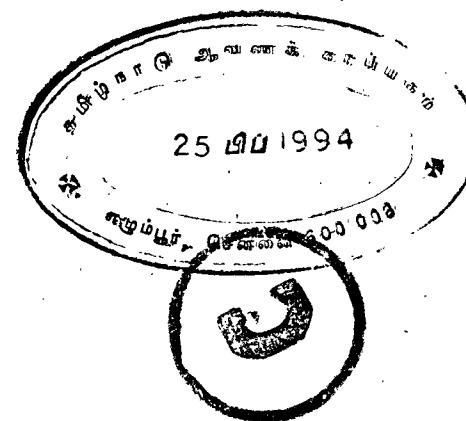


BULLETIN

MADRAS DEVELOPMENT
SEMINAR SERIES

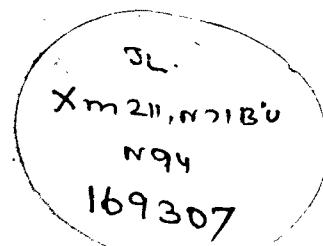
Vol. XXIV No. 2

February 1994



Green Issues and Poor Nations

A note on Some Questions on 1994 - 95 Budget



EDITORIAL HIGHLIGHTS

Introduction

THIS February editorial covers the main activities at the state, national and international levels during the month of November. At the state level, the 1994-95 plan outlay as approved by the Union Planning Commission and its main features are highlighted. In the power field the returns to the large investment proposed by foreign investors and individuals has become a matter of anxiety and has been debated. The problem of coal linkage for the TNEB is once again an issue. The progress made in the proposal for a Southern Gas Grid by the chief ministers of the four states is reviewed. The interest of an UK agency in taking on lease TNEB's Ennore plant is discussed. In the water field, the plentiful North East monsoon which has helped fill the irrigation reservoirs in the coastal areas and the Madras city three reservoirs for drinking water supply are noted with satisfaction. The damage to life and transport caused by the heavy rains and its accompanying floods is analysed in relation to the landslide in the Nilgiris. In the transport field the decision of ADB to review the East coast road project and the rise in PTC fares in the state are highlighted. In agriculture, the good samba harvest prospects despite the damage to the rice crop in Thanjavur leading to some increase in price of rice should be noted. In regard to industry the flourishing of Nidhis in the state and the reasons there of, the first profit represented by TANSI in over ten years, the development of TIDCO's joint projects and some individual enterprises such as Salem Textiles, the very serious problem being faced by Hindustan Photo films, the need for further development

on handlooms, Binny's negotiations with labour, the 24 projects being put up for foreign aid and the hold up in the preparation of the aromatic project because of some differences of the promoters, SPIC and MRL, are passed briefly in review. At the National level the rate of inflation continues to rise and is a worrisome factor. In regard to power, the continuous gap between demand and supply which is widening year by year and the problems raised by the entry of private sector into this area are briefly reviewed. On the budget, the 1994-95 exercises have begun in the ministry, particularly in view of the possibilities of its being presented a few weeks in advance, the main features of the budget deficits for the last four years are reviewed and some lessons drawn. On the stock exchange the decision of SEBI to ban forwarding trading and the reaction of the brokers in the form of boycott and the negotiations of this are examined. The joint parliamentary committee report on the security scam which was presented to Parliament in December is summarised in its main findings which do not add much to what is already known but on which the action proposed by government after the two day debate on it is awaited with interest. The Uruguay round's conclusion in mid December, its main features and its positive and negative effects on Indian trade are analysed. The agreement between Indian and the European Union in the economic and the trade field is highlighted as an important event. The main features of 1992-93 RBI Annual Report is summarised and briefly commented on. In regard to the economy, the state of the

CONTENTS

Introduction	43
State : Plan, Budget, Power, Water, Transport, Agriculture, Industry	44
National : Inflation, Power, Budget, Stock Exchange, JPC Report, The Uruguay Round, RBI Annual Report 1992-93, Economy, Agriculture, Plantation crops, Industry, Foreign Trade Aid and Loans, Human Resource Development	48
International : World Economy, World Bank on Poverty, GATT, The Commonwealth on Debt Management, SAARC	58
Other Items : Summit on Education for All, State Resource Centre and Tamil Nadu Board of Continuing Education, India International Centre, Tamil Nadu State Council for Higher Education, Anna University	60
MIDS News	62
First Article Green Issues and Poor Nations — K John Mammen	63
Second Article A note on Some Questions on the 1994-95 Budget — Malcolm S. Adiseshiah	69
Book Review State of the Global Economy 1993 — Paul P. Appasamy	72

economy for the first nine months of the current fiscal year is reviewed along with the effects of the economic reforms on the economy. The problem of external debt and its servicing particularly in regard to the issue of the debt trap is discussed. The growth of foreign investment approvals is noted along with the unease caused to some of the large firms which feel that the economy is being opened up too fast. The decision of the Telecom Commission to privatise the sector is noted and the varying reactions to it are set forth. The convertibility of the rupee particularly, the finance minister's statement that the rupee will become convertible on capital account also in some 2-3 years raises a host of questions which are set forth in the debate. In agriculture the good kharif and heartening prospects for the rabi crop which means that the total foodgrains for this year would not be less than that of last year are outlined. The development of aquaculture and the prawn project are outlined. The research report during the month shows a rather heavy slant towards fruits and vegetables followed by animal husbandry. The low position of cereals demands attention and correction. In regard to plantation crops, the tea prospects for the year are referred to along with the coffee growers demand for the government's acceptance of FSQ. In regard to industry the very slow progress during the month of December is noted. Its continuance to become capital intensive is analysed giving support to the government's policy of retaining SSI reservations. The report of BICP on three major industries not passing on the excise tax relief to consumers is reported as significant. In relation to the profile of corporate finance for 1992-93 as outlined by CMIE is passed in review. The problem raised by the privatisation of IISCO and its necessity is referred to. In the foreign trade field the 20 per cent export rise in the first seven months of the current year is noted along with the good prospects for the year. For export expansion during the year the extent to which the convertibility of the rupee has helped export expansion is a question that needs further study. As the

rupee has been devalued by over 50 per cent, the rate of export expansion is not very satisfactory. Individual good export performances in spices, textiles, tobacco, oil seeds are referred to. In the field of aid and loans the total of IMF World Bank loans and the problem involved particularly in light of the inadequate guidelines for their development as pointed out by Unctad is of interest. ADB loans in December and those from the World Bank are noted. The large Japanese soft loan for the financial year is passed in review together with the \$2 billion private capital inflow for 1993 as estimated by the World Bank. In the Human Resource Development field, the major concentration is on education in part the follow up of the nine most populous nations summit meeting in December in Delhi. The tardy progress in universalisation of primary education in spite of its being a critical investment for the country is noted. The continuing high drop out rates are worrisome along with the lack of informal education. The result of the successful conclusion of the Uruguay round is highlighted. The extension of the multi fibre arrangement for one more year till the end of 1994 is noted as an advance action of the Uruguay round agreement to phase the agreement out in ten years. The common wealth programme on world debt management is reviewed and the SAARC council's decision for intensified regional economic cooperation is briefly set forth. Under other items the major ones are those related to the Institute or its staff such as the summit on education for all and the activities in December of India International Centre, State Resource Centre, Tamil Nadu Board of Continuing Education and Tamil Nadu State Council for Higher Education.

State

Plan

The Union Planning Commission has approved a Plan Outlay for 1994-95 for the State of Rs.2750 crores which is a 30.89 per cent

increase over that of the current year. The main reason for this rather large increase for next year's plan is because of the good performance both in last year and this year's plan, particularly in water supply, power, education and social sectors as stated in the official press communication of the Union Planning Commission. For 1992-93, in agriculture and allied activities against the approved outlay of Rs.215.59, crores Rs.258.94 crores was spent; on rural development against Rs.130.74 crores were spent against an approved outlay of Rs.119.10; crores for energy against Rs.458.9 crores Rs.463.18 crores was spent; on industry and minerals against an approved outlay of Rs.104.6 crores Rs.122.55 crores was spent; on transport against Rs.132.86 crores Rs.136.76 crores was spent; on water supply against an approved outlay of Rs.50 crores Rs.73.67 crores was spent and on social sectors against the approved outlay of Rs.634.11 crores Rs.713.8 crores was spent. Despite the financial crunch in the current year, it is estimated that the total plan expenditure will exceed the outlay of Rs.2101 crores. The break up for 1994-95 is Rs.424.77 crores in agriculture, rural development and irrigation; Rs.891.09 crores for industry and power, Rs.293.47 crores for transport and communication; Rs.312.68 crores for social sectors; Rs.148.96 crores for housing and urban development; Rs.456.90 crores for water supply and sanitation. The increased outlay for next year is achievable and will be supplemented by sanction on increased external aid for the North Madras thermal power plant, Gas Basin Bridge power plant and the new projects like Madras water supply and water resources consolidation project. In addition the government proposes to raise Rs.250 crores from financial institutions for the industrial sector in different districts, eg for the Tirupur development plan and the modernisation package for the Tamil Nadu under the present plan. The major constraint is still the Electricity Board which is having a negative balance for a number of years that is expected to exceed by Rs.404

crores for 1994-95. Even with levy price on farm pump sets which would raise nearly Rs.50 crores, this gap seems unbridgeable. The way out for the government is to cut the expenditure on non-development and non-essential items and through better utilisation of external aid and institutional finances, increased collections in the TNEB and the strict control and better cost recovery. This higher plan might also contribute to the States reaching a higher growth rate of 8 per cent against the current 5 per cent.

Budget

The state government's scheme for experimenting with a revenue neutral sales tax taken up over several recent years has not been successful. The tax is reduced on goods on assurance from the trade the resulting revenue loss will be made up by increase in turn over, and with the government having the right to revert to the old tax rate if the revenue declines. Given the fact that purchase of goods depend more on changes in excise duty than on sales tax which forms only a small part of the total cost of the product, the scheme has been successful in a marginal case such as the tax on the sales of dumpers and trippers but has failed in all other cases. The proposals for the scheme is usually discussed before the budget is formulated by the state in the taxation rationalisation committee on which tax officials and members of the trade bodies are represented. The future of the scheme is seen in the fact that trade and industry has not put forward any proposal for the forthcoming budget and so despite the complex price sensitivity analysis and econometric modelling employed, the decisions which have been taken on the basis of intelligent guess work has not enabled the scheme to function successfully.

Power

In the power area, the National Power Corporation in the U.K. has offered to take on lease Ennore Thermal Plant and refurbish it

so that it can generate power at a higher Plant Load Factor (PLF). This is one fall out of the opening up of the power sector to private investment. The price will be established by mutual agreement. This is important because some of the foreign investors such as four Canadian companies which are competent in the field of designing, developing, constructing, engineering, structuring and financing power projects wish to ensure that the rate of return will cover the cost price. Here, of course, the government's support at top levels is crucial to the viability of the plants. The complicating factor is the denial of coal linked by the Union Ministry of Coal and the Thermal Plants proposed for North Madras Stage 2 and Tuticorin stage 4. Would it be possible for these plants to run power on capital raised now that the government has opened up coal mining to the State Electricity Boards. But for this TNEB will need some time, in particular to sort out for raising the needed capital. Meanwhile, the Chief Minister of the southern states have taken an important decision in regard with the proposal of Southern Gas Grid in approaching the Prime Minister for the release of sufficient gases. Such a coordinated effort is needed if the Southern Gas Grid is not to remain a paper project. Here the Prime Minister will have to decide between competing stakes for the limited amount of Gas now available at 50 million cubic meters per day rising to 80 million cubic meters by the terminal year (1996-97) of the eighth plan. As usual the adjudication will have to be between demand of the North, such as expansion of Hazira-Bijapur-Jagdishpur pipeline and the Southern Gas Grid and some even sharing of the gas between two competing stakes.

Water

Due to the plentiful north east monsoon going on to the end of December both the irrigation tanks in the coastal area of Krishnagiri and Sathanur and the rivers Amaravathi and Vaigai are at record levels and at long last the three drinking water reservoirs in Madras are full, with Red Hills reaching its capacity of 2850

mcf (full capacity of 2850 mcf) along with good progress in raising its bund to hold an additional storage of 700 mcf, the Poondi overflowing its capacity of 2521 mcf also making good progress on raising its bund for an additional storage of 400 mcf, and Cholavaram at 8.81 mcf (full capacity of 888 mcf). This along with the decision of the government to supply 70 million gallons of water to the city on alternate days for the coming year would ensure that the drinking water is adequately available to avoid this year 6 months of water famine. The plentiful monsoon also has caused some damage. Roads damage extended over 1500 kilometers and Samba paddy affected to be referred to later. One cause for the landslide in the Nilgiris (Coonoor, Mettupalayam) road is deforestation and the extension of tea gardens. This was the assessment of an independent team consisting of a former Director General of GSI and a Scientist in-charge of Central Soil and Water Conservation Research and training institutes. This is contested by the UPASI.

Transport

ADB has asked for the East Coast road which is the proposed coastal highway linking Madras to Kanyakumari to be reviewed. On the result of the review, will the release of the ADB loan of \$24.47 million be decided. This is a sound decision which should have been made by the Indian Transport Authorities without pressure from ADB. Also in the field of transport, bus fares in town and metro services have been raised from December 1st which could contribute towards covering the deficit of the State's transport corporations. There is agitation against this rise in Madras, particularly by the students, which however cannot be acceded to.

Agriculture

As referred to earlier, the samba harvest which commences around mid December in Pattukottai and Orathanadu of the Thanjavur

district was hampered by heavy rains during the month. This affected arrivals to the Direct Purchase Centers of the Tamil Nadu Civil Supplies Corporation reducing rather sharply the procurement. However plentiful samba harvest will still be a record despite the loss of Rs.100 crores of the crops in the Samba and Thaladi paddy crops of the Thanjavur and Nagapattinam districts. The parallel procurement programme which was introduced for the kuruval harvest is being continued during samba season, as a result of which the procurement has passed 3.14 lakh tonnes as at early January. Despite this bountiful harvest the prices of the superfine rice, particularly Ponni, has shot up at an all time high of Rs.12 per Kg. mainly due to the high support price for paddy announced by the centre. This is so that the rising trend of the prices will be arrested only when the new crop arrives in the city markets and also in view of the fact that the stock of paddy by the government which is about 6 lakh tonnes will last six months.

Industry

On the industrial front, the Nidhi companies in the State have registered an astonishing growth in the 80s and the continuance of this rise is leading to rather sharp competition with the leasing and hire purchase companies. Particularly Tamil Nadu which is at the top of the hire purchase business in the country, is also the pioneer of nidhi companies of which, there are 60 with almost no defaulters, the companies becoming an important source for financing industrial growth in the State. As a further push in the industrialisation of the State, TIDCO has cleared some novel projects which widen the spectrum of industries covering new areas like agro-based products, aquaculture, export oriented units, drugs and pharmaceuticals. Rs.275 crores is being invested in these projects of which TIDCO as an associate has contributed 11 per cent. In this area also ADB is assisting TIDCO to set up joint or associated sector projects. This is a part of the direct lending by the International

funding agencies to states and private sectors and if so should be welcomed. Further, a positive development is that after 12 years TANSI reports a small profit of Rs.17 lakhs in the first six months of the year against a loss of Rs.1.47 crores in the corresponding period of last year and accumulated loss of Rs. 30 crores. Does this mean that at last the losing trend has been reversed? Similarly, the Tamil Nadu handloom sector reports an important turn around which will reduce dependence on government subsidies. This is due to that traditional large stocks which are offloaded during special festival and rebate season at a discount being depleted. It is to be hoped that this means that a new trend is starting which will relieve the sector of heavy inventories attendant losses? In the same manner, the negotiations between the management and labour in Binny Mills is reported to be progressing so that the lock out would soon be lifted. Here SITRA's role has been a positive one. Salem Textiles reports that it has obtained the ISO 9000 certificate. This is the first textile mill in the country to reach this status and it should be followed by others. Could that be one of the SITRA's aim. The much publicised Rs.1800 crores aromatic project is unfortunately being held up because of the serious differences between its two promoters M R L and SPIC. The difference is over the source of raw material to be used, SPIC wanting imported paraxialene at a reduced duty, M R L insisting on using its Naptha. Could this issue be resolved by making the project a joint venture through national aromatics and petrochemicals corporation (AROCHEM). Sundaram Fastners on the other hand reports an improved performance in the turnover of Rs.7829.81 lakhs during the half year ending September 1993 as against the previous half year's Rs.6894.33 lakhs. Its exports however diminished a little from Rs.1100 lakhs to Rs.900 lakhs. The company however has managed a rapid rate of growth including its exports. It is noted with regret that the only film manufacturing unit in South East Asia which is the Hindustan Photo films located in the Udagamandalam reports rather

severe shortage of funds which may force it to close down. This would render 4000 employees jobless. Cannot the Rs.100 crores required by HPFL to prevent this calamity be raised from the stock market and its production rate increased to the target of 12 million sq.meters of films. Tamil Nadu is also making progress in presenting some 24 projects for foreign aid to multilateral sources of foreign aid of Rs.10760 crores (World Bank, ADB, OECD) and bilateral (Germany, DANIDA and SIDA). These projects cover irrigation, water supply, education, construction, roads, industry, urban development, tourism, power and agriculture. This would lead to wise use of concessional foreign loans and help develop these sectors in the State and generate employment and incomes.

The engineering industry in the state while fighting the recession in the last two years is beginning to look up in the second half of the current financial year leaving behind last year's record of negative growth. The engineering industry is expected to grow by 0.47 per cent in the current year even as its profits are projected to grow substantially. According to the survey of the state committee of CII which covered 50 engineering units all over the state, the engineering industries expenditures are expected to increase by 30.34 per cent this year. The automobile industry which has been at the heart of the recession is beginning its revival as a result of the excise duty relief in the union budget and the better availability of credit. The result is sales of major automobile manufacturers like Ashok Leyland, Telco, TVS Suzuki recording an upward trend. The Tamil Nadu Small and Tiny Industry Association (TANSTTA) in association with a German voluntary agency plans to launch two new programmes in 1994 to help stimulate SSIs. The first is a technology transfer programme where industries with good export potential will be identified and technology made available to the small scale entrepreneur. The second is to choose a

backward village and identify viable industries that would be taken up by the villagers themselves. This strengthens the central government decision to continue the SSI scheme which is referred to later, under the national - industry sub section.

National

Inflation

The annual rate of inflation as at November 27 has risen to 8.5 per cent and this movement upward is continuing into December. The general price rise during the first eight months of 1993-94 at 7.6 per cent is higher than the corresponding increase of 6.1 per cent for the previous financial year. There is need for the inflation situation to be taken seriously and action on it formulated to arrest this upward movement, whether it be to further restrict supply of money or increase in the supply of essential goods.

Power

The proposals in the power sector by both Indian and foreign units are raising questions about the viability of the investments, because of the rate of return that the State Electricity Boards will have to pay the private power companies which will result in steep hikes in the price of electricity to the different categories of consumers. The alternative is to pile up the uncovered deficits of the state and central governments to meet the guarantees given by them to private investors. One private investment would call for a price of Rs.4 per unit plus the SEBs costs. The five projects cleared for Maharashtra to add 3635 MW to its installed capacity of 101,000 MW, is not only at a very small additional percentage to capacity, but also if the current tariff are maintained the cumulative loss borne by the

state will be Rs.5400 crores. Under these conditions it is necessary to follow up the viability of the private sector power projects with a review once more with very strict norms with regard to the cost recovery.

Budget

Even as the central budget is being formulated, the worrisome revenue shortfalls and subsidies which have been fuelling deficits of the states needs to be taken into account in the over all budgetary position of the country. For 1993-94 the gross fiscal deficit is estimated to rise by 18.6 per cent as against an increase of 5.8 per cent in 1992-93, according to the RBI October Bulletin. As proportion to GDP, the gross fiscal deficit would amount to 3 per cent in 1993-94 compared to 2.8 per cent in 1992-93 constituting 17.8 per cent of aggregate disbursement during 1993-94 against 16.3 per cent in the previous year. The overall conventional deficit as budgeted is adding Rs.2639.7 crores (2 per cent) of aggregate disbursement in 1993-94 as against the deficit of Rs.1256.5 crores (1 per cent) of the previous year. The RBI article reviewing the 1993-94 state finances noted that the 13 states have proposed additional resource mobilisation of Rs.1030 crores which in part will be off set by their loans of Rs.541.4 crores as a result of tax changes in the central budget. Thus the state deficits add to the fragility of the central government's fiscal position which now dominates not only the revised estimates for 1993-94 but the budget in making for 1994-95.

Stock Exchange

On December 13, SEBI issued a ban on forward trading as a means of curbing speculation in the exchanges. Almost immediately the brokers in Bombay, Calcutta, Delhi and Ahmedabad exchanges boycotted all trading and demanded relaxation of the strict trading norms. Later in the month, SEBI modified its position asking Bombay Stock

Exchange to fix a suitable level for reducing outstandings and steps to be taken to reach that level. At the end of December the problem is still simmering with no solution in sight.

J P C Report

The Joint Parliamentary Committee presented its unanimous report to Parliament on December 21 on the security scam of Rs.8383.32 crores, describing the scam as a criminal means use of public funds and indicting ministers, brokers, bankers, bureaucrats, investigating agencies and business houses. It points to the abject failure of the supervising mechanism in the finance ministry, RBI, individual banks, collusion between brokers, public sector undertakings and bankers. It states that the then petroleum minister, B. Shankaranand made investment as chairman of the Oil India Development Board which were questionable. It holds the finance minister responsible and accountable to Parliament for the ministry being tardy and lack of supervision of banking and security transactions. The top RBI officers including the former governor S.Venkataramanan, A.Ghosh and R.Janakiraman are indicted. The then minister of state for revenue, R.Thakur, is criticised sharply over the delay in disposing of Harshad Mehta's file on income tax. It calls for penal action against foreign banks including suspension of their licenses. SBI hierarchy is criticised for its casual approach, negligent, performance in duties and unpardonable collusion with brokers. CBI and enforcement directorate are criticised for delays and lack of coordination. This 474 pages report contributes little to what has been known about the scam but it does not identify the prime movers and describe where this vast sum of money has gone. The report reveals as its chairman admitted the "scars of compromises". The first reaction to the report is that of the finance minister who has sent in his resignation to the prime minister. In the discussion of the report on December 29 and 30 in Parliament the reaction was along party lines, with the opposition demanding

resignation of all indicted ministers and the congress stating that it is a systemic failure of over a decade.

The Uruguay Round

The December 15 the delegates from 117 countries approved a GATT world trade treaty aimed at opening up international market and spurring global economic growth. Despite the initial all round euphoria over the successful conclusion of the Uruguay round which cuts tariff on thousands of manufactured products, the successful conclusion was possible because the main negotiators, the US and the European Union dropped items which could not be agreed upon from agreement. It has been computed that the successful pact would result in increasing world production by an annual \$119 billion and world trade by \$213 to 217 billion. It expands the rules of world trade covering for the first time agricultural products, rapidly expanding the service sector, and establishing a new world trade organisation with strong enforcement powers. It faces contentious legislative battles before going into effect in 1995 in both developed and developing countries. As far as India is concerned the positive elements for the country are: (a) its major concern in regard to agriculture including PDS, food security and continuance of farm subsidies have been addressed; (b) no commitment to grant minimum market access to foreign suppliers and farm goods has been granted despite strong pressure from US and other developed countries; (c) no access has been granted to foreign companies to enter services sector, banking, life and general insurance, and telecommunications, despite strong US pressure; (d) significant market access has been gained for short term movement of skilled personnel to provide a range of labour intensive services in key target markets; (e) article XVIII of GATT providing the developing countries having balance of payment difficulties with flexibility to maintain quantitative restrictions on imports are

retained. The negative impact for India include: 1) no improvement over the Dunkel Draft on integrating world trade and textiles particularly in accepting India's five point amendment proposed. However, US reluctantly accepted to phase out import quotas on third world textiles and clothing over 10 years rather than 15 years; 2) No relief against the Dunkel Draft on Trade Related Individual Property Rights agreement barring assurance that naturally occurring genes will not be required to be patented and farmers interest in use of protected plant varieties can be safeguarded; 3) Tariff concessions given to foreign suppliers of raw materials intermediates and capital goods, with India reducing its import tariffs on these non agricultural, non consumer goods to the maximum of 40 per cent and further to 25 per cent where tariff is already below 40 per cent; 4) Market access gain for export of goods as a result of the general lowering of tariffs. For India and other developing countries the Dunkel proposals were by and large maintained which looks as if disguised by lateralism has triumphed over genuine multilateralism, while the G7 countries got all they wanted. The vital interest of the majority who are the developing countries in a variety of a critical areas remain unaddressed. This accounts for the strong negative reaction in Parliament for two days after the pact was signed and the Indian representative in Geneva expressed agreement with it. However on balance it is important for India to remain a part of the multi-lateral trading system, a part of the GATT as it is emerging now. This is also the stand of the parliament standing committee on commerce with regard to the Dunkel Draft. It is hoped that India can participate fully in the benefits of the Uruguay round pact both in terms of the sharp expansion expected in the world economy (\$250 billion a year) which for India would mean \$5 to 6 billion a year. The government estimates that Indian exports will increase by \$1.5 billion to 2 billion annually as a result of India's participation in the GATT agreement.

India and EC accord

An important development in trade was the agreement between India and the European Union to grant each other the most favoured nations status and reinforce diversified cooperation in agriculture, transport and communication, health, banking and promoting scientific and technological development. For this a joint commission is to be established which will set forth the priorities and the ways and means of enhancing the partnership. The agreement thus proposes new areas of cooperation and the directions in which investments might flow. It will act as a catalyst and keep India informed of non tariff barriers and pending environmental norms and other developments that might serve to exclude exports from Europe markets. All this shows that the agreement is stronger on indications than actions. There will be some flow of finances from the European investment banks and the European community investment partners. It is hoped that this would encourage the further flow of private finances from the nationals in individual European Union member states which however depend upon the investors individual assessment of investment realities in India. This means that the upgrading of bilateral investment cooperation treaties should be possible as the investment climate increases. Is the India EC accord an improvement on GATT? The answer to this question is a mixed one, on the one hand there are no concessions with respect to duties or quota relaxation under MFA or a softening of the patents. Its main value on the other hand is that it is a reflection of Europe's increasing interest in India.

RBI Annual Report 1992-93

The report which runs for the RBI year July-June states that during the year there was encouraging progress towards economic stabilisation and revival. According to the report, the wide ranging reform measures since July 1991 have begun to yield results in

the deceleration in inflation, a slow recovery in GDP growth and stability in the external payments position. The thrust of the new economic policy is towards a competitive environment as a means of improving productivity and efficiency. For this 1992-93 saw a widening and deepening of the reform process. The reform in the banking sector during the year on the basis of the Narasimhan Committee report have been in: (a) monetary policy issues including reserve reforms, interest rates, refinance and internal debt management; (b) inhouse issues such as strengthening banks to prescribe capital adequacy and cleaning up their balance sheets; and (c) structural issues involving restructuring of banks to reap economies of scale. In monetary policy during the year a deceleration in monetary expansion to contain inflation reducing the monetised deficit on government and boosting exports to strengthening the forex reserves position were aimed at. For this there was a progressive rationalisation of interest rates, a quick move back to a low reserve requirement, a more liberal flow of refinance to banks, open market operation through treasury bills and auctions, proposal to establish securities trading corporation of India to nationalise securities trading and develop an active secondary market and liberalisation of various policy directives to ensure adequate and timely flow of credit to various sectors. A detailed account of the interest rate policy of RBI during the year follows the Chakravarty committee report involving freedom to banks by prescribing maximum deposit rate, and raising interest rate on government securities. On savings the gross domestic savings is estimated to decline to 22.5 per cent during 1992-93 from 23.8 per cent and 23.7 per cent during the two previous years, due in the main to decline in financial assets savings of the household sector from 9.1 per cent to 7.7 per cent. The deceleration in the growth of aggregate deposits is analysed and the reason for the abnormal increase in time deposits during the year as being due to the Indian Development bonds is noted. The basket of non deposit

resources comprising call money borrowings, refinance and bills rediscounting, compensated the deceleration of the deposit resources referred to. With regard to investment there was a change in the investment portfolio of SCBs during the year following various policy initiatives based on the Narasimhan and Janakiraman committee recommendations. Industrial production which recorded a growth of 1.5 per cent during the year seems to have responded to various policy initiatives such as relatively easy credit availability and lowering of interest rates. Agricultural production which grew at 5.1 per cent during the year has had credit spearheading the growth according to the RBI and the details of the deployment of credit and its terms are set forth in Table IV-8. The report concludes by pointing to the enormous scope for innovation and fine tuning in various areas of banking including their reorienting themselves to meet the changing needs evolving their own policies to build good quality assets ensure efficient and timelines in their operations, cultivate an inward looking attitude, adopt proper policies for pricing their services. However, its prediction that the future will be an autonomous banking in a competitive environment of high order seems a little too optimistic.

Economy

The state of the economy in 1993 presents a mixed picture. On the positive side GDP growth is likely to be 4.5 per cent against the previous year's 3.5 per cent. The finance ministry reports that for the period April-October this year the economy registered an all round growth, with production in basic and infrastructure industries except crude oil and fertilisers continuing an upward trend, though the gap between the supply and demand in the power sector which fails to keep pace with ever increasing demand persists at -8.5 per cent to -17.7 per cent at peak. With regard to the steel industry with the new thrust on exports and private sector, it faces the twin

threat of stagnation in demand and steep hike in input costs plus infrastructure bottlenecks in exports. The stagnation in demand seen in the demand of 15.25 million tonnes in 1992-93, 15.4 million tonnes in 1993-94 and an estimated 16 million tonnes in 1994-95 is mainly due to the recession in the steel consuming sectors like heavy industry, engineering and processing industry and the heavy drop in expenditure by the government department. Total electricity generation increased by 7.5 per cent, coal production by 5.3 per cent, petroleum products by 1.1 per cent, saleable steel by 5.4 per cent, cement by 5.1 per cent, and revenue earning goods and railways 1.7 per cent. The plant load factor of electricity plants rose up from 53.9 per cent in April - October 1992 to 57.6 per cent. On the negative side the fiscal situation of both the central and state governments as noted earlier is worrisome though the budget deficit has been shrinking from its peak level of Rs.21,685 crores of July 1983. The year end fiscal deficit is likely to be 6.4 per cent, which is a good deal higher than the figure presented in the budget. The increase in the deficit can be attributed to both increasing expenditure (+ 12.5 per cent during 1993-94) and shortfall in revenue particularly in customs duty (about 15 per cent in the first six months): the result is the government's debt continuous to rise at 6.6 per cent. Also the year is ending, as noted earlier with high inflation rate - higher than the 6 per cent promise of the finance ministry. Both central and state governments procurement expenditure increased without any corresponding decrease in subsidy outlays. As government borrowings increase money supply, liquidity and inflationary pressures increases, this level of inflation is undesirable both internally as it hits the poor and externally as it makes Indian exports less competitive.

India's total external debt is a high \$85.4 million at March end 1993 (against the previous year's \$82.2 billion). The debt service payment was \$6.83 billion, 25.7 per cent of our export earnings. The debt servicing is now exceeding

the foreign borrowing, the economic survey shows that the total foreign loan during the first nine months of 1992-93 was Rs.6077 crores while the total debt repayment was Rs.6079 crores. Thus when the repayment burden exceeds the amount of loans taken, the country is in a debt trap.

Foreign investment approvals in the first 10 months of 1993 amount to Rs.6580 crores against Rs.3890 crores for the equivalent period 1992. These are approvals and so the emphasis of the department of Industrial development to focus on implementation aspects of industrial approvals should be welcomed. The Indian share markets are attracting the foreign institutional investors (FIIs), purchase of shares and bonds in Indian companies by FIIs have crossed \$500 million so far this year and is likely to touch \$1 billion by the end of the year 1993-94. FII investment in financial assets has exceeded foreign direct investment under liberalisation. This has its own dangers as the duration of the FIIs investment is uncertain, and when they sell the shares and repatriate their earnings in foreign currency. With increasing equity acquisitions (they are allowed to acquire 25 per cent of the companies equity against 10 per cent in South Korea and Taiwan) they could dislodge the controlling interest of most companies. There is also the question of FII inflow also covering the return of capital outflow of the past two decades. (The illegal outflow from India is estimated at around \$1.5 billion a year from the FIIs, the multinationals, the NRIs in annual net foreign exchange inflow of \$1 billion should be noted. But what is the impact of these financial flows on the real economy which continues to stagnate. Hence the amendments to FERA and the facility to registering foreign financial institutions with SEBI need to be watched particularly the keenness of the foreign collaborators to secure majority stake in the equity capital of Indian companies. The commerce ministry assures the country that the nation's door will be opened slowly and the possible fear of the flow of imports not based on reality. It refers

to the substantial reduction in customs duties which did not lead to a sharp rise in the import bill this year.

The finance minister has referred to convertibility on capital account as a facility that will soon be made available. Here it should be noted that what is needed first is a full two way convertibility under the present regime where only dollars or other foreign currency can be converted freely into rupee and not the other way about. This should be first achieved. Convertibility on capital account has to be done in a phased manner after we become fully convertible on the current account. The convertibility on capital account can only be introduced in stages. At present there is convertibility on capital account for foreign institutional investors and for foreign direct equity investment.

In mid December the telecom commission decided to liberalise and privatise basic telecom services. This is important as it may give life to the earlier decision to privatise value added services such as cellular telephones, paging, electronic material, voice material and video techs. The Commission has also decided to separate the regulatory licensing and servicing function that are currently carried out by the department, as a necessary corollary of privatising. To ensure a fair and stable trading regime in the telecom sector an independent neutral authority needs to be set up on the basis of the structure proposed in the telecom policy document. During the next step for the widening of the department of telecommunication and MTNL, there must be free and full negotiations with the concerned trade unions.

Agriculture

With the completion of the kharif harvest and the good prospects for rabi, the buffer stock position is becoming increasingly comfortable and should bring down prices of agricultural commodities. This means that an undue rise in the price of cereals which seems to be taking place can be prevented with sales in

the open market out of the buffer stocks. During November, food credit surpassed the Rs.10,000 crores mark and will be further expanded with continuing sizable rice purchases after the middle of January. With the plentiful wheat supply expected from April the food credit will go further upto Rs.12,000 crores. The government has formulated a national policy for the development of aquaculture to push up exports of marine products by Rs.1500 crores in the next 3-5 years. International donor agencies have been approached to fund the study on the possible effects of the growth of aquaculture on the environment. India's agricultural ministry is somewhat hesitant about the rapid expansion of aquaculture because of its effect on the use of land and water resources. In the other agricultural sector the country's largest export oriented aquaculture project (survarna aqua farm exports) will grow, harvest and process the prawns using brood stock technology to be supplied by TALCOT of Singapore. The project is being promoted by a consortium of Indian aquaculture specialists and NRIs. The minerals and metals trading corporation also is a part of the consortium investing 15 per cent of the equity and is a part of its policy of promoting investment in the private sector. In the area of research, December registered 31 projects with a majority in the area of fruits and vegetables which has been expanding fast using the results of research in brinjal, lime, mushroom, tapioca, cardamom, coconut. The next in the number of projects is animal husbandry which covers post parturient in buffaloes foot rot in sheep, prawns and poultry. On the area of cereals, the least number of projects are registered, which it is hoped, does not mean that the farmers are losing interest in the research results in this area. The need for a check on use of the research results by farmers needs attention.

Plantation Crops

Tea: Union government has repealed the tea regulation, export licensing (1984). This will promote tea exports by removing a number

of procedural impediments. There will be no more registration of export contracts with the Tea Board. In South Asia the important large and growing market for tea requires a coordinated approach by India and Sri Lanka, the two world's major producers. This would also help withstand the pressures which the unified Europe, and NAFTA might bring. Over the long term, such a South Asia approach could help ease some of the constraints faced by the tea industry in its growth. In the area of coffee the government's delay in amending the coffee act to promote the 50 per cent FSQ (Free Sales Quota) is having a negative effect on growers as it is beginning to affect them, with the start of the harvesting of the 1993-94 coffee crop. It is urgent that the FSQ would be opened speedily. The country's leading coffee markets and processing cooperatives have arrived at an agreement to procure the 1993-94 crop at a minimum common price in order to ensure remunerative returns to the growers. The cooperatives have also announced six procurement schemes for growers - outright purchases, consignment basis, processing, sharing profit and loss, deferred payments, and auction systems which will increase their income. More of such efforts in the plantation areas are needed.

Industry

The industrial production during August recorded a positive growth of 4 per cent (against 3.1 per cent in August 1992) with manufacturing increasing by 2.6 per cent and mining by 1.7 per cent. Industry however is becoming more and more capital intensive in the country and new recruitments at the worker level is being reduced to 40 per cent of the organisation. A NCAER survey of human dimension of liberalisation reports the All India Management Association fighting with workers who are becoming more quality conscious and cost conscious. There is more emphasis on research and development in setting up of quality circles and small business units within the organisation since July 1991.

Surplus manpower is at a median level of 10 to 20 per cent. The organisations feel that they have a competitive future despite the reduction in tariffs and subsidies but to ensure this the introduction of new technologies, reduction in labour force and more financial investments are needed. The survey concludes that economic reforms have enabled general executives to focus far more on their business, in which workers and units have also responded positively. In view of NCAER in collaboration with the German agency arguing in favour of dereservation of SSI, the government at the highest level has declared that the policy of reserving item for production in the small scale sector under which 838 items are reserved exclusively for manufacture in the small scale sector will continue and not be dilated. The government states that in setting up the technology mission for the small scale sector to help in its modernisation and upgrading of technology, the banking sector will provide adequate and timely credit for smaller units counteracting the marginal decline in the out flow of credit to the sector. This emphasis on the small sector to some extent would balance the trend towards capital intensity in Indian industry. CMIE's survey of corporate finance in 1992-93 shows that there was slow growth in sales with near stagnation in real terms from 20 per cent in 1991-92 to 13.7 per cent in 1992-93 and profits before tax during 1992-93 were 2 per cent lower than the previous year. While income of main business activities of the corporate units increased by 13.7 per cent, other income expanded by nearly 25 per cent and non-recurring income by 63 per cent. The composition of income of main business activities has shifted from manufacturing which records more than 2 per cent decline to trading activities and internal transfers. Profits by any measure suffered sharp reversals during the four years 1989-90 to 1992-93, declining from 26 per cent in 1991-92 to 13.6 per cent in 1992-93. It has also provided a declining depreciation rate in the profit and loss account. During 1992-93 the corporate sector faces with a fall

in profits before tax, saved the situation by managing the fall in tax incidence with a decline from 33 per cent in 1991-92 to 27.5 per cent in 1992-93. The total tax paid out of the corporate sector declined by 18 per cent during 1992-93. Profits after tax increased by 6.4 per cent in 1992-93 which was lower than the 8.4 per cent in the previous year. The difficulty faced by the corporate sector during the two years has forced the companies to improve inventory management, particularly the sharp decline in the inventory of raw materials. A structural change has also occurred in the source for funds raised by the sector, the share of funds from the capital market increasing from 14 per cent in 1991-92 to nearly 31 per cent in 1992-93. Thus for the year 1992-93 the corporate sector had a mixed experience. The bureau of industrial costs and prices identified at least three major industries - garments, cosmetics and man made fibre as having failed to pass on to consumers the much publicised duty concessions made in the 1993-94 budget. In accordance with the question raised on the bulletin, there are more industries to this category but BICP has not been able to identify them because they conveniently ignore its request for price information. This shows the asymmetry between tax changes and price changes, tax changes do not result in a one to one change in prices. Firms raised the price of the product by the full amount of the tax increased but will not decrease prices to match the tax cut in order to pocket the resulting windfall. A new strategy needed. To counter this increase in competition which involves removing of impediments to new entry the government decision to entrust IISCO to Mukand despite protest by the trade unions is part of the overall approach to liberalisation. It is also the means of overcoming the impasse over the rehabilitating of this long hailing public sector units which seen uncertain signals over privatisation and the exit policy. The problem of dealing with the unions who are totally in opposition to this privatisation of IISCO has to be fought out and persisted with.

Foreign Trade

Despite exports rising by 20 per cent from \$10093.31 million to \$12131.08 million between April-October 1992 and April-October 1993 the export growth seems to be losing momentum from 21.08 per cent during April-September 1992 to 20.19 per cent in that period in 1993. The current financial year started with an impressive export growth of 28 per cent, in April dropped to 6.6 per cent in September (which government attributes to the truckers strike) and recovered only to little over 20 per cent in October. Imports during April-October 1993 are estimated at \$12700.17 against \$12816.43 million during that period in 1992 which is a small decline of 0.91 per cent but the trade deficit during April-October 1993 declined to \$509.09 million against \$2723.12 million during the corresponding period in 1992. India's project exports comprising construction contracts, turn key contracts and consultancy services are likely to contribute in a greater measure to our overall exports efforts in the coming years because Indian companies have demonstrated their technological capabilities by competing successfully against international giants (at 17 per cent in terms of value against the world average of 15 per cent). They have also participated in a big way in the execution of projects funded by the World Bank, Asian Development Bank and the African Development Bank. According to the Export-Import Bank of India contracts worth \$50 billion are in the pipe line in Eastern Europe, CIS and the newly emerging markets in East and West Asia. The Ex-Imp bank study also brings about the important change in the composition of project exports from civil construction to turn key projects and consultancy services have been till now unsuccessful. It is due to uncompetitive pricing. Hence the emphasis should be to use the growing Indian expertise and capabilities to make prices competitive. The committee set up to attract more investment in 100 per cent export oriented units and those located in export processing zones has in its report

submitted to government towards the end of December recommended grant of perpetual tax relaxation in duties on the sale of goods for domestic tariff areas, streamlining and simplification of customs and excise procedures as well as provision for automatic access to external commercial borrowing and the nomination of an agency by state governments to provide single window clearance to these units to meet their needs for power, water, environmental and other clearances. Will these wide ranging recommendations allow the EOUs and EPZs to concentrate on tapping the export market rather than spend all their time and energy for conforming to formalities set forth in rules and procedures and legal requirements that have ceased to be relevant to the new liberalised economies. The government's decision on this recommendation is awaited with interest by the industry and trade. 1993 has seen the Indian rupee locked in a narrow groove against the major currencies but following the unification of the exchange rates in March, the rupee demonstrated a robust performance and recorded a downward variation of only 1.9 per cent against the dollar, 0.30 per cent against the pound and a 15.58 per cent against the Japanese Yen, it recorded an upward fluctuation of 2.73 per cent against the German Mark. It is too early however to predict the further future movement of the rupee in relation to the gross currency options that are opening up in January 1994 and the plan to make the rupee convertible on capital account. On individual items outstanding export performance are recorded in regard to spices during the first seven months April-October 1993 at Rs.275.07 crores, textiles which are likely to exceed the target of Rs.22,168 crores and tobacco which is the worst in the declining trend during the last decade of exceeding the one lakh tonne mark, and oilseeds

Aid and Loans

The government reported as at September 30 to Parliament that the total amount of borrowings from the World Bank were \$32397

billion and from the IMF \$5078.19 million. The interest and service charges to the World Bank in 1992-93 amounted to \$670.473 million and to IMF \$264.91 million. The net purchase of foreign exchange by RBI during April-November 1993 have been \$4781 million when the foreign exchange reserves (excluding gold and SDRs) stood at \$2.8 billion. As per the World Bank, India ranks 4th among the developing countries debtors. During December ADB announced its second major loan of \$12.7 million for the highway project, it also approved a \$260 million loan to the Gas Authority of India to finance its expansion programme. The World Bank made a loan of \$135 million to the Power Grid Corporation for establishing a unified load despatch system throughout the country. The World Bank also estimates that during 1993 private capital flows into India are \$2 billion which it states is the beginning of the response to the government's new macro economic reform. Japan has announced a soft loan of Yen 119.40 billion (about Rs.3230 crores) during the current financial year which makes it the largest bilateral donor for the 8th consecutive year. All this shows that India is still a long way from reducing its reliance on foreign aid and loans, the private investment reported by the World Bank are not loans.

Human Resource Development

The Delhi Declaration of the Summit of the nine most populous countries, referred to in the last issue refers to education as a critical investment and urged international funding to step up their funding for education, not to attach strings to the funds and sex education as a critical investment and not as a service industry. The universalisation of primary education is estimated to cost \$5 million by 2000, which extends the deadline to a more realistic date. This expansion is not only in the quantity but also of the quality. It is but fitting that universalising of primary education is the corner stone of India's education policy and is in tune with the requirement of a society which is mired in poverty and

illiteracy. Thus the new issue like the district education primary education programme and the expanded total literacy campaign have given during the year a big boost to Human Resource Development. Other positive developments during the year include reducing the load of school bag in accordance with the Yashpal committee report, recommendations for raising of status of the national monitoring committee on the evaluation of school textbooks to a national commission, the formation of the cabinet sub committee to review the guidelines for admission of capitation fees for providing professional skills, exploring the proposal for creating a corpus fund of Rs.100 crores in the next five years by IITs and IIMs through contributions from alumni, industry and consultancy, the recommendation on decentralised education management in light with the constitutional amendment on Panchayati Raj, the setting up of Rashtriya Mahila Kosh to meet the credit needs of poor women in the informal sector and the Mahila Samithi Yojana providing rural women direct cash incentives for their self employment, the formulation of a national nutrition policy to cover all vulnerable children and the integration of physical education and sports with the learning process. What is disconcerting is that at any point of time nearly 50 per cent (1.2 crore pupils) of children in the age group 6 - 11 years are outside the school system. Will the transformation of primary education into a child centred activity meet this problem along with the actions being taken. Equally if not more disconcerting is the learning results of primary schooling, which a baseline study shows that a large proportion of children emerging out of class V have not learnt the rudiments of 3Rs. The improvement in the infrastructure through programmes like operation black board must be matched by improved learning, this would supplement the gains in the Indian primary education highlighted at the Summit, including the eight fold increase in primary enrolment of girls among whom there has been a heartening decline in drop out rates resulting

in part from the five fold increase in teachers and three fold growth in school and the outlay on education increasing 128 times seen the start of planning. The Ministry's document Education For All is an excellent overview of the educational scene. There is general agreement that particularly in the Hindi belt (UP, Bihar, MP and Rajasthan) where female literacy levels are appallingly low and self perpetuating, there is need for a special thrust for female education using the mission approach which has proved successful in the adult literacy programme. Among other restraining factors, poverty as far as primary schooling is concerned can be tackled through the mid day meal scheme as Tamil Nadu has shown. In this context any waste of resources in primary education is excusable as the parliamentary standing committee of HRD shows in regard to ICDS where crores have been mis spent because there was no proper machinery to monitor this large and long lasting scheme. This can and should be remedied.

International

World Economy

UNs 1994 UN survey of the World Economy estimates that 1994 witnessed a strengthening of economic output, against three consecutive years of weak annual growth at or below 1 per cent or so. It forecasts a world growth of 2.5 per cent and result in income gains in both developed and developing countries. It will ease the bottoming out of the economic decline in East Europe and the CIS countries which are transiting from plan to market economies. The acceleration of growth in the developed economies from 1 per cent in 1993 to over 2 per cent in 1994 will make for world recovery. It estimates that the average growth of the developing countries is likely

to remain unchanged at 5 per cent but the continuing sluggishness in the world economy is due mainly to the persistent weaknesses in the industrial economies which account for more than 70 per cent of world output. In 1993 rapid growth was almost entirely limited to the developing countries. Asia will continue to be the fastest growing region of the world in 1994, with China growing at 10 per cent, India at 5.5 per cent, Korea, Taiwan, Indonesia, Thailand at 6 per cent, the Caribbean and Latin America region by 3 per cent. The African economic situation will remain disturbing with output estimated to grow only by 2 per cent in 1993 and a marginal increase of 2.5 per cent in 1994. The recovery under way in the US will continue in 1994 to 3 per cent, the three largest economies of Europe, France, Germany and Italy are projected to grow at 1 to 1.5 per cent after a decline of 0.4 per cent this year. This world economic picture is thus somewhat mixed. An Unctad study reports that recent guidelines of the basic task force jointly established by the development committee of IMF and World Bank for attracting FDI from developed countries are disappointing in the results, the guidelines, it states, remains a small and timid contributor to this large, difficult and urgent subject. It hopes that inward foreign investment would comply completely and in good faith with warm local legal requirements is not very realistic. They do not cover issues relating to preservation of national culture, immigration, distribution of domestic income over an appropriate dividing line between public and private sector etc. It asks whether major investors are justified in demanding fiscal stability, the most appropriate way to handle environmental impact of major mining, petroleum and other projects, the requirements of investors in projects with export potential that they keep some of the proceeds of their export sales offshore and the reluctance of TNCs to issue parent company guarantee in the event of one of their operating subsidiaries being held liable in the damages in an

environmental capacity. These would hold back the world economy particularly in the developing countries.

World Bank on Poverty

The World Bank plans to aid some of the world's poorest people with \$50 a piece, enough to buy a cow or some chickens to ward off hunger. This money is to help the poorest of the poor. It is making a donation of \$2 million to such a lending programme sponsored by the Grameen bank of Bangladesh so that it could spread throughout the developing world. This first effort of the bank to contribute to such private lending also is a tacit recognition that some of its lending programme have failed to help the poorest of the poor. It states that bad government policies rather than war, civil unrest or drought are the main causes of world hunger. Hence though the World Bank charter allows it to lend only to governments it is exploring new ways to aid small scale lending programme including direct donation to non government units. This Bank's small loans to individuals is part of the new effort to cut world hunger in half within a generation. It estimates that currently about 30 per cent of the world's people are poor and hungry and have set itself the goal to cut that to 15 per cent by 2015. Besides the Grameen bank the Badal Kredit Kecamatan of Indonesia and other such small bodies are likely to help in the programme through the bank initiatives.

GATT

As a result of the successful completion of the Uruguay round reviewed earlier, GATT forecasts that global trade would grow by \$7445 billion a year and income by \$230 billion a year by 2005 AD. This should be noted. The multifibre arrangement which restricts exports of textiles from the developing countries and which the Uruguay negotiators have agreed to terminate after 10 years has been extended for another year

till the end of 1994. From 1995 the MFA would be phased out over the 10 year period.

The Commonwealth on Debt Management

The Commonwealth's secretariat proposal for debt regarding management system was reviewed at an international meet in order to deal with the external debt which poses a major problem for the developing countries. The system proposes and provides for significant debt coordination, regulation, accounting analysis of the debt portfolio of the countries. The whole range of services in debt management development by the commonwealth secretariat's economic and legal advisory services has already been used by 38 developing countries in the commonwealth. It is being translated into french for use in the francophone countries of Africa and is said to spread across the continent to the CIS countries. This programme also helps to deal with the problems raised by IMF structural adjustment programmes in the countries. It deserves wider study and analysis.

SAARC

The December meeting of the SAARC ministerial council was important as it marks a step forward in the plans of economic cooperation in the region, to some extent this was in response to the pressure from the emergence of the new economic and trading groups like NAFTA and APEC and the final negotiations on the Uruguay round. The major areas of such cooperation would be a regional approach of poverty alleviation for which a specific SAARC mechanism was suggested and an expeditious implementation of the South Asian Preferential Trading Arrangement (SAPTA). The SAARC Summit which will be held in 1994 will pick up from here and further strengthen and make firm decisions on the elements for regional economic cooperation. Also by that time, the Uruguay round's final decision would be known.

Other Items

Summit on Education for All

To follow up the Jomtien Declaration of 1990 Unesco, Unicef, UNFPA decided to convene a summit of the nine most populous countries on December 13-16 in Delhi to review how far in the intervening two and a half years the objectives of the Declaration of universalising primary education and abolishing illiteracy have been achieved. The reports received from the nine countries shows a heartening record of achievement with some countries like Indonesia, Malaysia having already abolished illiteracy and are moving fast towards universalising primary education and the rest making substantial progress. The difficulties in attaining this goal were also listed and analysed clearly and frankly and means of overcoming them including some postponement of the target date was established. The major weaknesses of the summit was that only two of the nine heads of state or government were present, the others being represented by ministers of education. Their task now is to get their Presidents or Prime Ministers committed to the decision of the summit.

SRC and TNBCE

As a preparation for the summit Tamil Nadu Board of Continuing Education and State Resource Centre at the request of the Unesco National Commission organised a preparatory seminar on the Indian programme of Education for All in Madras. The issues were well presented. But both the discussions and conclusions were not very satisfactory mainly due to the lack of time given to the two participants and the two organisations for the seminar. This defect has been pointed out to the National Commission. The SRC/TNBCE had their regular two monthly Governing Body and Executive Committee meetings at which the ongoing programmes particularly of the

Arivoli lyakkam districts were scrutinised and reviewed. The programme for post literacy in the two districts of the Madras district literacy programme were reviewed and noted with satisfaction. The evaluation of one district literacy programme in relation to the drop outs was fully discussed and improvement suggested for its application in other districts.

India International Centre

The Standing Committee of the Centre met mainly to review the plans and progress on the Annex of the IIC building. The architectural plan is now approved as submitted by M/s Stein and associates. Its cost of Rs.3 crores was scrutinised and the issues in relation to the inflation factor during the two years of its construction were noted. The Annex will be mainly for conference and seminar facilities with less than 20 residential rooms. The committee's report is to be submitted to the governing body.

Tamil Nadu State Council for Higher Education

There was the three monthly meeting of the Tamil Nadu State Council for Higher Education Committee when the decision to take responsibility for running the testing services for admission to the general arts and science and the professional courses was reviewed and entrusted for an initial period of three years to two competent universities. The request of the All India Council for Technical Education to be represented by a special invitee was accepted in relation to appropriate items on the agenda. The council also approved the rules and regulations for the functioning of the council,

Anna University

The second meeting on current issues was held at Anna University on December 24

when the issue of accountability of elected members of parliament and legislative assemblies was discussed. The various committee set up by the central legislature to scrutinise accounts, expenditures, personnel and various proposals from the government were reviewed together with the extent to which other items such as question hour, the call attention motion, the no confidence motion etc contribute to accountability. The general feeling was that the procedures are almost complete. It is the individual elected member and his response to these procedures which decide on the accountability.

First Article

The paper for the January seminar "Green Issues and Poor Nations" appears as the first article.

Second Article

A note on "Some Questions on the 1994-95 Budget" appears as the second article.

Book Review

The review of the book "State of the Global Economy 1993" appears in the book review section.

MIDS News

Dr. P. Gopinath, Director, International Institute for Labour Studies, ILO, Geneva, visited MIDS on January 13, 1994.

Dr. C.T. Kurien who was in Vietnam in December gave an informal account of his impressions of Vietnamese society and economy on January 21, 1994.

Dr. K. Nagaraj spent three weeks at the Centre for Development Studies, Thiruvananthapuram; gave a course of lectures on 'Migration & Urbanisation' to the UNFPA trainees and was a discussant in a Workshop on 'Unemployment Situation in Kerala'.

Dr. Nasir Tyabji spoke on "Foreign Collaborations and Technology Absorption" at the Department of Economic Analysis and Policy, RBI, Bombay, on January 24, 1994.

Dr. S. Neelakantan attended the meetings of Directors of ICSSR Research Institutes at Institute of Public Enterprise, Hyderabad on January 10, and at Centre for Social Studies, Hyderabad, on January 11, 1994. He also delivered the Helan Vincent Endowment Lecture on "Some Recent Developments in Economic Theory" at Stella Maris College, Madras, on February 4, 1994.

Dr. Padmini Swaminathan attended a Workshop on "Social Construction of Reproduction" organised by the Medico Friend Circle, at Wardha, on January 13 - 14, 1994.

Dr. Paul Appasamy presented a paper on "Economic Aspects of Water Use in Metropolitan Areas: The Case of Madras City" at a Seminar on Environment and Economics

organised by the Centre for Science and Environment, New Delhi from January 27 to 29, 1994.

Prof. Peter B. Mayer, Department of Politics, Adelaide University visited MIDS on January 21, 1994.

Dr. P. Radhakrishnan participated in a Workshop on Social Exclusion and Social Integration at the Foundation for International Studies, Malta, organised by the ILS, ILO, Geneva, from January 19 to 22, 1994.

Students from Beslet College, Department of Education, Oslo, Norway, visited MIDS on January 21, 1994.

Dr. A. Vaidyanathan gave a series of lectures on the Indian Economy since Independence for the M.Phil Course of the Centre for Development Studies, Thiruvananthapuram in early January; gave a lecture on Problems of Groundwater Regulation, at a Workshop organised by Viksat and the Pacific Resources Institute in Ahmedabad; gave a talk on the Role of Tanks in Indian Irrigation, on January 29, 1994 at a Conference on Environment and Economics organised by the Centre for Science and Environment, New Delhi, and chaired a session on water.

A half-a-day seminar on "Innovation in Industries: Case Studies of South Indian Experience" was held at MIDS on the January 20, 1994, participated by Dr. A. Vaidyanathan, and Dr. Krishna Kumar, Prof. Vijayaraghavan and Mr. Bhupathy from IIT, Mr. P. Venkat Raman, Managing Director, Guindy Machine Tools Ltd., Mr. Gopinath, Fluid Therms, and Mr. Achuthan, Presevi Industrial Company.

Green Issues and Poor Nations

K John Mammen,
Professor, CRENIEO, Madras

THE world's poor, particularly those in Asia, Africa and Latin America, are environmentally friendly and possessive - a cultural trait that dates back over thousands of years. They are fighting a losing battle against abject poverty and have no time to worry about a common future. It is the world's affluent, particularly in the industrially advanced countries in North America and Europe, that are worried about a safe and sustained future of their design which they cannot have without the active involvement and co-operation of those in poor countries. The world's affluent are indeed gripped with a fear of the future, rather than a genuine concern for the world's poor and the deprived, and their sustained development.

In a recent publication "Agenda 21 - The Earth Summit Strategy To Save Our Planet" edited by Daniel Sitarz and with an introduction by U.S. Senator Paul Simon, it has been stated:

Although the environmental devastation of the developing countries of the world is most often highlighted in the world press, the roots of global environmental deterioration are now recognized as primarily a result of activities initiated by the industrialized countries of the Earth. It is in the industrialized regions of the world that certain unsustainable patterns of consumption have developed, supported by production processes that place enormous stress on the natural balance of the Earth. It is in these industrialized countries that the largest proportions of the world's current emissions of pollutants and hazardous waste are produced. To correct the global problems that the process of industrialization has brought about, the industrialized countries of the world must bear the main responsibility. It is these same

industrialized countries that have the capacity, technological powers and education to lead the effort to combat the global impacts of environmental decay.

Environment Editor of The Economist, London, Frances Cairncross in her recent book "Costing the Earth" has expressed a similar view:

Third world countries say with some justification that the first world countries have made most of the mistakes for which they now blame the poor.

The fact that industrially developed countries sowed the seeds of environmental deterioration and degradation in their erstwhile colonies in Asia, Africa, Latin America and North America needs to be reiterated. They were instrumental in the extensive slashing and burning of tropical forests in a manner that is mind-boggling, establishing dirty industries to meet their selfish objectives and deculturating pristine ways of life and superimposing them with hybrid cultures based on greed.

The Brundtland report "Our Common Future" served the purpose of highlighting the concept of "Sustainable Development". The concept was immediately seen by many as the only rational manner to confront the inter-related problems of environmental destruction, and economic development. It was based on two central questions; first, 'Is it possible to enhance basic standard of living of the world's expanding population without unnecessarily depleting finite natural resources and further degrading the environment. Second, 'Can humanity step back collectively from the brink of environmental collapse and at the same

to lift its poorest members up to the level of basic human health and human dignity? The report sought to provoke answers in the affirmative. There are many jejune in poor countries who profusely praise "Our Common Future" without critically evaluating it, carried away by the emotive appeal of sustainable development which *Prima facie* stresses the use of future generations! Closely looked, the report has failed to identify the fundamental causes of environmental problems and has proposed forward solutions quite at variance with what are appropriate. It has unquestioningly and readily accepted: a) free enterprise and market-oriented globalisation philosophy, b) indiscriminate economic growth and trickle down approach to third world development and c) the affluent life-styles and resource-intensive social systems characteristic of the rich countries. It does not accept the reality that erratic economic growth perpetuates the majority in poor countries, that it prevents appropriate development and that it paves way for massive resource-stage and environment destruction. The report does not reckon that the affluent and highly industrialized countries could not have become what they are today had they not plundered the economies of what are today poor countries for a span of well over two hundred years. In fact, the plunder in Asia, Africa, and Latin America was so complete that they have been tossed into an abyss of poverty, privation, famine and hunger.

The Brundtland report's recipe for third world development is more industrial development. The celebrated commentator Ted Trainer's views in this context are relevant. "The strategy (of the report) is to get existing global economy going again with the very recipe that has generated the problems the report is grappling with. The report sees no need to make fundamental change from a global economy driven by market forces and profit, from the indiscriminate growth and trickle down approach to development and living standards and resource-expensive systems the rich countries have, and for drastic redistribution

of wealth". The report's recommendations for action address only institutional and legal angles and give the impression that all that is needed is "greater concern to stream-line the functioning of environmental protection agencies, to create better laws and to set up more effective regulatory institutions". In other words it does not, even remotely suggest that the chances of a just, peaceful and environmentally sustainable world order depend on change of tack to 'a Conserver Society from a growth and greed society'.

The 1993 Nobel Prize for Economics was shared by the American Economists Robert Fogel and Douglas North for their researches in the specific area of economic history. Fogel's researches covered the part played by rail roads in the economic development of USA and the contribution and productivity of African American slaves. North's research has brought out that institutional innovation is vital for economic change. Various environmental discussions and debates cover current and futuristic parameters only and seldom probe the past for environmental causations. One may well hypothesise that in the case of rich countries such an omission is convenient to them to cover up an unflattering past. The environmental outrages committed by them in poor countries for over two hundred years through sleight, deceit, and arrogant might and a deliberate 'divide and rule' tenet of governance need be atoned and a fair price paid, not as aid or charity or assistance, but as compensation. How can one speak of a common future without auditing the past and without squaring the environmental account book?

Viewed in the foregoing context, the South Commission's report "The Challenge to the South" is a disappointment. In the specific area of North-South relations vis-a-vis environment, the report states:

The countries of the South are today the victims of the deleterious environmental effects of policies and patterns of development in the North. These include such global phenomena

as the thinning of the ozone layer, nuclear radiation, and the greenhouse effect, as well as such direct acts as the dumping of hazardous wastes and the location of polluting industries in the South. Attempts by the developing countries to bring the global commons-in particular the oceans and outer space-under effective international jurisdiction- have been defeated in practice by the lack of co-operation of the developed countries. The situation is made worse by the pressure on developing countries resulting from the debt burden. They must at all costs increase their receipts of foreign exchange to service the debt. Equally, the fall in commodity prices leads to pressure to increase production and step up exports. The result is, on the one hand, that developing countries are forced to overexploit their resources, harming the environment, and, on the other, to accept environmentally damaging deals with the North, e.g. deals for the disposal of toxic wastes.

This extended quote reveals in no uncertain measure that the South Commission did not probe in depth why the environment in poor countries has come to be degraded over a period of two centuries and more. Tarzie Vittachi, the late lamented doyen of journalists used to stress that processes are equally, important as events. Indeed there is a case for a study by yet another South Commission on the state of environment in poor countries in their colonial days, and to reconfirm the contention that if the poor countries are what they are today it is because their environment was abused by those from the West.

The South Commission's report, however, has attempted to identify the factors behind the increasing environmental stress in many countries of the South and has grouped these into some basic categories and these are:

Increasing pressure on natural resources due to high rates of population growth, systems of property rights and land tenure that accentuate this pressure; the dynamics of agricultural development that result in a bimodal agricultural production system; economic pressure, mainly from the North, leading to

overexploitation of natural resources; the imperative of industrialization and economic growth; the adoption of energy-intensive patterns of consumption modelled on those of the North; and unplanned and uncontrolled rural-urban migration.

Here again the past does not find a place in the South Commission's scheme of things.

The United Nations Conference on Environment and Development (UNCED) at Rio de Janeiro in June 1992 perpetuated a few myths about whom to blame for the fast deteriorating profile of global environment. To view poverty as the root cause of environment degradation will be "missing the dynamics of inequality and powerlessness". In poor countries it is NOT the poor who create environmental problems; it is rather the elitist rich in poor countries who do. A Philippine environment leader stated that "Democratizing control of resources is the key to sustainable development". Robin Broad and John Cavanagh expressed it arrestingly: "For the poor are not only the catalysts for halting the destruction but also the initiators of sustainable development and equitable alternatives".

The UNCED deliberations hypothesised that poverty and environmental degradation in poor countries can be ameliorated through integrating them into the global market. In other words, free market growth. It does not warrant much facile imagination to see the point that poor countries may have to take recourse to environmentally unfriendly practices if they are to survive in the global market dominated by transnationals and multinationals. Market-based strategies that do not address extreme inequalities of wealth and resource-ownership across the developing world make no environmental sense as also economic sense. Contextually Chip Fay's insightful view merits quoting: "Investing into the existing resource allocation system is investing in a structure that is unsustainable".

Yet another fall-out from the UNCED is the hypothesis that there must be massive aid from wealthier countries such as the USA to

pay for environment initiatives of poor countries. In his book "Earth in the Balance", Al Gore has proposed a Marshall Plan to tackle the environmental threat confronting the world. And the Washington Post editorially stated on June 14, 1992 that "If they (the poor countries) want not to struggle laboriously through the slash and burn, coal and sulphur stages of development, the rich are going to provide them with resources to bypass it. That meant money and technology". The UNCED Chairman Maurice Strong made an eloquent plea for billions of dollars of new aid for combating environmental deterioration in poor countries. It is a matter of opinion whether massive aid inflows channelled through multilateral developmental institutions (IBRD, IMF, ADB), US AID etc. with rigid conditionalities, will really help. The history of large scale aid to poor countries has demonstrated that such aid has compounded environmental degradation. Such aid has never been a cure-all, that it is supposed to be and the history of aid has revealed cases of "fungibility of development assistance", "the blight of faddism" and "aid-induced", "zig-zags". Mega-international aid has often created and aggravated destructive nexus of various sorts as also heightened social tensions. Success of aid depends on its openness reaching the right people on time, to the organizations of the poor that are committed to participatory development. Aid needs to reach the grass-roots level and not get way-laid!

The UNCED deliberations skirted two important issues namely 1) widespread inequalities that characterize resource ownership in most parts of the world; 2) environmentally destructive operations of large multinational and transnational corporations in such parts of the world that are deregulated. The U.S. presence in the Middle East putting on the cloak of a good Samaritan to protect and preserve the security of Saudi Arabia and to contain the alleged Iraqi designs of 'expansionism', is squarely rooted in their oil resource interest in the area.

World Bank has come to occupy the centre-stage as far as development aid is concerned and is the world's largest developmental lending agency. The Global Environment Facility (GEF) was established in 1990 as a three year pilot programme to provide grants for investment projects, technical assistance and research. GEF resources were to be used for assisting developing countries to protect global environment and for transferring environmentally benign technologies. Responsibility for implementing the GEF is shared by the UNDP, UNEP, and the World Bank. Whereas the UNDP is responsible for technical assistance, capacity building and project preparation and the UNEP provides secretariat for Scientific and Technical Advisory panel as well as environment expertise and advice on specific projects, the World Bank administers the Fund, acts as the repository of the Trust Fund and is responsible for implementing investment projects. During the deliberations at the UNCED it was felt that the GEF should cover the agreed costs of relevant activities under Agenda 21, in particular for developing countries. It was by and large the general consensus that the GEF should be restructured to encourage universal participation and that its restructure should also ensure governance that is democratic in nature, by guaranteeing a balanced equitable representation of interests of developing countries as well as giving due weight to the funding efforts of industrialized countries.

The Economist, London dated October 2, 1993 editorially observed:

Some of the GEF's difficulties come from its close links with the World Bank, which are resented by moderate environmentalists, such as the International Union for the Conservation of Nature, and by some of the developing countries whose biodiversity is being preserved. Without the Bank's involvement, donors may be nervous about giving the fund more money. But with conservation, cash often matters less than winning political support from governments, from environmental groups and above all from local people. With such support, aid may work. Without it, it will not.

The Economist comment is indeed tell-tale. The World Bank's GEF spokesperson was quick to be provoked and responded with an unconvincing response expressing surprise and dismay. The GEF Administrator Ian Johnson even went to the extent of stating that "the promotion of the assumption that 'Small is all' in bio-diversity conservation flies in the face of history of economic development in both industrial and developing worlds, and that though small scale activities are very important they should not be at the exclusion of larger scale actions to deal with the enormous damage done to bio-diversity by macro-economic imbalances, industrial pollution and encroachment of people on previously uninhabited land"! The specific question is why should not the world's developed countries admit their guilt, and turn a new page?

The World Bank does not accept the rationale of the environment logic of poor countries. In May 1992, Lawrence H. Summers who was then the Chief Economist and a Vice-President of the Bank trained his gun on environmentalists. He charged that "some environmentalists talk about stewardship which is an obligation to pass on to future generations what has been passed on to the present generation", and explained that any investment that would make the difference between rising and falling living standards would pass a cost-benefit test at standard discount rates and that why some investments fail such a test is since their likely-effect on living standards is not so great! Striking a warning note Summers uncompromisingly stated that he would not support odd moralities and demagoguery and that he firstly believed that in environmental investment, trade-offs between costs and investments must be kept in view and that 'chanting the mantra of sustainability is not enough"! One wonders how Mr. Summers would have responded to the poser: "What about the cost of two centuries of willful environmental destruction?" None in the third world, sadly enough, confronted him with the poser!

World Bank's Annual Report on Environment (viz. "World Bank and Environment") for the fiscal year 1991 bears a strong Summers-imprint. It specifically mentions that economic analysis is a key-feature or virtually the whole of the Bank's policy and research-work programme relating to environment problems. It also mentions that bulk of the Bank's research and policy programme in regard to environment is applied rather than theoretical and that the Environment Department's policy-research is not a gray area half-way between pure research and operations, and that on the contrary it is eminently practical and designed to tie closely with lending activities. However, the bank's recently published book ("World Without End") traces the recent evolution of environmental economics and emphasises the shift from traditional micro-economic project-by-project approach to one that reflects the role of macro-economic and sector policy. It carries an analysis, among other things, of the links between population and poverty and the contribution of market and policy failures to environmental degradation.

Mention needs be made in this context of the deliberations at the Seminar (organised by the Centre for Research of New International Economic Order-CReNIEO, Madras) (March 1993) which considered the parameters of a non-violent new international economic order. Economist Dr. Arun Ghosh, a key participant in the Seminar, referred to market-oriented production and investment policies and market-successes which sowed the seeds of conflict and tension and which promote wasteful consumerism and unjust societal ethos. The CReNIEO Seminar reaffirmed the need: a) to study in depth these characteristics and b) to organise societal awareness-building and resistance programmes to wean the elitist rich away from unbridled consumerism. Today the issue of environmental degradation has well crossed national frontiers and has

become global. Resolution of the issue is possible only through humane symbiosis that binds humankind and nature, which Gandhiji emphasized time and again while expounding the sarvodaya philosophy and the Trusteeship/Stewardship ideology. As far as poor countries are concerned any trusteeship foray by rich countries will have to be backed by effective and just atonement. Such a view may be considered utopian. But the exigencies of environmental logic and realities, unfolding as they are already, may force the rich countries to change their strategy of helping out the poor countries from the whirlpool of poverty and deprivation through aid, and adopt a new course of creating a new environmental, level-playing field bearing the cost themselves, to enable all countries to work together in a spirit of environmental friendliness, for a sustainable common future and to shape a world without end.

Al Gore in his "Earth in the Balance" puts forth the proposition that "we are what we use". That relates to the immediate present. However, there is an ecological humanist thought which states "what you are, you owe to others - others like us". The rich countries of the world need to keep both the thoughts in view.

There is no future, there is no present, without a past. In fact past is the foundation on which the present and the future are built. Groucho Marx is supposed to have asked "Why should I care about posterity?; "What has posterity done for me?" And in their

search for a common future Gro Harlem Brundtland and her team contended that "what is needed is a new era of economic growth - growth that is forceful and at the same time socially and environmentally sustainable". The World Bank Economist Herman Daly figured sustainable growth as oxymoron. And over a century ago John Stuart Mill asked "Is there not earth itself, its forests and waters, above and below the surface?" and observed in his "Principles of Political Economy" that "These are the inheritance of human race ... What rights and under what conditions a person shall be allowed to exercise over any portion of this common inheritance cannot be left undecided".

Al Gore has scribed it thus :

And no wonder we have become resigned to the idea of a world without a future. The engines of distraction are gradually destroying our inner ecology of human experience. Essential to that ecology is the balance between respect for the past and faith in the future, between belief in the individual and a commitment to the community, between our love for the world and our fear of losing it - the balance in other words on which an environmentalism of the spirit depends.

If respect for the past is essential, is not responsible atonement necessary and in place, if not, an imperative? Will the first world summon moral courage to act gracefully and voluntarily? Only if it does, a common future and a world without end can become realities; otherwise they cannot.

A note on Some Questions on the 1994-95 Budget *

Budget Deficit for 1993-1994

THE deficit for the current year is certain to be well beyond what was budgeted at Rs.7202 crores. Government's latest estimate is that this estimate is likely to be exceeded by around Rs.4000 crores, which it attributes mainly to both its revenue losses particularly from indirect taxes which has fallen from about 15 per cent from the budgeted figure already in the seven months, from April to October. In this situation, the two broad elements that could be suggested are: (i) accept in some degree an excess over the budgeted deficit, say Rs.8000 or Rs.8500 crores. This involves no further reductions in the indirect and direct taxes, as the major cause for the deficit has been the sharp reductions in customs and excise duties proposed in this year's budget. This kind of reductions should be avoided in the next year's budget. (ii) make some cuts in our expenditures. As there are only 3 months left for this year's budget to expire, there cannot be a very large amount from this source to reduce the budget deficit. But if some of the non-plan, non-developmental expenditures are reduced like freezing from January 1 vacant posts and not creating new posts in the Secretariat, some reduction in police and security expenses as well as in defence expenses through streamlining and avoiding the excess fat in their estimates, there could be some Rs.1500 - 2000 crores available from this source for reducing the increasing budget deficit. These two proposals should also figure in the 1994-95 budget. What should not be attempted is any further fiscal corrections like what we did in the first year 1991-92 in bringing down the fiscal deficit from 8.7 per cent to 6.2 per cent and in the

next year to 5 per cent. This was the main contributor to the recession in industry from which we have not yet recovered as well as for the slowing down in the rate of the reduction in the inflation rate. The instrument should not be fiscal correction, but cutting down the revenue deficit in the budget.

Disinvestment in PSUs

The disinvestment in PSUs should not be used for meeting current expenditures like interests payments or even reducing the public debt because when we speak of disinvestment in the shares of Public Sector Enterprises, we are speaking of eating into our capital. Some sales of the equity of this sector to the public through the stock market should be undertaken, as a means of having the share holders exercise some control over the functioning of the enterprises as they do in Gujarat. All proceeds from the sales of the shares should be used for new investments, raising the capital expenditure of the plan to that extent. The means of realising the maximum through the sales of PSU shares is through the stock market and not through the arranged and managed systems used in the first two years of this operation.

Investment on Power

There is a decline in infrastructural investment all round. This comes out more particularly in the case of power and communications. As far as power is concerned, what is needed is for current investment both by government as well as domestic and foreign investors to be used more optimally.

* Article prepared by Malcolm S. Adiseshiah for *Industrial Economist*, Madras, January 1994.

resignation of all indicted ministers and the congress stating that it is a systemic failure of over a decade.

The Uruguay Round

The December 15 the delegates from 117 countries approved a GATT world trade treaty aimed at opening up international market and spurring global economic growth. Despite the initial all round euphoria over the successful conclusion of the Uruguay round which cuts tariff on thousands of manufactured products, the successful conclusion was possible because the main negotiators, the US and the European Union dropped items which could not be agreed upon from agreement. It has been computed that the successful pact would result in increasing world production by an annual \$119 billion and world trade by \$213 to 217 billion. It expands the rules of world trade covering for the first time agricultural products, rapidly expanding the service sector, and establishing a new world trade organisation with strong enforcement powers. It faces contentions legislative battles before going into effect in 1995 in both developed and developing countries. As far as India is concerned the positive elements for the country are: (a) its major concern in regard to agriculture including PDS, food security and continuance of farm subsidies have been addressed; (b) no commitment to grant minimum market access to foreign suppliers and farm goods has been granted despite strong pressure from US and other developed countries; c) no access has been granted to foreign companies to enter services sector, banking, life and general insurance, and telecommunications, despite strong US pressure; (d) significant market access has been gained for short term movement of skilled personnel to provide a range of labour intensive services in key target markets; e) article XVIII of GATT providing the developing countries having balance of payment difficulties with flexibility to maintain quantitative restrictions on imports are

retained. The negative impact for India include: 1) no improvement over the Dunkel Draft on integrating world trade and textiles particularly in accepting India's five point amendment proposed. However, US reluctantly accepted to phase out import quotas on third world textiles and clothing over 10 years rather than 15 years; 2) No relief against the Dunkel Draft on Trade Related Individual Property Rights agreement barring assurance that naturally occurring genes will not be required to be patented and farmers interest in use of protected plant varieties can be safeguarded; 3) Tariff concessions given to foreign suppliers of raw materials intermediates and capital goods, with India reducing its import tariffs on these non agricultural, non consumer goods to the maximum of 40 per cent and further to 25 per cent where tariff is already below 40 per cent; 4) Market access gain for export of goods as a result of the general lowering of tariffs. For India and other developing countries the Dunkel proposals were by and large maintained which looks as if disguised by lateralism has triumphed over genuine multilateralism, while the G7 countries got all they wanted. The vital interest of the majority who are the developing countries in a variety of a critical areas remain unaddressed. This accounts for the strong negative reaction in Parliament for two days after the pact was signed and the Indian representative in Geneva expressed agreement with it. However on balance it is important for India to remain a part of the multi-lateral trading system, a part of the GATT as it is emerging now. This is also the stand of the parliament standing committee on commerce with regard to the Dunkel Draft. It is hoped that India can participate fully in the benefits of the Uruguay round pact both in terms of the sharp expansion expected in the world economy (\$250 billion a year) which for India would mean \$5 to 6 billion a year. The government estimates that Indian exports will increase by \$1.5 billion to 2 billion annually as a result of India's participation in the GATT agreement.

Canalising Black Money

Black money should be canalised primarily through the system of checks and penalties. As the experience in all other countries shows, there will always be some black money because there are some people who do not like to pay taxes. I think that canalising this money into rural exchanges,

road building, oil exploration should be encouraged, not by offering all kinds of concessions which are not fair to the majority of the people who pay taxes, but by making these activities operationally effective and viable so that their returns will not be very far from what the black marketeers now earn through their investment.

Book Review

State of the World 1993 - A Worldwatch Institute Report
(ed.) by Lester R. Brown and others, Horizon India Books, New Delhi, 1993, pp XIXX 268, Rs.300.

Paul P. Appasamy

STATE of the World 1993 is the tenth in a series of annual reports prepared by the Worldwatch Institute on the progress made towards a sustainable world. Environmental consciousness has changed significantly in the last decade. The culmination of these concerns was The Earth Summit held at Rio de Janeiro in 1992 attended by 106 heads of State and Government and an estimated 35,000 participants. It is inevitable that the agreements signed at Rio and many other follow-up actions initiated by national governments, the U.N. system, the World Bank etc. will have a profound and lasting effect on the resources, economy and peoples of the world. It is in this context that one must consider the value and relevance of *State of the World 1993*.

The report is divided into ten chapters - the first providing a review of the status of environmental and natural resources and their associated global implications, while the last provides a more optimistic account of the revolution that is yet to unfold in terms of environment friendly technologies. The intervening eight chapters could be divided into two categories.

- 1 The traditional infrastructure sectors - water, energy, and transport which need to be better managed and developed in both new and traditional ways.
- 2 Innovative discussions on Supporting Indigenous People, Preparing for Peace, Reviving Coral Reefs, Reconciling Trade with Environment and Closing the Gender Gap provide a varied but uneven mix.

Since the earlier nine *State of the World* reports had dealt with issues like climate change, biodiversity, acid rain and many well known environmental/natural resource problems, the editors presumably wished to avoid the beaten track and move global attention to other equally important areas like peace, gender gap, etc. The chapter on trade and environment was particularly well timed with the closing of the Uruguay Round of the General Agreement on Tariffs and Trade in December, 1993 and the subsequent establishment of a World Trade Organisation.

Status Report

The first chapter outlines the major environmental and natural resource problems that the world faces in the post-Rio period. The list is fairly well known - deforestation, land degradation, overfishing, emission of greenhouse gases, chemical pollution, depletion of the ozone layer and so on. The current status is described as the **environmental equivalent of deficit financing** in the sense that the world is overusing its stock of natural capital without adequate concern for the well-being of future generations. The result of such myopic behaviour is evident in two important indicators:

- 1 The growth in food output has slowed down in the 1984-92 period.
- 2 The period of rapid growth in gross national product (GNP) has also ended with many countries in recession, and 49 countries (mostly in Africa) registering a decline in per capita GNP during the eighties.

The authors suggest a new world where: a) energy would be used more efficiently and b) the balance between births and deaths would be re-established by raising female literacy and by improving the status of women. Policy makers are also urged to consider the costs of *not* responding to the challenges and to develop a "shared vision" of the globe if these problems are to be resolved.

Water

Many readers might be surprised to learn that the highly populous countries of Asia such as China, India, Indonesia, and Japan do not figure in the list of water scarce countries (i.e. lowest per capita renewable water supplies). In the list of 26 countries there is only one Asian country (Singapore), while there are 11 African, 9 Middle Eastern, 1 Caribbean and 4 European countries. The lack of adequate water resources will be a significant constraint in the development of the African continent while the Middle Eastern countries have been able to use their oil revenues to overcome this impediment. The acute scarcity of water has forced Israel to seek some of the most innovative water management practices with regard to irrigation and in the reuse of wastewater.

The list of water related issues is fairly well known - inefficient irrigation, need for reuse of municipal wastewater, recycling of industrial wastewater, water conservation in cities, pricing at true cost, and so on. The report suggests that the emphasis must shift to what is termed as a **distressing conflict over two of water's roles: as a commodity serving the economic aims of greater agricultural productivity, industrial and urban growth and as a key life support for all species and natural communities**. While the competition for water between different sectors like agriculture and urban/industrial uses is well known and accepted, there is much less clarity on the competition between the water demands of conventional economic development and those of aquatic

ecosystems. Ecosystems invariably get ignored in development programmes, because it is very difficult to value the benefits provided by aquatic ecosystems - wetlands, lakes, estuaries, etc. Waterbodies and aquifers continue to be degraded or depleted to meet the demands of agriculture, industry and to meet the drinking water needs of a rapidly growing population. While it is undoubtedly important to price water at its true cost (in different sectors) as recommended in the report, it is equally important to estimate the intrinsic or existence value of aquatic ecosystems. An earlier step would in fact be to prepare an inventory of these ecosystems in each region, and also assess their ecological importance.

Energy and Transport

Energy concerns at the global level have acquired an additional dimension - the increased emission of greenhouse gases and the possibility of climate change including rise in the sea level. Improvements in *energy efficiency* by consumers, industries and governments can cut energy demand substantially. Rational energy pricing is clearly central to any effort to manage energy use. *Renewable energy* sources such as solar, wind, biomass, etc. have become increasingly economical. The Global Environmental Facility (GEF) set up by the World Bank, UNDP and UNEP has taken on the role of financing efficiency and renewable projects. There is also a proposal to impose *carbon taxes* in the Northern countries which could be used to finance energy investments in the South.

The discussion of the transport sector is entitled **rediscovering rail**. Railways are now seen to be more efficient in terms of energy use, are less polluting, have lower space requirements, displace fewer people and are less accident prone compared to other modes of transport particularly highways. India has the third longest rail network in the world and moves 52 per cent of total freight and 41 per cent of total passengers by this

mode. With the advantage of hindsight, it could be said that the investments made in the Indian rail system during the colonial period and after independence have been among the *best uses* of India's scarce financial resources. While many governments around the world are now realising that it was a mistake to abandon railways for highways, Indian Railways have become a success story worthy of emulation. While it may be necessary to reduce various subsidies for both freight and passengers, India would be investing for the future if the existing systems are maintained at peak efficiency, freight and passenger services modernised, and light rail services introduced in the large cities.

Coral Reefs

Among the innovative chapters in *State of the World 1993* is the discussion of coral reefs. Coral reefs have been described as the **rainforests of the ocean** in recognition of the enormous biological diversity that they possess. Coral reefs also provide numerous benefits: they protect coastal lands from erosion, form the beautiful beaches that attract tourists, and are among the most productive fisheries of the world. But, coral reefs have been damaged or destroyed by indiscriminate filling (for land reclamation), by coastal pollution, and by mining to produce building materials. However, they can recover once the stress is relieved. There is very little point in governments simply designating them as marine parks as India has done (Bromley describes this as **management by proclamation**) without taking adequate steps and providing adequate resources for enforcement. It is particularly important to involve the local community in any plans for management particularly by providing alternative livelihood opportunities if the reefs are to be protected from exploitation.

Trade and Environment

This is probably the most important chapter in *State of the World-1993* for anyone interested

in environmental policy at the national or international level. It does *not* cover intellectual property rights, patenting plant varieties etc which have been the subject of debate following the completion of the Uruguay Round of GATT. However, it does raise a number of interesting policy issues:

- 1 Export of natural resources such as timber, fish, meat etc. cause over-exploitation of the natural resource base, as well as loss of biological diversity.
- 2 Trade in wildlife and associated products continues. Some endangered species are protected by the CITES convention, but there is a great deal of illegal trade in ivory, furs, etc.
- 3 The extraction of mineral products for export results in substantial amount of degradation of air, water and land.
- 4 There have been attempts by some industrialised countries to export their wastes, particularly hazardous wastes to developing countries. These activities are now controlled by the Basel convention.
- 5 There are hazardous products such as asbestos and DDT which are banned in the country of origin which are exported to developing countries.
- 6 Manufacturing activities that are highly polluting may move to developing countries, which have comparatively lax environmental laws (**Pollution havens**).
- 7 There is also trade in pollution control technologies, when environmental laws get strengthened.
- 8 Developing countries which are politically more open are likely to impose more stringent environmental requirements.

In terms of policy, it may be possible to incorporate environmental considerations into trade in various ways: by ensuring that the export cost includes all environmental costs, by providing subsidies for pollution control or

green technologies for the production of exports, by labelling so that consumers know if the product has been manufactured in an environmentally sustainable manner and so on. There is also a great deal of debate on the stringency of environmental laws across different countries and the need for common minimum standards. It is likely that this area of **trade and environment** will become a popular topic for researchers, particularly in the social sciences.

The other chapters on the **Gender Gap**, **Indigenous People** and **Peace** would be of value to anyone interested in development issues. These are not discussed here in order to limit the length of this review. An interesting statistical footnote in the chapter on **Peace** is that India was the leading *importer* of conventional weapons during 1987-91 ahead of Saudi Arabia and Iraq at \$17.6 billion.

The final chapter of this report comes as a surprise: the authors feel that a sustainable future lies with the private sector switching to **green technologies**. Example are provided of the automotive, steel, chemical and paper industries moving to environment friendly technologies. The philosophy behind this chapter is summed up as follows: **If sustainable development becomes profitable, most companies will pursue it.** It is assumed that the private corporation can

be reformed by educating management, providing incentives, and through innovation. While these sentiments are laudable, it is not clear whether the premise of profitability should be the driving force for environmental planning. Evidently, the Worldwatch Institute has also been bitten by the **privatisation bug**. While the role of the private sector is undoubtedly important, the underlying philosophy of the environmental movement of **For the Common Good** has been antithetical to private profitability. Coexistence of such divergent value systems is likely to remain uneasy.

Unlike the annual World Development Reports of the World Bank, there is no thematic coherence to most of the State of the World reports, except in the very broad sense that they deal with sustainable development. Consequently, the chapters are not interlinked and essentially stand by themselves. Some of the chapters are condensed versions of longer Worldwatch papers and interested readers should get these if they are interested in a more detailed discussion. The full set of State of the World reports (1984-93) however, provide a very wide coverage of environmental and natural resource issues with a minimal amount of repetition. Academic institutions, NGOs and others interested in both development and environment issues must acquire the full set including the present report, since the cost is nominal.



3L
X m 211, 10180

0794

Publications of the Institute consist of the following categories

- 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.
- 2 **Cyclostyled Publications :** These consist of Working Papers, Digest Series, Data Series, Popular Series, Interns Reports and Offprint Series brought out since 1978. Detailed list available on request from the Programme Coordinator of MIDS.
- 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.
 - 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.
- 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/-

* These publications may be ordered directly from the respective publishers.

Regd. No. M. TN/MS(S) 485

MADRAS INSTITUTE
OF
DEVELOPMENT STUDIES
(MIDS)

The Institute was founded by Dr. Malcolm S. Adiseshiah in 1971 and was reconstituted in 1977 as a National Research Institute within the framework of the Indian Council of Social Science Research, New Delhi.

The aim of the Institute is to contribute to the economic and social development in Tamil Nadu and India.

The activities of the Institute are:

- Research leading to Ph.D. Degree
- Studies and action-oriented research in micro-development problems
- Documentation and library service in development problems
- Exchange and dialogue at the State, National and International levels on development issues
- Publication of papers and results of the Institute.

Editor : Dr. Malcolm S. Adiseshiah. Published by Dr. S. Neelakantan for
Madras Institute of Development Studies, 79, Second Main Road,
Gandhinagar, Adyar, Madras 600 020, India
printed at reliance printers, sardar patel road, madras 600 020.