The 1993-94 plan like that for 1992-93 is once more being underfunded resulting in serious investment shortfalls in the core sectors of transport, power and telecommunications, along with the private investment not materialising on the expected lines. This serious under funding of the plan during the two years is mainly because the states resources are well below that projected for the 8th plan at 24 per cent. Hence the need for a somewhat radical restructuring of states finances along with an increased resources effort which is needed. The discussions with the state government on the state annual plan for 1994 and 1995 which have started at the end of October will last for six years should be used for the above purposes. The growth rate in 1993-94 is likely to be under 5 per cent. Similarly the states plan for the year lag far behind as indicated by the massive deficits in their budgets. They have not mobilised the required resources and hence the shortfall. In the public sector, plans are short of the target

because of the shortfall in the budgetary support. Additionally the expected Rs.6000 crores market borrowing is not likely materialised. This situation for both the Centre and the States is worsened by the decline in revenue realisation during the current year. Another feature of the coming plan for 1994-95 is the state's transferring 36 per cent of the total plan outlay to sub state (district and block) level planning bodies on the basis of the recommendation of the National Development Council. This is a positive development and has been pointed out in the earlier issues of the Bulletin will make not only for realistic firm planning but also for effective poverty alleviation programmes because who the poor are can be identified only at the local village, block level.

Power

As the State Electricity Boards owe the National Thermal Power Corporation Rs.3115 crores as at September 1, NTPC has decided to market its power directly to bulk consumers and on the basis, MOUs have been signed by NTPC with Gas Authority of India, Railways, Coal India. This marketing strategy will avoid future mounting of dues but not solve the current staggering burden of the Rs.3115 crores referred to earlier. This again seems to hint that unless SEBs settle their dues promptly they will have to manage for themselves as 35 per cent of NTPCs supply is to SEBs. This is not an easy matter because the Central Electricity Supply Act and the State Electricity Act have to be amended for NTPC to collect its dues quickly. The urgency of this is to be found in the fact that the Minister of Power who recently visited the World Bank was told that there will be cancellation of further parts of the \$1.2 billion loan if the centre power activities like NTPC do not clear up their outstandings before December. This deadline is almost on us and therefore some further reduction in World Bank loan of \$750 million already

made is not unlikely. A new source of funding is the European Development Bank which has made available \$65 million to co-finance construction of the southern regional load despatch and communication project. If this is a soft loan, it will not seriously add to the problem of repayment faced by the Board. In the power sector of the 8th plan, the national programme being launched from November for bio-energy utilisation relating to co-generation and recycling of urban and municipal wastes to save imported fossil fuel costs is important and should be noted. A package of fiscal policy measures is being developed to ensure the success of this programme. In this connection it should be noted that co-generation as an additional source of producing power has vast potential in the country particularly in industries like sugar, fertilisers, textiles, cement etc where steel is used in large quantities for their operations. This untapped reservoir for cogeneration should be used. Its technology is known and easily available, the government's main contribution is to remove the hurdles in the way of this programme particularly the policy on pricing of surplus power produced through cogeneration. Here the SEBs should be buying the surplus power, and must be obliged to make prompt payments of their purchases as one means of ensuring reaching the target of 6000 MW during the balance of the year. This should be increased in the future plans to 10,000 MW which is what India's untapped potential points to.

Inflation

September ended (the week ending 25) with the wholesale price index standing at 7.3 per cent for the year. The price situation deteriorated during the first half of the current financial year at 6.6 per cent compared to the 6.3 per cent in the same period of the previous year. This means that unless the general price falls during the next six months the target of attaining inflation under 6 per cent by the end of 1993-94 will not be attained. Further, unlike last year when the inflation was

caused by the raising of the administered prices the inflation this year is essentially market led. This means that the inflationary expectation now is attributable to the large liquidity on account of higher average central government deficit levels. There is also the problem of these rates being based on provisional data so that when the actual growth figures are available the inflation rate is likely to be pushed up. Further, given the slack in industry, there is the opportunity for big house to raise cheap money. There has been no credit squeeze because banks to are flush with resources. This low growth equilibrium goes against the main purposes of the economic reforms which is to push up growth and that probably is the only way in which inflation can be controlled.

Economy

The earthquake that struck the Marathwada region of Maharashtra involved a large number of people killed and injured and heavy loss of property. It is time that the country developed the expertise to predict quakes with some accuracy and to build houses including the village hutments to stand such shocks.

The shortfall in revenue collections is serious as it makes fiscal management almost impossible. Against the budget's optimistic projections predicting about a 15 per cent rise in customs revenue and 5-20 per cent increase in direct taxes, though later the Finance Minister said that a revenue shortfall of Rs.2000 crores could be expected. The actuals are -Rs.1683 crores on customs, -Rs.1849 crores on excise and -Rs.808 crores from direct taxes. The present trend is that the gap is likely to be larger than last year's Rs.3500 crores and the deficit will exceed Rs.10,000 crores. This is not the time for relaxation of controls on expenditure. The low level of tax collections is due in part to the present economic situation in the country. Leakages in the collections of excise and customs duty are considerable and the possibility of expanding the personal income

tax is not very bright. The country's revenue from direct tax to GDP is one of the lowest in the world. The government's plan to expand the coverage of tax deduction at source might be one way of reducing the widespread evasion in the services sector but even here the poor yield from presumptive taxation of income does not give much hope for any sizeable increase in revenue. This is true both for the central as well as the state governments. The government has repeatedly stated that over the next couple of years customs duties, corporate tax, personal income tax will be lower in accordance with the Rangarajan/Chelliah Committee report but this is completely contrary to the slow and declining trend in the economy referred to earlier and the resulting decline in tax collections. One consequence would be that for the second year in succession, there will be a drop in the plan outlay in both the centre and the states.

Returning to the question of the economic reform impact on the economy dealt with in the past issues, the continuing industrial stagnation nullify the hopes of reform stimulating growth. The IIP index shows that for the first quarter industrial production grew by 0.2 per cent compared to last year's 1.5 per cent. What is worrisome is the depressed performance of the manufacturing sector which has grown only by 0.5 per cent despite the 28 per cent increase in exports reported. One reason is that the Indian industry has diversified away from intermediates, basic and machine making sectors, capital goods, and basic goods are facing difficulties while chemical, petrochemicals, electronics, consumer durables and food processing are doing well. Is there a case for recasting the industrial index in order that the performance of the economy may be more truly and accurately reflected?

In October RBI announced a credit policy which has been described as "a friendly busy season policy". The statutory Liquidity Ratio has been reduced from 37.25 per cent to 34.75 per cent and from 30 per cent to 25 per cent of incremental deposits which will release

a sum of Rs.4150 crores for banks to lend. It has also eased norms for lending by banks via the consortium system. This is unlikely to stimulate growth because as noted earlier the economy particularly industry has not been held up for lack of funds. The policy also announces packing credit for domestic inputs of exports being permitted in foreign currency. The maximum permissible bank finances is increased to Rs.2500 crores with CP issues allowed upto to one year, no limits on CD issues and the limits on investment in PSU Bonds raised to 5 per cent of incremental deposits. This policy which embodies the agenda of financial liberalisation raises several problems, namely, a financial sector boom while the real economy stagnates. The reason for our recession is the collapse of demand caused by the lack of purchasing power mainly through the cuts in government capital expenditure. Further, according to ICICI the average capacity utilisation declined by 2.8 per cent for basic goods, by 6.1 per cent for capital goods and by 17.5 per cent for consumer durables in 1992-93. This quantification of the earlier reference to the decline needs to be noted. The credit policy should have addressed itself to the major result of the present policy reforms which is the recession, under which fewer goods are produced and more money chases these fewer goods. Does this mean that the only choice for the economy and its planners is between recession and inflation? It is very doubtful whether the credit policy announced will revive the economy apart from stimulating the stock market. RBI by allowing all India institutions to operate on more hours in the money market has tried to solve the excess liquidity problems in the banking system which will be further aggravated by the reduction in SLR. Even NABARD and SIDBI states that they do not require any additional short term funds. Where then is the liquidity to be used? A gradual rise in inflation fuelled by the faster growth in M_1 , declining revenue collection, poor industrial performance, lower GDP growth and higher deficit which are retarding the pace of economic reforms have to be addressed.

Direct foreign investment flows reached Rs.1112.9 crores during the first seven months in the calendar year January-July. This is already Rs.447 crores higher than the total inflow of foreign investment last year at Rs.675.21 crores. There has also been a sharp rise in the total approvals given for foreign investments during the first seven months of the calendar year at Rs.5790 crores. While these amounts of foreign investment are welcome, it is important that they are in high priority and high technology industries like power, oil, food processing, chemicals, electrical and electronic equipments, telecon, transportation and industrial machinery and not in consumer items like coco cola, pepsi cola, health tax, hamburgers etc. With regard to the disinvestment of public sector enterprises referred to in the last issue, the government is unlikely to follow the Rangarajan Committee recommendations in this year's disinvestment programme because of the time limit imposed by IMF conditionalities on bridging the widening deficit: the sale of PSU shares is one means of meeting its conditionalities. There is some question as to whether PSU disinvestment should be used for bridging deficits. The government policy plans to use part of the finances for feeding the National Renewal Fund. In the hurry to raise resources the main valuable suggestions of the Rangarajan Committee such as the criteria for selection of PSEs for disinvestment, the percentage of equity in public disinvestment, the target clientele, the means for valuation of shares and the precautions to be taken in the plan for disinvestment as well as the over arching recommendations for the standing committee on disinvestment to be set up to oversee the entire programme are likely to be overlooked. The budget projected raising Rs.3500 crores through the scheme which calls for 2 or 3 rounds of disinvestment but it looks as if this year again there will be a repeat of the last two years disinvestment performance. One of the outcomes of the PSU disinvestment has been the gradual development of privatisation, though as secondary to the closing of the fiscal

deficit function mentioned earlier. Privatisation is now in the initial experimental strategy with no consensus among economists or the political parties about its necessity. Given the fact that 10.5 per cent of the country's total capital formation is now in the form of shares of public sector enterprises and the government commitment to IMF that budgetary transfers to the PSEs will be progressively reduced, this start of privatisation seems inescapable despite the record of the private sector with regard to efficient management and problems of corruption and nepotism. Privatisation should be preceded by market services, effective publicity, reductions of over manning and bureaucratic interferences and not using the resources from the sales of PSE shares to narrow budget deficits. Privatisation is one route but it is not the overall remedy to the problems faced in regard to the public sector enterprises.

During the month, the Securities and Exchange Board of India (SEBI) continued to be given additional powers such as the power to cancel the registration of under writers indulging in manipulation, price rigging or corruption. The rules and regulations issued during the month list the conditions for grant of recognition and the obligations and responsibility of under writers, procedures for inspection by SEBI and code of conduct. Thus no person can now act as the under writer without obtaining a certificate of registration from SEBI. The under writers will now be required to have a minimum network of Rs.20 lakhs and other regulations arise from suggestions made by SEBI for reforms in the primary market which is characterised by many deficiencies in the functioning of under writers. One of its main suggestions is that arrangements be made for firm allotment in mutual funds by Indian financial situation, foreign institutional investors including NRIs and OCBs and permanent employees of the issuers to the extent of the 70 per cent of the issue, with 30 per cent being offered to the public. The extent to which these and the other

reforms during the month will bring order and discipline in the stock market and its members, the brokers and under writers and afford protection to investors needs to be watched.

The causes of poverty in the country and the means of ameliorating or eradicating it need to be recast in light of recent studies. The Lakdawalla Committee on poverty shows a high poverty ratio of 39.3 per cent compared to earlier planning commission estimates of 29.9 per cent. Its methodology is superior as it takes into account the states specific price indices, separately for rural and urban areas and relies uniformly on NSS data. The resulting drop in the country's poverty in the 15 years (1973-74 to 1987-88) at 15.6 per cent is encouraging because the decline applies to the different depressed socio, economic groups - agricultural labour, casual non formal labour in the rural areas, scheduled castes and scheduled tribes and children. The paradox involved in this should be noted: some state's like Kerala and Tamil Nadu which have progressed a great deal in the social sector of education and health unlike in Bihar and Orissa, others like Punjab and Haryana register record results from HYV, unlike Karnataka, and more generally the wide inter state variations in irrigation. Rural roads and other rural infrastructure. Also the available non farm jobs and rate of urbanisation is varied between states. Given these inter-state differences, the paradox is the uniform decline in poverty despite some variations like the Orissa rural poverty ratio declining only modestly from 67.3 per cent to 57.6 per cent over the 15 year period while that of Andhra Pradesh has fallen from 48.4 per cent to 20.9 per cent. Maharashtra which is acclaimed the world over for its employment guarantee scheme has a rural poverty ratio of 40.8 per cent against the national average of 39.1 per cent. There is need for more research to give an explanation for these differences, which will be particularly necessary to formulate a strategy for the efficient use of resources through the increased investment in social sectors and as an effective means of reducing poverty.

Here the World Bank's policy research report, the East Asian Miracle which it shows can be replicated by other countries, which it states, if the following fundamentals are followed: First, the governments' must ensure that the benefits of economic development are widely shared; wide sharing mechanism give socio political stability which is necessary for growth; to quote the report "with an emphasis on primary education, equitable land holding, support for small enterprises, an export oriented drive and low cost housing, much of the East Asian Miracle can be achieved". Second, these countries support small and medium enterprises which give a fillip to equity and efficiency. Third, they achieved ground domestic and investment ratios. These lessons need to be followed by India and if that is done the rest of the reform programme namely export promotion, the opening up of the economy, technological absorption and an effective and secure financial system will also follow. (Incidentally the turn around in the World Bank's advocacy of market friendly approach and against state intervention should be noted and will be referred to later.)

Agriculture

In the agricultural area rabi price for 1994 have been raised by 6 per cent. This inflationary system of farm support benefits only the large and medium grain producing farmers and has helped the shift in area towards rice and wheat away from coarse cereals. The question is raised whether the question of continually raising rabi or kharif prices should be replaced by a system of cash payments in proportion to the amount of land owned. This will: (a) ease the subsidy burden, (b) remove the discrimination against the farmers who do not have a marketable surplus, (c) allow food prices to fall which will help the very poor consumers, (d) create a disincentive for leaving land fallow and (e) force the improvement in land records which will be of help to the small farmers.

Looking at the agricultural scenario in 1992-93, it is seen that despite the favourable monsoon, the change in export-import policy on agricultural products, the increase in procurement prices just referred to, the extension of fertiliser subsidy to farmers and concessions to them in the draft agricultural policy resolution, the overall agricultural production in the year is not a satisfactory indicator for our claim of emerging towards self sufficiency in food. The population growth rate at 2.1 per cent (adding 163 million in the decade 1981-91) would have been at the low per capita consumption rate. It is admitted that 186 million tonnes of foodgrains are needed. The availability in 1992-93 was 180.30 million tonnes. The same is true with regard to the current year where rising procurement prices and falling offtake have increased the foodgrain stocks by 86.5 per cent (30.09 million tonnes this year from 25.12 million tonnes last year). This increase is mainly due to the poor offtake in the first four months of the current fiscal year. The offtake was down by 27.5 per cent (compared to 4.6 per cent last year) thus the offtake has gone down for the third year in succession. This means that the PDS prices and open market prices of foodgrains are nearly equal and as quality wise the poor consumers can choose his variety of foodgrain, the PDS offtake decline is significant.

The water supply for agriculture will remain an unknown quality. Some area suffered from severe scarcity as the northern parts of this state and many rural areas, there are areas where the hutments and other dwellings are swept away by floods and the storm water. This points to the faulty handling of water resources where proper drinking water management policies not only lessens the intensity of floods but also makes water available to areas in need. Infact a FAO report points out that the country's land and water resources are capable of sustaining a population of 260 million if they are properly managed. Water is the key resource for a further development of agriculture. The first requirement is to increase the efficiency of our

irrigation system under which 30 per cent is lost through channel seepage and annual loss due to floods over 40 million hectares experienced.

On individual products the major horticulture products such as mango, grapes, bananas, lychee, mushroom, tomato, onion and garlic have entered our export front in a large way. Here there is need for modernising our food processing technologies. Similarly there is need to widen our export markets along with boosting our investment in this area. The National Federation of Cooperative Sugar Factory points to the decreasing trend in sugar production due to the downward cane production and substantial rise in cane prices. Further, leading farmers are switching to short duration crops like soya beans, sun flower, groundnut, pulses and vegetables. There is urgent need to correct this trend while liquidating the cane price arrears to farmers as well as optimising the cane prices.

During the month 22 research reports have been recorded with slightly increased number with regard to animal husbandry research, countering lactation diseases in cows, reducing cotton seed poisoning in calves, control of viral diseases of duck and developing an integrated package for kid rearing. The animal husbandry farmers are using the results of research more extensively and more effectively than the foodgrain growers. This may be investigated.

Plantation Crops

The Spices Board plans to double exports over the next three years is a sound one as it is based on shifting from supplies of raw materials to the value added consumer products with special emphasis on quality and productivity. In this connection the new logo introduced by the spices board would also help in expanding its exports which last year reached 90 countries and earned Rs.382 crores. This year the export earning from spices is expected to succeed Rs.500 crores. Coffee Producers in the country and the coffee board face two problems. The US has opted

out of the international coffee organisation, which related the future of ICO rather closely to the success or failure of the Coffee Export Reduction Scheme. In turn this scheme will be effected by the approach that the US now can adopt towards world coffee. A second problem is an internal one and that is the relations between coffee board and Nestle' which have been troublesome throughout October. Nestle' India is suspected of purchasing large quantities of coffee from the Internal Safe Quota (ISQ). The Board suspects the link between these purchasers with the Nestle's diverting all the coffee meant for the exports into the domestic market. It has appointed a sub committee to investigate this alleged infraction. This difference between the Board and the Nestle' should be speedily settled in order that the coffee industry can function effectively in the country.

Industry

Industrial production particularly the manufacturing sector registered a steep decline in June. Industrial production registered a negative growth of 0.2 per cent (as against last June's 3.6 per cent) and the manufacturing sector decreased by 2.5 per cent (as against the rise of 3.4 per cent last June). Similarly an unsatisfactory trend were registered in the crude oil production (-5.4 per cent), fertilisers (-50.7 per cent), with only coal production and electricity showing upward trends. The slow growth of industry and particularly manufacturing is confirmed by the first quarter data. Industrial growth performance of 0.2 per cent covering food products, textiles goods, electrical machinery and transport equipment. NCAR states that its model predicts an industrial growth rate of 4 per cent and GDP at 4.5 per cent. This poor performance of industry in the first quarter is undergirded by ICICI's study on capacity utilisation in the private corporate sector (1990-91 and 1991-92) which show an overall decline in the capacity utilisation rate of the various products manufactured by the private corporate sector. The study covers 408 ICICI assisted

companies. A survey of the leading multinationals by the economic intelligent unit of the Economic Times shows that foreign companies considered the Indian bureaucracy to be a bigger obstacle than a creaking infrastructure referred to earlier or poor quality suppliers or low productivity labour, or unfair and slow legal system, or the influence of local business interest over government policies. The survey shows the multinational companies' satisfaction with the introduction of liberal economic reforms and the attitude to foreign investment, its implementation by the bureaucracy being the bottleneck. Multinationals have been invited to develop Bombay High oil field particularly the 25 leading companies. The lease will be on profit sharing basis and the use of the most recent and effective technology. The government has notified input output norms for 419 more export items which takes the total number of such norms to 2900. The latest norms notified include the engineering groups (353 norms) chemicals (46) and electronics (10), they should result in expanding the demands for Indian products resulting from improved quality. The record of BIFR analysed by the Goswami Committee report was referred to in the earlier issue. It has not touched on the committee's main aim which is to act as a fast track companies liquidating agency, the record of BIFR show the progressive improvement in its rate of disposal of companies referred to it. There are serious delays which affect the companies referred to it, but the cause for the delays is really the government particularly the ministry of finance. One move to speed up BIFR's action process is the decision to order sale of the assets of sick units even at the start of their winding up process. Here banks and financial institutions will be requested and required to dispose assets of sick units in a time bound manner and deposit the proceeds with the respective high courts. In order to bring down industrial pollution levels of the country, UNIDO has launched a project to reduce the large wastes generated by the country's small scale

industry. The project starts with three industries - pulp and paper, textile processing and pesticide formulation. These three sectors waste minimisation programme is being backed by CII in an effort to get companies themselves to undertake it. The increasing fertiliser subsidy bill is disturbing because it seems out of control and looks like it will be over Rs.5000 crores against the projected Rs.3500 crores. The major part of this addition will be due to rising imports particularly to meet the growing demand for urea. There is need for quick action, the increase in support prices which will not be reflected in increased farm prices as fertilisers counts a small share in total farm costs.

Foreign Trade

For a change the foreign trade scene presents a satisfactory picture with the trade gap declining \$1.5 billion in 1991-92 because of the sharp restrictions on imports, \$3.3 billion in 1992-93. In the current year the first five months, April-August, recorded exports rising by 24.3 per cent from \$6.9 billion to \$8.6 billion while imports declined by 3.7 per cent from \$9.2 billion to \$8.9 billion in the same period last year. Hence the trade gap for the period was a small \$254 million against \$2.3 billion for the same period last year. In dollar terms exports registered a rise of 24.3 per cent (\$8.7 billion). The main good performers in the first quarter being gems and jewellery (+72 per cent), ready made garments, engineering goods, leather, cotton yarn and made ups. In August there is a slight deceleration in export growth which remains at over 24 per cent, above the year's target of 20 per cent. Of the \$3.4 billion of additional exports targeted for this year, half (\$1.7 billion) have already being realised in the first five months. Hence the August deceleration is not the cause for worry except for the high expectation raised by the first quarter's performance of 28 per cent. The government however says that it would be satisfied with 15-16 per cent export growth. In this connection the exports to CIS markets of 18 per cent

during this period should be built upon for a further increase. The continuing dip in imports caused mainly by the fall in crude oil prices is a cause for worry as there is also a fall in non oil imports which reflects the persisting recession in industry. The significant decline in the trade deficit during April-August and the inflow of funds from the foreign financial institutions burdened with scarcity in stock expenditures have led to the RBI funds held abroad rising above Rs.18,000 crores in October. The turn around in export performance should be maintained if BOP pressures are not to reemerge. The pattern of export growth shows that its improvement has occurred in the primary commodities area which cannot be sustained for the rest of the year. Real export competitiveness should be in Indian merchandise as well as services, as quality competition, without depreciation providing the main prop. (The rupee depreciation has been 9 per cent during this period). Hence the export basis needs to be expanded and strengthened and the import liberalisation must be reflected in substantial export gains. Despite this good record the external sector prospects for the next three years are not too bright.

Foreign exchange reserves are about \$8 billion which are due to the fact that there we're no large repayment dues. The World Bank assistance of \$215 million for Maharashtra Earth Quake Relief Fund, and the declining imports referred to earlier. For 1994-95, the situation may worsen as the period of repayment of IMF loans will begin. Over the next three years \$5 billion will have to be repaid to the IMF and in 1996-97 \$1.6 billion will have to be repaid when the Indian Development Bonds are redeemed. It is to be hoped that the government will not turn to IMF's EFF and ESAF, in this situation because of the hard conditionalities involved. In October the Government imposed quotas on the export of products to Russia under the double repayment mechanism through which India has to repay Rs.1500 crores to Russia in commodity exports. The quota restrictions

are initially on agricultural products and other essential commodities. This innovation will affect agriculture and the economy in the coming years and needs to be watched.

Loans and Aid

A rather curious development is the lack of takers for the foreign current year loans being offered by ICICI, IFCI. As a result ADB has been asked to cut a large part of its loans - \$60 million meant for ICICI, \$150 million for IFCI. Is it because the terms of the loans are harsh or the cost of servicing the loans increased as the result of the exchange rate depreciation? This needs probing. In October the Small Industries Development Bank has requested \$50 million from IBRD as short term facilities for tanners and textiles units for the small scale sector. Similarly ADB has selected Karnataka for the first urban development project in the country and has offered a loan of \$200 million. IBRD has made a loan of Rs.800 crores for the Haryana government's composite water resources consultation project. Compared to last year, this slowing down of loans is good from the point of view of the repayment obligations.

Human Resources Development

The Education scene presents positive and negative features in October. Latur in Maharashtra which was to be declared a total literacy district in October was laid flat by the earthquake, resulting in all efforts turning from education to saving the people and their houses. This gloom over shadows the literacy achievement. In order to achieve universal primary education and total literacy, the satellite, INSAT II B, is to be employed. The ministry's normal plans for this runs into thousands of crores of rupees which do not exist. Demonstrations and experiments carried out in interactive satellite based broad casting system for educational training, makes possible reaching out to large numbers of receivers and for the receivers to interact with the sources. Hence the efforts now under

effective channels. Secondly, there is the critical importance of a decentralised system of planning which would allow for effective utilisation of local level comparative advantage. For this, decision making power has to be effectively decentralised, and as the experience in West Bengal, and the short-lived experiment in Karnataka has shown (Aziz, 1993), a stable system of Panchayati Raj Institutions is essential. It is to be hoped that the proposed Bill on Panchayati Raj will provide the constitutional framework and the political imperative for effective decentralisation. The effects of purely administrative attempts at rural industrialisation have been shown to be ineffective, through Indian experience itself, in the 1960s and 1970s (Planning Commission, 1978).

This note considers the possibilities for growth of a specific segment of the rural non-farm sector, embryonic manufacturing and repairing enterprises based on skills already located in the rural areas. It is *not* concerned with the prospects of tertiary sector activities, although it is recognized that they are a necessary component of any general programme for rural development. It is also principally concerned with areas where the preconditions for substantial growth in agricultural output do not exist.

In 1981, there were 2.85 crore men, and 0.5 crore women, in the rural areas whose main occupation was in non-farm activities (Census 1981). As many as 1.27 crore men, and 0.26 crore women were actually involved in manufacturing activities, repairs and in operation of mechanical equipment (Divisions 7,8,9 of the 1968 National Classification of Occupations). Within this subsector, it is possible to identify a number of distinct groups of skills and aptitudes. The first, and most important, consists of those that have emerged in response to an industrial way of life (motor vehicle and tractor repair and electrical jobwork, for instance). The second, and the preponderant one, in terms of numbers, includes those intrinsic to the

village economy (tanning, oil pressing, khandsari, pottery, etc.) The third group involves occupations where simple machinery has transformed the character of the work, and enabled the skill to retain contemporary significance (tailoring, carpentry, construction activities). Finally, there are one or two exceptional cases, such as handlooms and bidi making, where significant markets have been retained for products made with largely traditional technology.

A rough classification of the four groups shows that the *modern* occupations involve 24 per cent of the men, and 7 per cent of the women in the rural non-farm sector; the *traditional*, 40 per cent of both men and women; the *third* group for 20 per cent of men and 9 per cent of women and, finally, *handlooms* and *bidi making* for the remaining 16 per cent of men and 43 per cent of women. Put in its most graphic form, the objective of policy should be to ensure that demand is generated for the products and services provided by the first, third and fourth groups, where long term viability has been demonstrated. The problems of the sizeable section of the rural population who earn their incomes from participation in the *traditional* (the second) group have to be addressed by simple measures for technological and skill upgradation, of the kind observed historically within the third group. Otherwise, their livelihoods must be ensured by their employment in asset creating activities in public works programmes. This point is emphasized because in the absence of concrete steps to improve technology and skills, within their *own* occupations, the limited access to education they have cannot be expected to equip them for the entrepreneurial roles envisaged by IRDP kinds of public interventions. (In these occupations the male illiteracy level is 51 per cent, compared to 33 per cent in the first group).

However, female illiteracy is actually higher in the first group, at 85 per cent compared to 81 per cent. This is an indication that the occupational categories, at the two digit level

They point out that taken together with the protective barriers erected by the industrial nations, the external environment for the developing countries is grim. This situation contrasts with the economic reform programmes that the developing countries have adopted including reduction of their trade barriers. Further, the higher growth in some developing countries of Asia and Latin America is providing markets to the industrial nations. US exports, for instance, to China, West Asia and Latin America grew in 1981-1992 at 10 times the rate of increase than its export growth of Western Europe. The IMF in particular raises the question as to how long the developed countries can continue to be an engine for global growth, hence the vital necessity for revitalising growth in the industrial countries.

The shape of future growth in Asia may be the triangle made up of informal economic zones that stretched across the borders of the countries. ADB joins the governments in calling attention to larger and more structured attempts of integration such as the 15 member Asia Pacific economic cooperation forum. The only growth triangle set up now is the pocket of economic cooperation with promise of free trade and efficient use of resources by linking complementary of adjoining countries. **This is being duplicated in three other countries whose future needs careful examination.**

The World Bank study just published, The East Asian Miracle seems to suggest that the IMF/US theory about development is not succeeding. The IMF view that the transformation from the command economy to the market economy is through the "big bag" or shock therapy. The major ingredients of this transformation including privatisation have to be swallowed in one gulp. The result will be painful with mass unemployment, inflation and even starvation. However, UNCTAD's annual report challenges this theory, pointing to China whose economic reforms adopted the gradualist method starting with agriculture and exports and reached a

growth rate of 8.5 per cent per annum during 1978-90. A gradual move towards marketisation has been accomplished in that country without any formal privatisation of state owned enterprises. A successful creation of town and village enterprises has been particularly outstanding as its rapid and new organisational form not be privately owned but acting according to the rules of the market. The World Bank's publication, East Asia Miracle, referred to earlier, covers the East Asian and the newly industrialised countries of Hongkong, Taiwan, Singapore, South Korea, Malaysia, Thailand, Indonesia and Japan which have been growing by more than 8 per cent per annum, according to ADB, the World Bank points out that this has been possible because of the promotional supportive state intervention, including promoting private investment sources. The infrastructure, supporting R&D and expansion of education and health which the market does not seem able to perform. This turn around is also noticed in the IMF managing director's statement, to the two day annual World Bank/IMF meeting in which he makes a strong case for evolving social policies and states "I include here policies to alleviate poverty protect the most vulnerable and slow down excessive population growth". Similarly the World Bank President highlighted at the meeting the need for an efficient public sector to promote sustainable growth in the developing countries. He stated "the private sector cannot do it alone. An efficient public sector is an essential partner to invest in people, to provide safety nets for those in need, to support basic infrastructure, and to enforce environmental protection without which there can be no sustainable development". As noted earlier this is a complete turn around for both World Bank and IMF which now seems to appreciate the views and experience set forth in the Bulletin.

If the developing world has been able to register sizeably higher growth than that of the developed world, this has been due largely through the consumption needs of these

countries. Imports of the developing countries showed an increase of 122 per cent between 1986-1992 as against an increase of only 80 per cent by the developed countries. Most of the countries in the developing world specially East Asia are export oriented economies and their GNP for the most part is influenced by the pace of their international trade. Given the disparity in the growth in output in trade between the developed and the developing countries, it is apparent that large number of developing countries are not only able to grow independently of the developed countries' performance but that they also trade more among themselves than before. This is the South-South cooperation, and is a trend to be welcomed.

IMF in its latest forecast for the global economy predicts that the global economy backed by robust growth in the developing countries referred to earlier is expected to register a growth rate of 3.2 per cent in 1994 compared to 1.1 per cent in 1993. Given the fact that the actual performance of the world economy for the last two years have been well below the IMF forecast, the prediction is made with some caution. Currently America, most Europe, Australia and Japan are facing the serious problem of falling asset prices and rising debt which has persisted for almost three years. Further if the performance of the major industrial economies continue along the present lines it is doubtful if in April 1994 IMF will be able to confirm its present forecast of 1.1 per cent growth for 1993. In regard to the higher growth rate of the developing countries, which has hiked the average for the world as a whole, it is not only the East Asian countries referred to earlier which are recording high growth rates, they are being joined by Argentina, Mexico, Chile and Colombia. The inflow of foreign capital is once again playing an important role in the economic development of these countries. Also some African countries have joined this group. The declining scenario in central and eastern Europe is coming to an end though it remains for this year and next at a rather low level.

GATT

The Uruguay round is being stalled by the US European disagreement over reduction in farm subsidies. Both sides have hardened their position so that the out line agreement proposed in the Dunkel Draft is a non starter. The new GATT Director General has appealed to all countries to make the painful decision to dismantle trade barriers that protect such politically powerful sectors as agriculture in order to gain greater benefits for all. Today, his appeal is unheeded.

World Scientific Academy

The population summit of the world's scientific academies has been considering the problem of population fertility rates. It concludes that family planning alone cannot reduce world population to a sustainable level because the population problem is multi faceted and complex. It is both a cause and consequences of changes in environment, economic development, bio diversity, land aggregation, energy conservation, exhaustion of resources and erosion and social back up institutions. A second conclusion is the need for paying greater attention to providing better education, health and economic opportunities to women as a means of tackling population problems. Women's role in the effective management of resources of environment is decisive; it points to an increasing faminisation of rural poverty, seen in the fact that between 1965 and 1988 there has been a 17 per cent increase in poverty of women compared to men. The majority view was that population policies and family planning services would be more effective and responsive to women's needs if they were crafted on the basis of the understanding of the interaction between gender and poverty in developing countries. However nine academies from Japan, Argentina, Armenia, Georgia, Italy, Spain, Africa and Ireland enter reservations on the declaration because the African academies state that for them population is an important resource for development, the Japan and

Argentine academies believe that such declarations are outside their jurisdiction. Armenia, Georgia, Italy and Spain could not sign the document because of intra group differences. Nevertheless the statement is a milestone for global development.

Other Items

All India Radio

There was an AIR broadcast on the problems of extending literacy and continuing it to extension programmes. It was pointed out that while some 120 districts in the country are in the course of attaining total literacy, there is need for two further emphasis. First, the literacy effort should be linked to the developmental needs of the illiterate, second there should be no gap after reaching complete literacy and the continuing post literacy programme in order to avoid reversion to illiteracy.

National Centre for Industrial Harmony

The Centre held its annual general meeting in mid October, at which there was emphasis on the training programmes as a means of promoting harmony between labour and management. One of the effective training programmes was run in the President Hotel for training middle level managers in successful outcomes of their assignments. The conference reviewed and approved the audited statement of accounts of the Centre for the year 1992-93 and approved the budget for the following year.

Tamil Nadu State Council for Higher Education

The second meeting of the Tamil Nadu State Council for Higher Education was held in mid October. The Council reviewed the follow up undertaken by the Secretariat

of its decisions at the last meeting. It approved the recommendations of the advisory board of Vice Chancellors on the functioning of the autonomous colleges in the state. It also made decisions on setting up machinery for testing the quality of education and the qualifying examination for lecturers. It reviewed and approved the budget for the year and the staff appointment made by the President.

Science City

A meeting of scientists, planners and administrators was held at the Swaminathan Centre for carrying forward the planning of the Science City. The main needs are two. The first is to link the twenty two scientific institutions in the Taramani area through computer net works. Second, is to build an auditorium which will hold about 1000 scientists. The gap in this plan is that science has been interpreted rather narrowly to include only the physical sciences and technology excluding the social and human sciences, which would make the science city really viable.

India International Centre

In October there were two main events in the India International Centre. First there was a meeting of the Board of Trustees which approved the architectural plan for the six grounds made available to the Centre by the government. This annex is to be an expansion mainly for the conference, meeting facilities of the Centre and is likely to cost Rs. three and a half crores, including a half a crore already paid to the Delhi government. The second event was the seminar on India and the Gulf in which it was noted that there is still a rather large area of ignorance on both sides which needs to be bridged. The Gulf countries are passing through difficult times because they have over committed themselves and their oil revenues. Here India could not only continue as a receiver of gulf resources

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Institute of Social Sciences

The Institute at its annual meeting in October at which the Secretary General's report was discussed in some detail. With a small staff the institute has been able to run some 12 seminars and training course and published five documents. It was emphasised that there is need for some concentration of effort given its limited resources both in manpower and in finance and that its three fold programme could in some ways be inter related. The meeting also received and approved the audited statement of accounts for 1992-93 and the budget proposed for 1993-94.

SRC and TNBCE

The Sixth Triennial Annual Conference of Tamil Nadu Board of Continuing Education and the State Resource centre was held at

the end of October with the Commissioner of Adult Education inaugurating it, under the chairmanship of the president of the Association. The theme of the conference was the relation between continuing literacy education and the development needs and facets of the people. It was emphasised that more and more education should be turned in this state from literacy education to continuing education in a functional context. The general body received the annual reports of TNBCE and SRC made a number of suggestions and approved them. It also received the report on the recommendations made by the meeting of voluntary agencies held the previous day. It approved the reports and the audited statement of accounts for the year. It reviewed a valuable evaluation report by the President on Cadre based Adult Education. The general body proceeded to elect the council of TNBCE comprising 50 members. It also elected the office bearers of the two bodies, the President, the Vice President, the Secretary, Joint Secretary and Treasurer. The Council meeting soon after elected 18 members of the Executive Committee of TNBCE and the Governing Body of SRC.

First Article

The paper for the November seminar "The Global Economy of the 1990s" appears as the first article.

Second Article

A note on "Transformation of Skills into Manufacturing Activities : Policies for the Rural Non-Farm Sector" appears as the second article.

Book Review

The review of the book, "Technology and Competitiveness : The case of Brazilian and Indian Machine Tools" appears in the book review section.

MIDS News

Dr.C.T. Kurien delivered a lecture on "Globalisation" at a Workshop on New Economic Policy organised by the Jana Vignana Vedika, Hyderabad, on December 2, 1993.

Dr.S. Neelakantan participated in the Round Table on "Poverty Reduction Policies and Strategies in India" sponsored by ADB and ISEC, held at ISEC, Bangalore, on December 6-8, 1993, and presented a Note on "Urban Poverty Reduction Policies and Programmes of the Government".

Dr. Nirmal Sengupta presented a paper on "Search for Alternatives" at a conference on Development of Bastar, held at Nagpur on November 5-6, 1993. He also participated in a Congress on Traditional Science and Technology held at IIT, Bombay, on November 28 to December 3, 1993 and delivered the Key Note address on "Water Management Section".

Dr.R. Hema participated in a Discussion Meet on Health Economics held at CMC, Vellore, on December 1-3, 1993.

Dr.Steen Folke, Research Director, Centre for Development Research, Copenhagen, visited the Institute on November 17, 1993.

Dr. I.M.D.Little, Emeritus Professor of Economics, Oxford University and Fellow of Nuffield College, Oxford, delivered a special lecture on the "East-Asian Miracle" at the Institute on November 30, 1993. This was followed by a lecture on "Macro-Economics and Political Economy 1964-91" by Dr. Vijay Joshi, Fellow, Merton College, Oxford.

The twenty-third meeting of the Heads of Social Science departments of the Southern Universities was held at the Institute on December 4-5, 1993. The theme of the meeting was "Financing of Higher Education in Social Sciences".

The Global Economy of the 1990s

C. T. Kurien

I

THE package of economic reforms initiated in the country in mid 1991 with its accent on liberalisation, globalisation, privatisation and marketisation rests very heavily on a chain of assumptions. It is claimed that the global economy is one of trade among national economies, that such trade is competitive and free, that the integration of the Indian economy to it through liberalisation will open up a "market-friendly" economic regime which, in turn, will result in increase in competition, efficiency and growth. It is this chain that the Finance Ministry's recent Discussion Paper, *Two Years of Economic Reforms* claims will make possible "to break age-old bonds of poverty which continue to afflict so many millions of our people". Many of these assumptions are of a theoretical nature with several "ifs" to be satisfied for their validity. And yet economists who put forward these propositions to provide the rationale for the reforms either forget or ignore these theoretical conditionalities and present the chain of arguments as though they are self-evident propositions, or truth to be accepted by faith and with reverence. The extent of creedal recitation that goes on in a discipline that claims to be an advanced science is truly amazing!

Be that as it may, some of the assumptions on which the economic reforms are based are essentially empirical in nature whose veracity can be scrutinised with the help of

factual information. The nature of the contemporary global economy as it has been taking shape during the past couple of decades and as it has been emerging in the 1990s is one of them. What I propose to do in this presentation is a factual analysis of that entity with reference to the 1980s and the first couple of years of the 1990s. The data have been gathered from respectable publications such as the reports and studies of the World Bank, UNCTAD, and that great champion of free trade and free enterprises, *The Economist* of London.

II

The Background

A quick review of the developments in the world economy since the end of the Second World War may be helpful. Recalling the collapse of world trade, the competitive devaluations ("beggar thy neighbour" policy) and the spread of the depression of the inter-war period, the United States and the United Kingdom, as the emerging victors of the war set out to create a new international economic order. It was not a global order. The Soviet Union, though an ally in the war with the USA and the UK, was not a party to whatever post-war economic arrangements the other two were planning to make, while cooperating with them in the establishment of the United Nations Organisation. The majority of the countries who are now members of the UN also did

not have any direct involvement in the discussions because they were still colonies of European countries. Among these colonies India was a party to the discussions, but was represented by the British Indian administration. Even among the "big powers" the UK did not have much clout at that time as the war had really ravaged it. So, the new economic order was essentially designed by the USA which had, by this time, emerged as the obvious leader of the "free world". The ground rules for the new order were discussed at a conference in Bretton Woods in the USA in 1944. There was general agreement that what was required was a world in which countries did not close their eyes to the repercussions of their actions on others. But on the details of the plan there was difference of opinion. A proposal by the British economist Keynes was initially given careful attention. But at the last moment what was adopted was a counter proposal put forward by an American banker. The decision was to set up the International Monetary Fund (IMF) whose responsibility was to maintain a fixed exchange rate system with provisions for dealing with temporary balance of payments problems of member nations and the International Bank for Reconstruction and Development (IBRD, but from the beginning more widely known as the World Bank) to provide long-term capital. Thus two international agencies were established to deal with economic issues, both based on banking principles rather than on principles of cooperation among independent countries of the world. The proposal to set up a genuinely international body to deal with trade was rejected by the USA, but a few years later a consultative body to talk about and decide on trade was established which has come to be known as the General Agreement on Trade and Tariff (GATT). As was designed, a lot of talk does take place under its auspices.

The fixed exchange system established at Bretton Woods and of which the IMF was to be the guardian seemed to work

successfully for the first decade and a half. However, it was not so much the setting up of a system that accounted for the smooth functioning of the international economy at that time, but the dominating role of the US economy and the strength of the dollar which, therefore, came to be accepted as the *de facto* global currency. The flow of capital also was largely unilateral, from the US to Europe in the form of the Marshall Plan, to Japan for its reconstruction and in small trickles also to what were then recognised as underdeveloped countries. "The American economy became the principal engine of world economic growth", recalled a commentator, "American monetary policy became world monetary policy, and the outflow of dollars provided the liquidity that greased commerce". (Robert Gilpin, *The Political Economy of International Relations*, Princeton University Press, 1987:133). But the hegemonic role of the American economy and the standing of the dollar as international currency were to have other consequences which soon began to become evident. The United States needed foreign exchange to finance its global operations, especially the stationing of its forces in Europe and carrying out a prolonged war in Vietnam. But since the dollar was globally accepted, the US was in a position to solve its balance of payments problems by issuing its own currency as and when the need arose. For a short while the dollar reigned as the undisputed global currency as no other national currency had ever done.

One reason for this global acceptability of the dollar was that the US government had the legal obligation to convert the dollar into gold on demand. But this arrangement was not to last for long, both for global and domestic reasons. At the global level, both Japan and West Germany had spectacular economic revival from the 1950s and throughout the 1960s, and their currencies, yen and mark, emerged into the global scene. In the meanwhile the massive escalation of the Vietnam War led to glaring

deterioration in America's balance of payments and US domestic policies, particularly the Great Society programmes of the Johnson administration, generated huge budgetary deficits leading to inflation in the country. These developments that began to show the vulnerability of the US economy and the steadily growing capital surplus of Japan started eroding the confidence of the world in the strength of the US economy and the dollar. By 1971 the outflow of gold from the US had become massive and in August of that year Nixon was forced to announce the suspension of the convertibility of the dollar into gold, thereby abandoning the basis of the Bretton Woods system of fixed exchange rates, although the decision to move to an era of floating exchange rates was made only in 1973 and was formally ratified only in 1976.

The change in the status of the dollar and the first oil shock of 1973 resulting from the sharp hike in oil prices by the OPEC could have thrown the international economy into utter chaos. However, the willingness of the OPEC and Japan to continue to hold their surpluses in the form of dollar gave the dollar the status of *de facto* reserve currency, an arrangement which continued for some more years.

The period from the end of the Second World War, or the beginning of the 1950s till the oil shock of 1973, was one of unprecedented growth in output in real terms in most countries of the world, including the underdeveloped countries which demonstrated their capacity to grow giving the lie to many grand theories which asserted that low income countries would not be able to grow because of the vicious circle of low productivity, low incomes, low capital formation and low growth - a clear case where what appeared to be a logically plausible theory turned out to be empirically not true. There was very rapid expansion of international trade also; in fact, the period has been identified as the one with the

highest rate of growth in international trade ever. For all these reasons the 1950s and 1960s have come to be referred to as the "golden decades".

Along with these changes a development of far-reaching consequences was also taking place. The political and economic clout that the United States had during this period was put to use to promote the global interests of the giant US corporations and to give them a new standing as transnational corporations active across national boundaries. From an accumulated direct investment of a little over \$10 billion in 1950, American direct investment abroad had picked up rapidly and by the early 1970s the US had become more of a foreign investor than an exporter of domestically manufactured goods. These investments continued to some extent in traditional manufacturing industries, but increasingly they came to concentrate in the automobile industry, chemicals and electronics. And by the early 1970s international production by American transnational corporations had surpassed trade as America's international economic involvement. Foreign production by the US corporations had become nearly four times as large as American exports. Also, a substantial proportion of the US export of manufactured goods was really transfer from an American branch to an overseas branch of a transnational corporation. What was essentially a US phenomenon up to the 1970s became more widespread with European and Japanese transnationals also following the pattern set by the US TNCs. The emergence of the TNCs, thus, introduced a new set of actors in the international economic scene. Under their influence, what was basically an *international* economy till then began to get transformed into a *global* economy with a new global division of labour cutting across national boundaries and a substantial flow of capital and funds also moving

back and forth from country to country, all under *private* auspices. That shows also the underlying connection between globalisation and privatisation and the eagerness of the TNCs to project these as the slogans of a new age.

III

The 1980s - Changing Patterns

The 1970s ended with another major jolt to the world economy, the second oil shock of 1978-79. Thus, though the decade started with great expectations of the continuation of the golden period, the mood was very different at the end. The changed mood pervaded much of the 1980s. In some respects the early 1980s bore striking resemblance to the early 1930s. The early 1930s witnessed the collapse of the British hegemony that had for a century dominated the international scene. The situation was similar in the early 1980s, the US hegemony of three decades was over and the role of the dollar as the lead currency was in dispute. Thus both periods saw a return to a competitive nationalism after some experiments in internationalism. Both decades became periods of flexible and floating exchange rates. A further feature that the early 1930s and the early 1980s had in common was recession which in the 1930s, of course, turned out to be the Great Depression. In both instances, the recession started in the United States, in the 1980s as a result of the policies adopted to fight inflation of the closing years of the 1970s. Domestic policies in the US, especially after Ronald Reagan became president in 1981, were geared towards the monetary regulation of the economy. Putting up the rate of interest and restricting money supply were considered necessary to curb inflation. These measures led to a slowing

down of economic activity itself and the recession started spreading. The recessionary mood prevailed in many parts of the globe till 1983. There was then a recovery for about five years, but recession returned in 1988 along with unemployment and has continued to be the prevailing situation right upto 1993. Even the Gulf War of 1990-91 gave only a temporary reprieve.

Taking the decade as a whole, the low tempo of economic activity in the leading industrial economies was one of the most visible features of the 1980s. The per capita GDP of the "industrialised market economies" that grew at an annual average of 3.6 per cent from 1950 to 1973, came down to 2.0 per cent from 1973 to 1989. There was a particularly perceptible fall in the growth of industrial production of the top ones among them in the 1970s as compared with the 1960s and in the 1980s as compared with the 1970s. Unemployment also became very acute in practically all the Western countries and became very much of a global phenomenon. On this the *Human Development Report, 1993* has observed thus:

In OECD countries unemployment stayed above 6% throughout the 1980s, reaching a peak of 6.9% in 1991, which means more than 30 million jobless. Unemployment in the European members of OECD increased three-fold from 3 per cent in the mid-1970s to about 10% in 1992. The situation in the developing countries is much worse. In Sub-Saharan Africa, not a single country had single-digit unemployment figures throughout the period. In Latin America, urban unemployment has been above 8%. And in Asia, countries like India and Pakistan, despite respectable GDP growth rates (more than 6% a year), had unemployment rates above 15%.

Global trade also began to recede. During the quarter century from 1950 to 1975 the volume of international trade expanded by as much as 500 per cent, against an increase in global output of 220 per cent. The volume of trade continued to grow in the next decade also, but at a much slower rate in relation

to global output than before. According to World Bank data, world trade which grew at an average annual rate of 6.5 per cent in the 1950s, 8.3 per cent in the 1960s and 5.2 per cent in the 1970s, came down to 4.0 per cent in the 1980s. What is equally significant is that trade came to be much more among the richer countries with trade between the richer and poorer ones considerably reduced.

But there was one sphere where the 1980s witnessed enormous, almost mind-boggling expansion. This was the sphere of finance. *The Economist* gave the following figures in its survey of the World Economy in September 1992:

- ☆ In 1980 the stock of international bank lending was 32.4 billion. By 1991, it had risen to \$7.5 trillion. In 1980 it constituted 4 per cent of the GDP of OECD industrial countries; in 1991, 44 per cent.
- ☆ In 1982, the total international bonds outstanding was \$259 billion, by 1991 it was \$1.65 trillion.
- ☆ In 1970 America's securities transactions with foreigners amounted to the equivalent of 3 per cent of the country's GDP, in 1980 the figure was 9 per cent, in 1990 it was 93 per cent. The corresponding figures for West Germany were 3 per cent, 8 per cent and 58 per cent; and for Japan, 2 per cent (1975) 7 per cent and 119 per cent.
- ☆ Currency trading in 1991 was estimated to be roughly \$900 billion each day.

To these may be added another set of related figures. Foreign direct investment nearly tripled in the 1980s and by the end of 1990 stood at over \$1.5 trillion in terms of book values.

These changes, certainly, have been unprecedented. *The Economist* found in them the emergence of a new global economic order. It said:

Twenty years from now economists will think of the 1980s not as the decade of the international debt crisis, nor of the dollar's boom and bust, still less of Reaganomics and monetarism. All these mattered, but none of them marked decisive change in the forces that drive the world economy. Yet, the 1980s did witness such a change. During these years many of the boundaries between national financial markets dissolved, and a truly global capital market began to emerge. It is for this that the past decade will be remembered.

The dissolving of the boundaries between national financial markets has certainly introduced a new aspect to the global economy. It is very much the doing of the TNCs and it is, therefore, necessary to see the phenomenal growth of these corporations and the nature of their operations in recent years.

A brief reference has already been made to the emergence of the transnational or multinational corporations in the decades immediately after the war. The TNCs or MNCs consolidated their position in the 1970s. But, paradoxical though it may appear at first, their growth peaked in the 1980s when the growth of output and trade slowed down. *The Economist* in a special survey of MNCs in March 1993 said that from 1983 to 1990 foreign direct investment grew four times faster than world output and three times faster than world trade. The survey also indicated that at the beginning of the 1990s there were over 35,000 MNCs, in the world controlling some 170,000 foreign affiliates. Some of them like Royal Dutch-Shell, Ford Motor, General Motors, Exxon, IBM are international giants but not all MNCs are large. But the largest 100 (excluding those in banking and finance) accounted for \$3.1 trillion of world-wide assets in 1990, roughly 16 per cent share of the world's productive assets, of which \$1.2 trillion was outside their respective home countries. Possibly a third of world trade also takes place within the TNCs, as transfers from one of the units of a TNC (subsidiaries, affiliates etc.) to others.

Undoubtedly, one of the main reasons for the rapid growth of the TNCs has been the technological revolution of our times that has led to substantial economies of scale in production and possibilities of global specialisation in production. The automobile industry provides a good example. Today the production of a motor vehicle involves the manufacture and assembly of more than 4,000 components for each unit in a number of stages. Many of these stages are subject to economies of scale to differing extents. Taking all these into account, it has been estimated that for passenger cars the minimum efficient scale is something of the order of 200,000 to 250,000 units per annum for the mechanical parts and over 1,000,000 for the body panel. It is not difficult to see why multinational enterprises emerge in such industries. Few national economies can absorb a million cars a year; markets have to be found in different countries. If that is the case, production plants can be located in different parts of the world. In fact, the components can be produced wherever there are specific advantages of production and transported to a central place for final assembly. It has been shown, for instance, that the manufacture of Ford Escort, which is assembled as a car in the UK and Germany is done effectively in 15 different countries. Centralisation of control with diffusion of activity is the basic principle that underlies such operations.

But the TNC's operations are much more in the sphere of marketing than production. Because of the size of their operations TNCs have a tendency to become monopolies. Where this is not possible, the second best alternative is practically always resorted to, of becoming oligopolies, but with clearly differentiated products, giving a semblance of choice to the buyers. But in effect the attempt is to exercise the power to set the price to the producers' (and sellers') advantage. The price fixing ability that monopoly or oligopoly confers to the TNCs is further strengthened by the

process of "transfer pricing". Where a TNC is a multi-plant corporation with plants located in different countries, it has the freedom to treat the movement of goods from one plant to the other as an *internal* matter. TNCs liberally make use of this opportunity to price the items that they transfer from one country to the other in such a way that given the custom duties and taxes on profits in different countries they are able to maximise their profits. Because of the prevalence of transfer pricing, there is no reason to think that "the international prices" resulting from them correspond to competitive prices that free trade is supposed to bring about. In this sense distorting global prices is one of the standard activities of the TNCs.

In the 1980s the TNCs found a new avenue for profit making - speculative activities in securities and even in foreign currencies. The opportunity was provided by the cumulative interactions among the different currencies of the world, in interest rates and in security prices. The hectic movement of funds from country to country during the decade was partly the result of locating productive activity in different countries and was made possible by the remarkable changes in telecommunications. But the opportunity for making quick profits other than through productive investment has led to mergers, takeovers, leveraged buy-outs and other forms of dealing in enterprises, rather than in goods and services, indicating a shift towards "paper entrepreneurship" as a writer has put it. Consequently there has been a shift also from trade as such into capital movements although the emotive expression of "free trade" is liberally used and the TNCs, more than national governments have become the champions of the cause. But the freedom that the TNCs are asking for is the freedom of capital in any form to enter anywhere and also to exit at any time. The strategy is to make use of the homogeneity and mobility of capital to

exercise dominion over physical resources and human labour, both characterised by heterogeneity and relative immobility. In view of the strategic control they exercise on capital, particularly liquid capital, the TNCs emerged during the 1980s as strong advocates of globalisation, liberalisation, privatisation and marketisation and the many other slogans that have been going round the world with them. In the next section we shall see what impact these are coming to have on international trade and finance.

IV

International Trade and Finance

GATT which was set up for promoting international trade was essentially a "talking shop" from the beginning. As has been observed:

The system was never based on standard economic arguments for free trade, but rather on a kind of managed mercantilism under which countries traded concessions on imports in return for export opportunities (WIDER, *World Imbalances 1989*, p.114).

Hence although three basic principles of reciprocity, non-discrimination and transparency were laid down as the ground rules, from the beginning it was left to each country to define how these principles were to be operationalised. From the outset both the United States and many European countries decided that agriculture would not be subject to GATT discussions (thus setting up an initial barrier to developing countries in terms of what was possible). From then on several "rounds" of discussions have been held, and it must be recorded that international trade was substantially liberalised in comparison with what obtained prior to the Second World War. The average tariff on manufactured goods was cut from 40 per cent in 1947 to less than 10 per cent by the mid-1970s. Trade liberalisation was facilitated by the fact that during most of this

period the United States was an exporting country and did not have to face much international competition.

The situation changed in the 1980s. Early in the 1980s the US was still a creditor nation. But by 1984 the US current account showed a deficit of \$ 100 billion, moving up to \$ 160 billion in 1987 as a result of the influx of Japanese goods into the country. Reagan who had initially posed as the Messiah of free trade was forced to resort to a variety of protective measures which have earned the name of "new protectionism" going into a range of non-tariff arrangements contrary to the GATT principle of transparency. The chief among them is what has come to be known as "voluntary export restraint" (VER) which is a total misnomer because it was anything but voluntary. It was America's way of telling other countries, on pain of retaliation, to reduce their exports into the US. Once started, VERs became a very effective weapon and spread from textiles and clothing to steel, cars, shoes, machinery and consumer electronics. European countries also came to use VERs and GATT's secretariat in Geneva counted some 300 VERs and similar arrangements by the end of the 1980s. According to an estimate made by the Institute for International Economics in Washington D.C., the worldwide elimination of such measures might increase world trade by \$330 billion a year.

VER was only one of the measures of distorting trade patterns. *The Economist* in its 1990 survey of World Trade said:

The crowbar in America's toolbox is the notorious Section 301 of its trade law. This gives the president broad authority to retaliate against foreign trade practices that unfairly discourage American exports. America decides what is unfair; the law is vague on that point.

With the use of the crowbar American trade policy became more aggressive in the second half of the 1980s. In 1988 a "Super 301" was

brought in to accuse countries of a broad range of "unfair trade practices", again, as unilaterally decided by the US. Countries "named" under Super 301 must reach agreement with the US trade representative within 12 to 18 months or face retaliation. It may be recalled that in 1991 and again in 1993 India has been thus "named".

The latest in the show of strength has been the current round of GATT negotiations started in Punta del Este in Uruguay in 1986 and hence known as the "Uruguay Round". It has been the practice in GATT that before the rounds formally start, there are negotiations to settle the agenda and the discussions for drawing up the agenda for the Uruguay Round were a long process. This was mainly because so far GATT negotiations had been entirely on trade in goods. In the preparatory discussions before the present round, the United States insisted that GATT should move into trade in services also, particularly banking and insurance. The brief for this was prepared by an agency called Multilateral Trade Negotiations Coalition consisting of some 200 corporations led by American Express, Citibank and IBM. The MTN coalition received strong support from another, known as Intellectual Property Coalition whose members included top TNCs some dealing with banking and other services and others representing the agro-chemical industry. The TNCs as such have no role in GATT and one of the problems that had been coming up before GATT in the 1970s and 1980s was how to deal with gross distortions of international trade that many TNCs have been indulging in. But with strong supporters of "business" and private enterprise occupying positions of power, like Ronald Reagan in the USA and Margaret Thatcher in the UK during most of the 1980s, the TNCs found it easy to make an entry into GATT and also in influencing the GATT agenda. In the ongoing Uruguay Round, it has become very clear that priority has been given to liberalisation in trade in sectors like banking,

insurance, transport and telecommunications. Getting these services under the purview of GATT has the advantage that the political power of the economically strong national governments can be used through a wide range of retaliatory measures (including the 'crowbar') to get the smaller and weaker countries to fall in line. The Uruguay Round, therefore, has been effectively used by the TNCs to penetrate into a global forum through the courtesy and cooperation of national governments. Super 301 shows that the strategy has begun to yield results already.

It is not possible in this paper to go into the details of all the intrigues and intimidations and certainly also inducements that go under the name of "negotiations" within GATT. I shall touch upon just one of them, and rather briefly, in the context of the Uruguay Round itself. As already mentioned, this Round has been going on since 1986. But for several months and years the discussions concentrated on just one item — the US attempt to get Europe to give up the protection it has been affording to agriculture. The US itself has been promoting the export of grain through a regime of subsidies. But the feeling now is that the emerging European Union may be in a better position to influence world trade in many agricultural commodities, especially sugar and so the US now wants Europe to open up its agriculture to global competition and the European countries have been resisting this. The Uruguay Round remained stalled on this issue almost till the end of 1991. At that point, to bring the Round to a successful conclusion, Arthur Dunkel, the then Director General of GATT presented a Draft Final Act to the participants of the Round which they were either to accept or reject without any opportunity for detailed discussion. This Draft, according to many members, did not reflect the spirit of the negotiations, but had incorporated several measures to protect "Intellectual Property Rights" as canvassed by the powerful TNCs, while neglecting many of the issues that Third World countries had demanded.

While attempts to capture GATT through the widely open back door are going on, there is also a growing recognition that in view of the changed conditions, especially the volatility resulting from the manner in which the flexible exchange rate system has been functioning in recent years, it may not be possible, at least in the foreseeable future, to restore even a semblance of world-wide and multilateral trade relationships. The effort in the 1980s was, therefore, to bring about limited "multilateral" arrangements. The European countries gave the lead for this many years ago by launching a European Common Market and then moving on to a more integrated European Union. Late in the decade the United States entered into special trade relationship with its neighbour, Canada, which in the early 1990s was enlarged to draw in Mexico also and named North American Free Trade Association (NAFTA). At a less formal level Japan also has established special trade arrangements with its neighbours. It would appear, therefore, that instead of greater integration, what has been happening to the global economy in the 1980s and beyond is greater fragmentation and a reorganisation into blocs, at least as far as trade is concerned.

But in the realm of finance, of course, there has been substantial globalisation. In a way it is paradoxical that this should have happened after the international monetary system collapsed. But there were other factors favouring it. There was a conservative backlash in the USA and the UK and some other capitalist countries against what was claimed to be too much of state intervention in the economy and a call to leave the economy to the market forces. In effect it meant a retreat from fiscal policies and a reliance on monetary policies (hence the name "monetarism"). One of its operational implications was that putting up the rate of interest was the best way to fight the inflation that was becoming widespread in the late 1970s. The Reagan administration followed this policy which curbed the inflation, but

sent the economy to a recession in the early 1980s. The high interest rate, however, led to a renewed demand for the dollar. The value of national currencies came to depend very much on the interest rate policies pursued by national governments, on internal price levels and so on. This situation provided an excellent opportunity to attempt to make profits through speculative activities. Hence buying and selling of currencies became an avenue for profit-making facilitated by the technological changes in telecommunications. The period also witnessed a kind of competitive deregulation of economic activities and financial systems in many parts of the world that further unshackled speculation. It also led to the financial markets of many countries being opened to non-resident investors and/or borrowers and residents being allowed to deal in foreign assets and liabilities causing close connections between national and international financial systems. All these led not only to a sharp increase in financial transactions across national boundaries but also to a stronger linking up of the financial systems of the world.

The 1980s also saw a major shift in international financial intermediation - away from banking into security markets and so referred to as "securitisation". International bank lending slowed down, but international transactions in securities and bonds increased. This has led to some major consequences. The first is that the volume of international financial transactions increased enormously (as the figures given in the previous section have shown) because constant buying and selling is the essence of the securities market. Since security prices of different countries are denominated in their respective currencies and the international value of currencies have been fluctuating frequently, security prices were also moving up and down, thus providing further incentives to buy and sell. In turn, these transactions tended to influence currency prices also. In the 1980s and subse-

quently, the exchange value of national currencies have come to reflect much more these transactions - more frequently the result of speculative considerations - than either the performance of the economies concerned or even their transactions with the rest of the world in goods and services. In other words, at the international level a perceptible separation was beginning to emerge between what is usually referred to as the "real economy" consisting of production, trade and consumption on the one hand and finance on the other. Finance ceased to be a facilitator of the real economy and came to have an autonomy of its own. Perhaps it even started dominating the real economy, a case of the tail wagging the dog. By the end of the 1980s, the daily volume of foreign exchange trading in major currency markets reached almost the average monthly volume of world trade and the annual increase in the size of international banking alone amounted to nine times the total foreign direct investment made across all borders, reported UNCTAD's *Trade and Development Report, 1990*.

An important implication of finance coming to have an autonomy beyond its basic function as an intermediary between savers and investors has been that for those concerned with profits short-term capital gains from financial transactions have become much more attractive than profits earned from long-term investments. Other, and perhaps more subtle, changes have come also. Today the term "market" especially in its global dimension has come to mean the market for securities and currencies, because that is where most of the trade and transactions are taking place, and not the market for goods and services. This may explain one of the paradoxes of our time. How is it that since the beginning of the 1980s where so much has been done to restrict and regulate international trade, there has also been an increase in propaganda in favour of "free trade" and "free market"? The answer is simple. "Free trade" now means the freedom

of capital to move in and out of national boundaries and "free markets" are where securities can be bought and sold without restrictions and impediments by national governments.

V

The South in the 1980s

Sure of the inability of the poor countries to grow, the rest of the world had a condescending attitude towards them in the fifties and sixties. But when accounts of their performance started coming in, it turned out that in terms of aggregate growth at least, they could do better than many developed countries. They also demonstrated their greater resilience during the 1970s. After the first oil shock, whereas the trend growth rate of developing Northern countries nearly halved, from an annual average rate of 4.9 per cent in 1960-73 to 2.8 per cent in 1973-79, the countries of the South suffered only a relatively small decline, from 6.3 per cent to 5.2 per cent. However, the impact on them of the changes in the world economy during 1979-82 was shattering. In 1982 and 83, the growth rate of these countries as a group had come down to just 2.0 per cent, below the rate of population growth, although there was considerable variation within the group with some of them in Asia, including India showing high rates of growth.

The problems facing the developing countries were manifold. Because of the recession in the developed countries and the consequent fall in demand, the prices of the main commodities exported by the developing countries - other than oil - fell sharply, to the lowest levels since the Great Depression of the 1930s. It led to the terms of trade also turning against them, a problem that became very acute for several African countries. One study estimated that in 1975, African farmers could have bought a basic tractor for about 8 tonnes of their coffee; by early 1990 they

had to give 40 tonnes. The decade of the 1980s also turned out to be one of very high price instability that affected mostly sugar and coconut oil, but also jute, nickel, tea, tin and lead. The protective measures adopted by the countries of the North reduced opportunities of exports even at low and unstable prices. A study quoted by a World Bank report estimated that if the main OECD countries had removed their tariff and non-tariff barriers, exports of textiles from the developing countries would have increased by 82 per cent and clothing by 93 per cent. UNCTAD calculated that complete trade liberalisation could boost developing country exports of clothing by 135 per cent and textile by 78 per cent. Another simulation study showed that if the OECD countries reduced agricultural protection by 50 per cent, agricultural export revenues of developing countries could rise between 2 per cent and 40 per cent. And UNDP's *Human Development Report, 1992* calculated that global market conditions make developing countries lose economic opportunities worth around \$500 billion annually, ten times what they receive in foreign assistance.

While their exports were stagnating and imports continued to be costly, the flow of funds to the developing countries which had registered a big increase in the 1970s began to dry up. There were also substantial increase in international interest rates, with the six month Eurodollar rate going up in nominal terms from an average of 8.3 per cent in 1975-79 to 14.8 per cent in 1980-82, as pointed out by the South Commission in its Report, *The Challenge to the South* (p.57).

The Report listed the following aspects of the international economic environment of the 1980s that had special impact on the countries of the South (pp 214-15):

- ☆ The rapid expansion of transnational enterprises as the main producers of goods and services for international trade,

with a growing proportion of international transactions taking place among branches of the same firm or among related firms.

- ☆ A related expansion of the role of private banks in creating international liquidity, which became uncoupled from the growth of international trade, and the fact that the transactions of these banks escape supervision by central banks.
- ☆ A resulting excessive growth of indebtedness in both developed and developing countries.
- ☆ Changes in the relative importance of factors of production, which implied a move away from material/energy/unskilled labour-intensive products and processes, implying a loss of comparative advantage for developing countries.
- ☆ Related changes in the importance of sectors of production in the developed countries, implying a shift away from agriculture and industry towards services.
- ☆ Growing instability, unpredictability, and fluctuation in the functioning of the international economy, notably in interest rates and exchange rates, and the growing uncertainty in capital markets.
- ☆ Significant institutional changes: at the national level, increasing deregulation, privatization, and reliance on market forces; at the international level, the collapse of the international monetary system established at Bretton Woods and the erosion of the multilateral trading system embodied in GATT.

In the international context the net effect of all these was that the gap between the developed and developing countries in terms of per capita incomes increased, although the per capita income in most of the latter countries had increased during the past few decades, notwithstanding the tremendous growth in population that many of them

experienced. The per capita income of developing countries as a whole was 8.7 per cent of the per capita income of developed countries in 1960. It came down to 6.1 per cent by 1987.

The South Commission's Report saw these widening disparities not merely as the result of differences in economic progress, but also of the enlargement of the North's power vis-a-vis the rest of the world. On this the Report has the following to say:

The leading countries of the North now more readily use that power in pursuit of their objectives. The 'gunboat' diplomacy of the nineteenth century still has its economic and political counterpart in the closing years of the twentieth. The fate of the South is increasingly dictated by the perceptions and policies of governments in the North, of the multilateral institutions which a few of those governments control, and of the network of private institutions that are increasingly prominent. Domination has been reinforced where partnership was needed and hoped for by the South. ... A network of relationships has been built among private entities - banks, investment houses, transnational companies - in the leading developed countries. This has served to strengthen the influence of decisions made by private bodies on world economic activity, and to that extent to limit the effectiveness of governmental policy decisions. For the South the result is even further marginalisation and greater powerlessness (pp.3,5).

Similar assessments have been made by other agencies as well. On the availability of external capital to developing countries The World Bank's *Global Economic Prospects and the Developing Countries 1991* recorded:

In 1981, the heyday of petrodollar recycling, net flows to developing countries from private creditors and commercial banks totaled \$53 billion. By 1989 net flows had dwindled to \$4 billion. Funds from official sources became equally scarce. The sharp decline in new money to developing countries during the 1980s meant that net resource transfers to developing countries, after deducting for interest on existing debt, shifted from a positive \$46 billion in 1981 to a negative \$17 billion in 1988.

One of the most widely discussed issues during the past decade was the international indebtedness of many of the Third World countries which by the middle of the decade crossed the \$1000 billion mark and continued to grow till the end of the decade. The causes for the emergence of debt as a major problem were complex, but the World Bank's *World Development Report, 1991* admitted:

The debt crisis emerged as the world recession, high real interest rates, and the terms of trade shocks of the early 1980s caused acute debt servicing problems for severely indebted nations. Interest payments owed by the developing countries grew 40 per cent during the period 1980-83 to \$64 billion. That was about 3.2 per cent of their GNP, compared with less than 1 per cent only a few years earlier.

VI

Much of the material I have used to describe the nature of the contemporary global economy pertains to the 1980s and only marginally touches the 1990s. This is mainly because of the long time lag involved in getting official data that deal with global aspects. But whatever information that has become available suggests that in terms of performance the early 1990s do not appear to be very different from the late 1980s. Here is an assessment of the situation in mid-1992 by UNCTAD's *Trade and Development Report, 1992*:

The world economy has been suffering its most severe recession since the Second World War. Production has fallen in the United States and flattened in Japan. Western Europe is stagnating: the boost provided by German unification has petered out, while high interest rates remain. Growth has picked up in Latin America, but remains slow there and in other developing regions, other than parts of Asia. Central and Eastern Europe are suffering a precipitous fall in living standards: the transition process is proving much more painful than anticipated. Overall, signs of improvement are scant.

In conclusion, two questions must be raised arising from one's understanding of what the emerging global economy is really like. The first is about capitalism. One of the major historical events of the past decade and the early years of the present was the collapse of the socialist regimes of Europe and the break up of what once was the mighty Soviet Union. One interpretation put on this rather sudden and unexpected event, or a series of events, to be more accurate, is that they mark the final triumph of capitalism over all its "enemies". Whether that is right or not, there can certainly be no doubt that in the 1980s capitalism was triumphant. In fact the past decade was the one which saw capitalism working substantially according to its own principles extricating itself from the arbitrary powers of the state. Never in its history has capital been more mobile, more universally spread, more enthusiastically sought after. Never has the globe been more integrally linked up through finance; never have even commodity markets become more globally connected. And never has the

world witnessed enterprises so powerful and so totally committed to the capitalist mission of going out to the ends of the world to make profits. In all these ways conditions could have been never more favourable for capitalism to show its true colours.

The question, therefore, is: Can one expect anything more from capitalism than it has demonstrated in the 1980s and the early 1990s?

The second question relates to the recent economic reforms in our country. Expectation of benefits from the integration of the Indian economy with the global economy is said to be the underlying rationale of the reforms. If the nature of the global economy is like what has been described in this paper based on factual accounts and not as some theories make it out to be, what can be the consequences of the integration of the Indian economy with it? How can that "integration" be achieved? Isn't it necessary to have a realistic appraisal of the reform measures along these lines?

Note

This paper is a brief summary of chapters 3 and 4 of the author's book *The Indian Economy and Global Capitalism* (Orient Longman, 1994). The primary source materials have been *The Economist*, September 22, 1990, September 19, 1992, March 27, 1993; Trade and Development Report, (UNCTAD), 1990, 1992; *Human Development Report*, (UNDP), 1993; *World Development Report* (World Bank), 1991; *Global Economic Prospects and Developing Countries*, (World Bank), 1991; and *The Challenge to the South*, (South Commission), 1990.

Transformation of Skills Into Manufacturing Activities : Policies for the Rural Non-Farm Sector *

THE analytical interest and the proposals for policy intervention for encouraging the growth of the rural non-farm sector have both an empirical base, and a conceptual underpinning. Data have shown that the diversification of the rural economy may lead to income levels in non-agricultural occupations which are often higher than those from the agriculture sector itself (Vaidyanathan, 1986). This would emphasize the importance of the non-farm sector in raising the average levels of rural income. Conceptually, with the gradual retreat of the State from direct measures to redistribute income, through fiscal means, small-scale self employment has returned to the forefront of policy concern (India, 1987:9).

The problems associated with creating income earning opportunities in the rural areas were central to the policies for developing small scale enterprises, in general, from the Third Five Year Plan onwards (Tyabji, 1989: 145-47). However, the approach at this time did not differentiate between different kinds of rural (or "backward") areas, a distinction that became critically important after the success of the Green Revolution, in geographically distinct parts of the country, in the 1970s (cf., Planning Commission, 1969). By the mid 1970s, it was becoming clear that in

agriculturally dynamic regions of the country, diversification of the occupational structure and the growth of small enterprises was taking place as a corollary to the changing nature of agricultural output (Raj, 1976). This required a distinction to be made about the nature of the "backward" regions in the country, and towards this, the various reports of the Sivaraman Committee were notable contributions (Planning Commission 1981:39). With the renewed policy concern on the non-farm sector, it is important now that clear distinctions in strategy are made between the potential for rural occupational diversification provided by agriculturally dynamic regions, and the majority of the rest of the country, where rainfed conditions combine with poor soil, to set limits on the rate of agricultural growth, and even on the stability of output levels.

These are distinctions to be made in terms of the policy for the non-farm sector itself. However, there are major determinants of the success of the policy that are external to the sector: these lie, firstly, in the effects of macro-economic policy, specifically the effects of the measures for structural adjustment, currently underway, and on the noticeably reduced levers that the Government has in its hands, to direct economic activity into redistributionally

* Note presented by Nasir Tyabji, at the national seminar on "Policy Environment for Rural Non-Farm Sector" held at the Institute of Development Studies, Jaipur, September 10-11, 1993.

effective channels. Secondly, there is the critical importance of a decentralised system of planning which would allow for effective utilisation of local level comparative advantage. For this, decision making power has to be effectively decentralised, and as the experience in West Bengal, and the short-lived experiment in Karnataka has shown (Aziz, 1993), a stable system of Panchayati Raj Institutions is essential. It is to be hoped that the proposed Bill on Panchayati Raj will provide the constitutional framework and the political imperative for effective decentralisation. The effects of purely administrative attempts at rural industrialisation have been shown to be ineffective, through Indian experience itself, in the 1960s and 1970s (Planning Commission, 1978).

This note considers the possibilities for growth of a specific segment of the rural non-farm sector, embryonic manufacturing and repairing enterprises based on skills already located in the rural areas. It is *not* concerned with the prospects of tertiary sector activities, although it is recognized that they are a necessary component of any general programme for rural development. It is also principally concerned with areas where the preconditions for substantial growth in agricultural output do not exist.

In 1981, there were 2.85 crore men, and 0.5 crore women, in the rural areas whose main occupation was in non-farm activities (Census 1981). As many as 1.27 crore men, and 0.26 crore women were actually involved in manufacturing activities, repairs and in operation of mechanical equipment (Divisions 7,8,9 of the 1968 National Classification of Occupations). Within this subsector, it is possible to identify a number of distinct groups of skills and aptitudes. The first, and most important, consists of those that have emerged in response to an industrial way of life (motor vehicle and tractor repair and electrical jobwork, for instance). The second, and the preponderant one, in terms of numbers, includes those intrinsic to the

village economy (tanning, oil pressing, khandsari, pottery, etc.) The third group involves occupations where simple machinery has transformed the character of the work, and enabled the skill to retain contemporary significance (tailoring, carpentry, construction activities). Finally, there are one or two exceptional cases, such as handlooms and bidi making, where significant markets have been retained for products made with largely traditional technology.

A rough classification of the four groups shows that the *modern* occupations involve 24 per cent of the men, and 7 per cent of the women in the rural non-farm sector; the *traditional*, 40 per cent of both men and women; the *third* group for 20 per cent of men and 9 per cent of women and, finally, *handlooms and bidi making* for the remaining 16 per cent of men and 43 per cent of women. Put in its most graphic form, the objective of policy should be to ensure that demand is generated for the products and services provided by the first, third and fourth groups, where long term viability has been demonstrated. The problems of the sizeable section of the rural population who earn their incomes from participation in the *traditional* (the second) group have to be addressed by simple measures for technological and skill upgradation, of the kind observed historically within the third group. Otherwise, their livelihoods must be ensured by their employment in asset creating activities in public works programmes. This point is emphasized because in the absence of concrete steps to improve technology and skills, within their own occupations, the limited access to education they have cannot be expected to equip them for the entrepreneurial roles envisaged by IRDP kinds of public interventions. (In these occupations the male illiteracy level is 51 per cent, compared to 33 per cent in the first group).

However, female illiteracy is actually higher in the first group, at 85 per cent compared to 81 per cent. This is an indication that the occupational categories, at the two digit level

used here, are not able to distinguish between the skill content of men and women's tasks within the same occupation. More substantively, for policy to address the question of the occupations suitable for the growth of women's employment, a more disaggregated analysis is essential.

The remainder of this note concentrates on the industrial era occupations (the first group). As might be expected, in the rural areas most of these involve repair or operating skills. It should be emphasized, at this stage, that the skills are an attribute of the individual, and are currently utilised not only in the manufacturing sector of the economy, but also in the tertiary sector. For example, an electrician may be owning an electrical job-work concern, or working in a bus transport organisation, or be employed in a bank branch or other administrative office. Secondly, as this example demonstrates, the skill may be embodied in a self-employed person, in an employer, or in an employee.

The traditional option has been to conceive of measures irrespective of the location (both individual status and the economic sector) in which the skill exists. This approach ignores the differential employment generating potential of the same skill in distinct economic locations. A more dynamic approach requires the analysis of how they are to be transformed into manufacturing skills. For instance, it is a common experience to find that rural workshops display simple components and parts, locally made, which are used in repairs. The question is whether these abilities to improvise can be the focus for systematic policy intervention.

Apart from training, the critical issue lies in the generation of sustained demand for the product or component which is to be manufactured. Except in exceptional conditions, this can only be provided by the urban market, or by large scale enterprises,

both located in some proximity. In this context, a suggestion made by the Study Group on the Non-Farm Sector (Mahajan, 1992) is worthy of examination. The Report of the Study Group mentions that there are a sizeable number of rural firms, intermediate between the rural manufacturer and the large enterprises associated with the regulated factory sector.

These enterprises are denoted by the term Directory Manufacturing Enterprises (DME) and are defined as those establishments which are smaller than regulated factories, but which employ at least 6 workers, one or more of whom is hired. The Study Group has suggested that the possibilities of linkages between the rural manufacturer and the DME be explored. The issue is essentially that of developing a hierarchy of ancillaries, taking advantage of not only economies of scale through specialisation, but also of location.

According to the 1984-85 survey of DME, there were about 1 80 000 rural DMEs (CSO, 1989). While on the average the value of "work done by other concerns" was about 2.6 per cent of the total inputs, this may be taken as conservative measure of the quantum of demand for ancillary work and supplies. Conversely, an optimistic figure, which also includes packing materials, repairs and maintenance amounts to about 6 per cent of inputs. If more details were available of the composition of other inputs, it is likely that the potential demand generated by DMEs would be of a volume significant enough to justify policy intervention. However, to reach an integrated industrial structure, the DMEs should also be treated as potential suppliers to other industrial enterprises. In this context, it is significant that the "work done for other concerns" is about 14 per cent of the value of output, on the average. Here again, detailed data analysis would permit a more reliable estimate of the extent of the integration of DMEs in the overall industrial structure.

This is, however, an analysis of potential based on a historically generated industrial structure. The critical change in public policy is precisely in regard to ancillarisation. This should not be seen as an option entirely within the decision making domain of the individual firm: in other words the make-or-buy decision must be accessible to policy intervention.

Thus, the thrust of the argument presented here is based on the following propositions (i) A meaningful policy for the non-farm sector must be centred on rural servicing and repair facilities (ii) these capabilities must be identified locally and measures initiated for upgrading skills learned on the

job, so that competence in repairs and services is transformed into manufacturing ability (iii) markets for components, services and repairs should be generated by rural factories in the size range of DME which survey data show to exist in fairly large numbers. (iv) the DME in turn must be linked to large enterprises through an interconnected grid of subcontracting (v) in furtherance of this policy, agencies and financial institutions servicing the non-farm sector have to initiate a policy framework for ancillarisation. (vi) for the operationalisation of all the implications of this policy, project appraisals of both the large and the intermediate sectors must include techno-economic feasibility studies of components suitable for ancillarisation.

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Book Review

Technology and Competitiveness : The Case of Brazilian and Indian Machine Tools : Jan Peter Wogart, Aasha Kapur Mehta and Arun Mehta, Sage, New Delhi 1993, pp.175, Rs.225/-

Nasir Tyabji

BOTH Brazil and India worked actively in the efforts to develop a New International Economic Order in the 1970s, and also to reduce to a minimum the unfavourable end results of the Uruguay round of trade talks held under the aegis of GATT in the 1980s. The effort was to forge a new consensus on the functioning of the institutions of the world economy, so that the pattern of world trade, technology flows, and migration of skilled personnel was conducive to the development needs of the Third World as a whole. By the early 1990s, it was clear that these efforts had manifestly failed, for a number of reasons. Chief amongst these were the divergences in the interests of individual countries in the South. Added to this were the varying degrees of economic and political resilience that these countries could summon when confronted with the pressures emanating from the First World (and the inducements for floor-crossing premised on individual defections).

It was the collapse of this collective effort that has been largely instrumental in bringing Brazil and India together on another dimension of economic policy. As the authors of this book point out, debates on the relative merits of different strategies of development, a live issue earlier, subsided with the collapse of the countries of the socialist bloc. Both Brazil and India are now in a process of structural adjustment designed, again according to the authors, to expose traditionally inward looking industrial sectors

to international competition." The relevance of this exercise is premised, of course, on the argument that balance of payments problems, where caused by the inability to match imports by exports of manufactured goods, are not due to any inherent problem in gaining access to foreign markets (the premise of UNCTAD's efforts so far). Rather, they are due to the uncompetitive nature of these exports in terms of prices, quality, delivery times and after-sales service. Penetration of the internal markets of these economies by non-domestic firms will, it is argued, increase the competitive abilities of indigenous firms, lead to an increase in export earnings, and consequently, restore the equilibrium in the balance of payments.

Although this is the ruling philosophy, it incorporates a number of large assumptions which the authors do not evidently see the need to question. This detracts from the stability of some of their conclusions, but there is little doubt that in the case of the specific industry they wish to examine, machine tools, the long term prospects are precarious. As the book is based on knowledge gained from earlier studies of the machine tool industry in Brazil and India, it is useful in posing the issues of promoting technological dynamism in sharper focus. There is no doubt that the large scale firms in India could have performed considerably better, both in terms of innovations, and in export performance.

What is important about the East Asian industrialisation success stories (the classical cases of individual defection from Third World collectivity) is the system of very specific policy measures introduced by the Governments of Japan, Korea and Taiwan.

The authors point out, for instance, that in Japan the ratio of the value of imports of machine tools to the value of demand has remained below 10 per cent (p.46). In other words, Japan's formidable export performance is based on the acquisition of "international competitiveness" through means other than the opening of the internal market. Similarly Amsden (1989) and Wade (1990) show that in Korea and Taiwan sectors of industry were, and are, supported against competition by imports until they achieve an adequate degree of competitiveness. If there is one lesson from all of South East Asia, it is that the internal market provides the spring-board to substantial export growth (Henderson, 1993).

In the Indian context, there seem to be strange cases of very efficient and very inefficient producers surviving side by side. Data collected by the World Bank quoted by the authors show that firms in the machinery producing sector had a very wide range of performance when measured in terms of operating costs attributable to administration, inventory, and credit extended in the form of receivables. A process of break-neck opening up of the economy under such conditions is likely to lead to the collapse of firms, not necessarily because the production organisation is technologically inefficient, but

because the management is. Closures in these cases will lead to a waste of industrial productive capacity, and the dispersal of a skilled labour force, which are both national economic assets.

It is puzzling feature of this book that the authors pay little attention to the sequence and timing of measures necessary to increase the operational efficiency of Indian industry, particularly in a sector such as machine tools, where the internal market has been shown by the CMTI census to be substantial. Their premise seems to be that the few outstanding companies in Brazil, and India (they have case studies of two from each country) are the prototypes of the only firms which deserve attention. These firms are potentially capable of entering the export arena if their strategies are appropriately worked out.

Although this premise is entirely in tune with their broader assumption, that the lessons of East Asia show that the export market is the key to international competitiveness, this is a misreading of East Asian industrial policy. It also provides little guidance on what is to be done as far as the mass of Indian capital goods producers are concerned. This is a pity because the authors are aware of the complexities of the Brazilian and Indian cases, as their repeated mention of macro-economic instabilities in each country demonstrates. Had the book started from this fact-of-life and then built on specialised knowledge of the machine-tool industry, it could have been a true guide to the problem of technology and competitiveness.

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