LOK SAMVAD

May , 2000

Battle is Round the Corner

And now 'its' United States of America. World Bank and International Monetary Fund had never faced such a situation what they had to in Washington during 15-16 April, 2000. People in 'Third World' countries have been protesting against these institution for decades but it was a new phenomenon in a country like America. People have taken to streets to protest against the policies and activities of the IMF and the World Bank. Till some time back, no one could imagine this happening in a developed country. It all started in November last year when thousands of people marched on the roads of seattle.

Walden Bello, Director of Focus on the Global South in Thailand, told crowds at the ellipse that the two institutions must be "abolished". He said that leaders of developing nations, who met in Havana, Cuba last week for the G-7 summit, had endorsed the protesters stance against the World Bank and IMF. "This is solidarity", he yelled. "This is the same spirit that brought down the WTO in Seattle," he said to cheers from protesters.
- Danielle

They were protesting and demonstrating against the policies of WTO. They continued to do so braving everything, including arrest and jail. Now its World Bank and IMF's turn at Washington. Seattle was just the begining. Washington is gaining and showing strength as well as showing solidarity with the struggle against WTO, WB and IMF in the Third World countries. Battle, surely is round the corner.

Events at Washington

The meeting was scheduled at 8 am Protesters started gathering in front of World Bank right from dawn. They called it civil disobedience. Though unlike seattle, they did not try to prevent members to attend the meeting but through their actions they made it humanly impossible for the members to enter the building without being escorted by the police. The protest was very well organised too. Various methods were used to make the impact loud and visible. Cow costumes were intended towards making the mockery of animal research in developing countries. Wearing grass skirt meant protesting against Third World Sweat shop labour employed by western market. Many members had got legal hot line numbers written on their bodies in case they were arrested. And an organisation actually provided legal help round the clock.

The protesters kept on pouring in. The police, though prepared and well equipped for any eventuality, had to face a tough time. They resorted to water cannon and tear gas but protesters were also well prepared. Many of them were wearing gas masks and wet rags. The police will dispersed them but they soon regrouped. New groups also kept joining them. Thousand of the protesters were arrested but that did not discourage others to join in. Perhaps they were ready for it. They had a

In This Issue

- Battle is Round the Corner
- Reversing Privatisation : Challenging the Bretton Woods Institutions
- *Destroying Orissa, Fueling Climate Change:* **A Joint Project of the World Bank, Transnational Corporations and G-7 Governments**
- Livelihood Issues
- Experts Decry India's Inertness on Food Issue in WTO Regime
- Fifty Years of Multilateral Trading
- Writing on the wall : *Signals from last two budget speeches*
- Wheels Within Wheels: *Some Unexplored Aspects of Constitution Review*
- □□□□□□□ □□ □□□□□□ □□□□□□□□ □□ □□□□□□□□□□□ □□□ □□□□□□□□□□ □□□ □□□□ □□ □□□
- India-Uttar Pradesh Fiscal and Governance Reform Loan/ Credit

appeal Action Programme for People's Economics and Allied Literacy

cause on hand and they were convinced and committed about it. That is what made them to brave everything to fight for the cause.

This was perhaps for the first time that protest was organised explicitly against anti people policies unleashed by World Bank, International Monetary Fund and the governments that are part of it. Placards and banner condemning free trade, military industrial complex, ivory trade, sweat shops, Star war programmes etc. could be seen in the hands of protesters.

This morning at about six am, hundreds, and then thousands, of activists occupied sixteen intersections around the Bank building in an attempt to prevent the meeting from taking place. The corner of Pennsylvania and 21st was blocked by about thirty people with their arms locked inside metal pipes. Puppets, representing the Bank as a loan shark, danced among the protesters. Giant papier mache figures representing various failed or destructive World Bank projects from Guatemala to Paraguay to India to Cameroon swayed in the early morning drizzle. A Trojan Horse occupied one intersection. A huge pink "capitalist pig" wove through the crowd with a globe in its mouth and the worlds "World Bank" emblazoned on one side and "IMF" on the other. American Indian Movement drummers gave the crowd a jolt of energy with their drums and chants. The mood was somehow festive and serious at the same time. No one had slept last night. No one seemed tired.

- Kenny Bruno

The begining has been made. Till now the fight against World Bank, World Trade Organisation and International Monetary Fund was confined to poorer countries and impression was given that these institutions and their policies are not affecting the people of developed countries. Therefore, it does not concern them. Myth is broken. And protest in Washington explicitly spelt out that they are with the people of Third world. Not only they have showed solidarity with the struggling people of the Third World, they have made it crystal clear that they are more than ready to rub shoulders with their comrades in the poorer countries. Beware IMF, WB and WTO! Ice is broken. Myth is shattered and your hollow claims stand exposed. Battle is round the corner and people from all corners of the world will join in this battle for freedom.

Reversing Privatisation
Challenging the Bretton Woods Institutions

Fiji has created a history when a failed businessman George Speight and about seven armed man seized the South Pacific Country's first ethnic Indian Prime Minister, Mahendra Chaudhry and his Ministers. The coup leader said that he was acting on behalf of indigenous Fijian who make up a little more than half of the 800,000 population. The President Ratu Sir Kamisese Mara has accused that members of a special "counter revolutionary war fare unit" were involved in a bid to seize power. The details of the coup has been appearing in the Indian newspapers but no one has reported the real causes which led to the fall of the Chaudhry's led labour Party in Fiji. However, a South African newsletter in its latest January/February 2000 issue has reported the growing discontent in Fiji with the changes in the economy demanded by the World Bank and other International Institutions.

We, therefore, decided to publish Mr. Phiroshaw Camay's recent article published in NGO Matters, a newsletter of the South African NGO Coalition, which provides background which might have led to this incident.

Elected in May 1999, the Fiji Labour Party has brought with it an entirely different philosophy of development.

Fiji was pressured into accepting "structural adjustments" to the economy after military coups in 1987 brought to power a pro-market and anti-union regime. Fiji economy stagnated, investments collapsed, wage rates declined considerably, and the country lost thousands of its people through mirgration.

These developments provided the impetus for international agencies to push their developmental agenda upon a regime desperate for international acceptance. The harsh measures that followed included sweeping privatisation, deregulation of labour markets and the implementation of a range

of reforms in the public sector.

Workers-led government

The main opposition to these policies had come from the Fiji Labour Party and powerful affiliates of the Fiji Trade Union Congress. Leaders of these unions form the core of the new government. They include the Prime Minister, Mahendra Chaudhry, the former General Secretary of the Public Service Association.

By the end of July, the new government had reversed moves to privatise the aviation, tele-communication, electricity and water sectors. The general sales taxation system, removing tax on essential food items was reviewed. New financial management systems that sought to operate the public sector departments along commercial principles was rolled back.

The government took immediate steps to reverse labour reforms and the restrictions that had been imposed upon trade unions.

Plans to develop sustainable tripartite mechanisms to promote national consensus on a range of labour relations issues were announced. These mechanisms are to be used to promote an agreement on a national minimum wage. Some large employers in export processing enterprises have agreed to support trade union recruitment and promote collective bargaining. This programme has won the hearts of not only social and labour movements but this whole island state of the South Pacific.

Opposition from capitalists

Within the first week of elections, powerful foreign banks in Fiji ceased commercial lending to protest the implementation of the consumer protection law. By September, defeated politicians had begun to cultivate opposition to labour by inflaming racial tensions in this multi-ethnic society.

Fiji's powerful private bus companies similarly ceased services with the government's decision to end its monopoly on the main bus routes. A decade of adjustment and reforms has exacted a heavy price from workers and local communities.

During this period, unemployment has risen to over 15 per cent, and some 30 per cent of Fiji's households were living in poverty.

At the same time the Labour government faces considerable challenges as a result of globalisation. Preferential prices and access of its sugar, garments and other products into the Europe and USA are under pressure.

While the government has displayed a strong will to make far-reaching decisions - unparalleled, in many ways, in the developing world - it has also brought it into confrontation with the powerful interests.

The new government has a popular mandate to promote a labour-friendly developmental policy that is rooted in Fijian society. But to do so it needs the support of social movements and democratic forces internationally.

Destroying Orissa, Fueling Climate Change:

A Joint Project of the World Bank, Transnational Corporations and G-7 Governments

Daphne Wysham

The World Bank, Transnational Corporations and G-7 Countries are principle actors in the destruction of the state of Orissa in eastern India. They are also providing to be principle actors in the growing instablity of the Earth's climate.

The story, in brief, goes like this: Climate Convention gets signed in 1992 at the Earth Summit in Rio by most of the world's governments, amid much fanfare by wealthy governments and loud complaints by the fossil fuel industry. Poor countries in the global South are given more lead time to "develop their economies" before they reduce greenhouse gas emissions. Rich countries are given notice that their emissions will soon have to be reduced. Rich countries respond by funnelling massive quantities of capital, via the World Bank, into fossil fuel-driven power plants in the South, and moving energy-intensive industries to

the global South. Poor countries, starved for electrical power, and eager to earn foreign exchange to pay off interest on World Bank loans, accept the new sweetheart deals for Northern TNCs, pushed by the U.S. Department of Energy and Commerce Department.

Privatisation is pushed through at World Bank behest to ensure foreign ownership of power production and consumption is unhindered by sentiments such as the belief that power for domestic purposes should be available and affordable. Post-privatization, power rates go up by 500 percent for the less than 20 percent of households with power; power rates plummet for industry, many of them foreign-owned TNCs, or industries producing products for export to the North. Poor people, whose only wealth is a small plot of land for crops and a clean environment, are pushed off of their land to make way for mines or industry; their air and water grows steadily more polluted. Middle income people find power unaffordable. Rich TNCs make off like bandits. Northern governments smile all the way to the Bank—the World Bank, that is—where they reinvest their profits. Global greenhouse gas emissions continue their steady climb to dangerous heights—1 percent of manmade global greenhouse gas emissions coming from Orissa alone.

This story of Orissa, unfortunately, is being repeated around the globe. Under the banner of "poverty alleviation," free trade and democracy, the World Bank is playing a central role in making a mockery of the Climate Convention—while destroying sustainable, traditional economies in the global South. By providing private industry with such inducements as loan guarantees, low-interest loans, and guaranteed access to international markets, the World Bank is ensuring that coal mining booms in Orissa. By privatizing and deregulating Orissa's power sector, by looking the other way when labor activists are beaten or tortured, by claiming the environment will "benefit" from expanded coal-fired power, as it is in Orissa, the Bank is creating a powerful magnet for chronically-polluting and energy-intensive industries—many of them multinational corporations based in the G-7.

The World Bank, in Orissa as elsewhere around the globe, is not the majority source of investment capital for energy development. It supplies only 3 percent of the total finance requirements for the energy sector in developing economies; the private sector provides about four times the amount provided by official development finance. However, as the Bank admits, "the Bank plays a key role in setting the standard by which other energy projects are judged, thus exerting an influence disproportionate to the size of its investment portfolio alone." Since 1990, the Bank has approved 154 loans totalling more than $22 billion for a variety of projects in the electric power sector. Most of these loans were to non-Annex 1 countries, which do not face binding restrictions on their greenhouse gas emissions.

Pollution rises: *Dead rivers carry toxic effluent through villages where people still rely on the blackened rivers for bathing, drinking and washing their clothes. Choking levels of pollution from the coal-fired power plants hang in the air.*

Power rates go up: *Fewer than 20 percent of people living in rural Orissa (and probably closer to 4 percent) have access to electricity produced by the state's power plants, despite the fact that the state government last year declared Orissa had a power "surplus." The lucky few with electricity saw their rates go up by 500 percent after privatisation. The agricultural sector will be particularly impacted by the removal of state-subsidised power. This cost will be reflected in higher farm prices, with further adverse consequences for the poorest, whose purchasing power will be reduced.*

Jobs go down: *While a few Orissans are employed by the coal, bauxite, chromite and other mines and industries, many of those employed in the mines come from other regions of India. The increasing reliance on open cast—or "strip"—mining has also brought on a decline in coal mining jobs, even while coal mining rapidly expands. India's coal production rose from 200 million to 250 million between 1988 and 1993; yet, the number of people employed in coal mining actually declined from 674,000 to 655,000.*

Displacement: *Many people are displaced by active resettlement programs that are clearing out "local populations" to make way for coal power-consuming steel mills, bauxite and chromite mines. Poor people are being ousted from land they have held for generations without being given comparable land or even fair compensation; World Bank internal documents urge clients to move people out before the Bank finances a mining expansion project to avoid "high visibility and [providing] oustees and their representatives with an additional platform for discussing compensation issues."*

As in other regions of the world, the Bank has been joined by G-7 countries in financing coal-fired industrialisation of Orissa. Known G-7 financiers of Orissa's industrialisation include the U.S. government,

who loaned $232 million toward the Ib Valley coal-fired power plant; an additional $75 million is forthcoming for further investment in Ib Valley's coal-fired power plants. France provided $607 million toward the construction of an aluminum smelting complex, NALCO; the Kaniha and Ib Valley coal-fired power plants; and the Ananta coal mine. Japan has invested $125 million in coal mining expansion in Orissa. The U.K. has invested $40 million in the upgrading of the Hirakud dam in Orissa, and an additional $75 million towards the privatisation of Orissa's power sector.

This investment is not charity. For every dollar the U.S. government puts in the World Bank's coffers each year it gets $1.3 in procurement contracts for U.S. TNCs(1). It is from this perspective— of "enlightened self-interest"— that G-7 countries like France, the U.S.A., the U.K., and Japan, and other non-G-7 countries, like Sweden and Israel, have seen gold in this impoverished east Indian state.

The biggest beneficiaries of G-7 government investments were big U.S. TNCs, such as General Electric (with annual sales larger than the Philippines), Dodge Phelps, Foster Wheeler, AES, North-East Energy Services, Spectrum Technologies, and Raytheon. Stein Industries and Aluminum Pechiney of France also gained a foothold in Orissa's expanding industrial economy, as did Alcan of Canada, and Mitsui and Kakoki and Okura of Japan.

What did Orissa get out of it? In strict dollar terms, Orissa's GDP was $3.6 billion in 1993. The World Bank Group, the Asian Development Bank, and G-7 loans and financial assistance, through 1996, have funneled $2.85 billion into the state, about 80 percent of its GDP in 1993. (In comparison, the combined total annual sales of the TNCs who are most benefiting from procurement contracts in Orissa's power sector is more than 80 times both figures: $290 billion.)

However, when one looks beyond the GDP, and into the lives of the people who live in Orissa, one sees a grim picture. The massive exploitation of coal and other mineral resources has unleashed a chaotic torrent of destruction across the state. Thousands of people, most of them participating in subsistence-based economies, many of them tribal (25 percent of Orissa's population is tribal) and among the poorest in India, have been negatively impacted by this energy-intensive, toxic industrial development.

Harassment and suppression of workers rights has escalated: *In Talcher, the industrial heart of Orissa, a labour organiser attempting to raise the minimum wage for poor tribals employed in the mines from 9 rupees a day to 14 rupees (or less than 50 cents) a day was beaten unconscious, and his house set on fire. Other activists working to protect the traditional way of life have been arrested, tortured and illegally jailed.*

Greenhouse gas emissions skyrocket: *Orissa's industries and coal-fired power plants will be emitting 164 million tons of carbon dioxide equivalent annually by the year 2005, or the equivalent of about 1 percent of the projected growth in man-made greenhouse gases anticipated globally over the next decade. In addition, Orissa's industrialisation will release toxic and potent global warming agents, tetrafluoromethane and hexafluoroethane (byproducts of aluminum smelting) equivalent to 8 million tons of carbon dioxide emissions, which, because they are long-lasting, will contribute to a "perpetual change" in the earth's atmosphere.*

Destruction of subsistence communities: *Called "an industrial drain", the Nandira tributary, which feeds into the Brahmani River, once life-sustaining river, is dead. The black water is poisoning and slowly killing people, animals, fish and plants as far away as 50 miles downstream. Agricultural productivity has dropped for farmers dependent on this polluted water; fishing communities have been wiped out.*

Water supplies depleted: *In addition to the contamination from industrial pollutants, groundwater in the coal mining and coal-fired power production region of Talcher-Angul and Ib Valley has dropped dramatically, forcing people to rely on the blackened river water for cooking, cleaning, drinking and*

Broken Promises: The World Bank and the G-7

Under the Climate Convention, signed at the U.N. Earth Summit in Rio in 1992, the task of mobilising the financial resources needed to ensure that poorer, developing countries are given the resources to develop their economies in a sustainable manner was given to the World Bank and the IMF. The Convention states the "...Multilateral institutions play a crucial role by providing intellectual leadership and policy advice, and by marshalling resources for countries committed to sustainable development."

However, the standard set by the World Bank in Orissa not only contradicts its mandate under the Climate Convention; it also contradicts the original mandate of the World Bank—to alleviate poverty and promote sustainable development. As documented above, the benefits are accruing to some of the wealthiest corporations in the world.

The Bank is also pushing privatisation and deregulation in Orissa. Yet, privatisation means less accountability and virtually no regulatory oversight of industry by government. As Union Carbide proved in Bhopal, multinationals set lower standards for their activity in developing countries; with lower health, safety and environmental standards, accidents happen. And when they do, the ones to suffer are usually those already suffering the most.

The World Bank is also downgrading its own policies, with significant consequences for its projects overseas. In April of 1996, the World Bank revised its guidelines for power plant emissions. The new guidelines are a huge step backward: They double the limit for SO_2 emissions given in the 1994 guidelines, ignoring standards set by the World Health Organisation and many industrialised countries regarding ambient sulfur dioxide concentrations; they do not set numeric limits for total sulfur dioxide emissions; and fail to address greenhouse gas issues. In addition to acting as agents of climate change, SO2 and NOx are also one of the main agents of severe forest damage via acid rain and soil acidification, leading to reduced crop yields. In high concentrations, SO_2 and NOx also have strong negative impacts on human health.

The Bank has continued in this same deregulatory mode in a separate move to downgrade its binding 1992 Board-approved "Operational Policies"on energy efficiency to non-binding "good practices" documents (GP 4.45 "Electric Power Sector"; GP 4.46 "Energy Efficiency"). These changes clearly reflect a lack of commitment to sustainable energy development— in stark contrast to the Bank's stated goals.

Fluorosis: *Fluoride, a byproduct of aluminum smelting, which consumes 30 percent of the power produced in the region, has contaminated the groundwater around aluminum smelters. As a result, there is a crippling outbreak of fluorosis — a disease which causes skin disease and bones and teeth to grow brittle— among people and cattle living near the smelter and captive power plant of NALCO (a French-owned aluminum plant), where the state pollution control board tested water wells and ponds and found fluoride well in excess of the regulatory limit. In 1990, scientists from G.M.College of Sambalpur found an astonishing 67% of men and 64% of women suffered from fluorosis; most severely impacted were young people between the ages of 12 and 19. Cattle populations have dropped precipitously in the area due to the bone-weakening disease.*

Chronic diseases soaring: *The rates of cancer, bronchitis and other lung and skin diseases in the region around the World Bank-funded Talcher Thermal Power Plant, where air pollutants are heavy are rising. These diseases are especially high among the tribal population which, because they are traditionally landless, have little choice but to live on the most undesirable land — the non-productive land closest to the mines; they have no option but to drink the water blackened by coal dust and toxic effluents.*

Saying One Thing, Doing Another: The G-7 and Climate Change

The G-7, who together with the World Bank, make destruction of Orissa possible, are equally culpable when it comes to violating commitments they have made to halt climate change. All G-7 countries are signatories to the Climate Convention, and have committed to making sustainable development a central goal of their policies and programmes, and to intensifying and deepening the integration of environmental considerations into all aspects of their programmes. At the G-7 Summit in Halifax, Canada, held on June 16, 1995, the G-7 countries, all of whom have signed the Climate Convention, made the following commitments:

"...We place top priority on both domestic and international action to safeguard the environment....We underline the importance of meeting the commitments we made at the 1992 Rio Earth Summit and subsequently, and the need to review and strengthen them, where appropriate. Climate change remains of major global importance."

The action of G-7 countries in Orissa, however, shows that their real priority is not to address climate change, but to circumvent the Climate Convention for their own short-sighted ends, while supporting transnationals from their own countries. Until this gaping loophole, intended for Southern countries to develop their own economies, is closed, the people of Orissa will continue to suffer. Meanwhile, all of us will pay an incalculably high price for what TNCs now view as an "externality" in their profit margin: the growing imbalance in the Earth's climate and the growing inequity between rich and poor.

□□□□□□□□□ : ***1. Congressional testimony by Lawrence Summers, Under Secretary for International Affairs, Treasury Department, March 27, 1995***

Livelihood Issues

V. SRIDHAR

The liberalisation of the import regime is certain to affect the livelihood of large numbers of primary commodity producers.

Much of the mainstream media in India have enthusiastically welcomed the removal of quantitative restrictions (QRs) on imports with respect to 714 items, the centrepiece of the Exim Policy announced on March 31st by Union Minister for Commerce and Industry Murasoli Maran. The Indian consumer, it is claimed, had been crowned king and Indian shop shelves will soon be stocked with a range of foreign consumer brands hitherto seen only in satellite television programmes.

Commodities such as fish and fishery products, tea, coffee, milk, spices, vegetables and rubber products figure prominently on the list of items that can now be imported freely. But the heaviest impact, in terms of the number of producers likely to be affected, will be on the agricultural sector. As many as 229 of the 714 items on the "freed" list are agricultural commodities. Textile products account for 37 items while manufactured goods make up much of the rest.

In all this consumer-driven hype and euphoria, the interests of the Indian producer, particularly of the smaller and poorer type, have been sidelined and questions about the threat to the livelihood of millions of primary commodity producers are not being raised. Many of these producers cultivate small landholdings or operate tiny business units and their asset-base is poor. For instance, a substantial proportion of the milk-producing units are run by women; and a large section of the milk producers consists of those with small livestock holdings. Millions of fisherfolk and fishworkers are the mainstay of the fish economy of India. The Exim Policy raises livelihood questions in respect of millions of small producers whose sustenance is likely to be affected in a major way.

Plantation owners, particularly those in South India, are likely to face the threat of cheaper imports. The United Planters Association of Southern India (UPASI) had, in a pre-Budget memorandum to the Finance Minister, sought tariff protection for crops such as coffee, tea, natural rubber and some spices.

Representatives of fishworkers, particularly those who have in the past resisted attempts to liberalise the deep-sea fishing policy regime, have said they will organise protests against the new policy. Sister Philomina Marie of the National Fishworkers' Forum told Frontline that fish prices would crash under the impact of large-scale imports.

More than 60 fishery items are now off the QRs list. Among these are low-value varieties such as mackerel and sardines and high-value varieties such as tuna, seer and pomfret. K.M. Shahjahan, a fisheries expert at the Kerala State Planning Board, said that the issues need to be placed in the context of the attempts by successive governments to introduce a liberal deep-sea fishing policy. Foreign fishing companies, facing an overhang of excess capacity, are looking for new avenues in tropical waters. Although the T. Murari Committee on the deep-sea fishing policy (submitted in 1996) recommended that no fresh permits be issued to foreign fishing vessels to operate in Indian waters, there is apprehension that the government may yield to pressure to relax the curbs on foreign fishing companies in this matter.

Shahjahan believes that the prices of low-value varieties of fish would also fall if high-value varieties were imported. He argues that there is substantial scope for cost reduction because middlemen, who now command the shore price of fish, make exorbitant profits. He fears that if foreign fishing vessels are allowed to operate in Indian waters, even fish such as sardines and mackerel that are caught in the deep seas could be taken to other countries, processed there, and sold in India. Fishworkers' unions have argued that foreign companies are looking for access to tropical seas because they are relatively unexploited or underexpolited as compared to the temperate seas.

Shahjahan believes that the margins of the middlemen are so high now that it would still be viable for companies to sell imported fish in the Indian market by undercutting domestic prices. The difference between the shore prices - the price that fisherfolk get - and the consumer price - the price that the final consumer pays - is now high. However, fisherfolk would have to pay with their livelihood as the gap is narrowed. There is apprehension that since the gap is currently very high, even the imposition of peak levels

of tariff allowed within the World Trade Organisation (WTO) regime will not deter imports.

Fish exporters have welcomed the Exim Policy. Industry observers believe that this is because they are operating with substantial excess capacities; capacity utilisation is now only 20-25 per cent. The availability of cheaper imported fish would enable them to expand operations and use their idle capacities. A Kochi-based exporter said that the new policy would enable the export of tuna. Since tuna prices are high in the Indian market, exporters do not enjoy a comfortable margin. The situation, he reasons, could change dramatically once cheaper tuna is imported into the country.

Although natural rubber has not yet been removed from the QRs list, it is due to be taken off the list in April 2001. However, rubber products such as footwear have been removed from the list. Rubber growers, particularly those in Kerala, have already been reeling under the impact of a severe recession in the last few years. The demand for natural rubber has shrunk, prices have fallen progressively and growers have suffered losses of several hundred crores of rupees.

Small growers, who on an average have holdings of less than half a hectare, are the most severely affected. They account for 85 per cent of the area under cultivation; they also produce 85 per cent of all natural rubber produced in the country. Informed sources on Kerala's State Planning Board said that the new policy was likely to affect the State government's programme to encourage the production of rubber chappals. They said that the programme was intended to boost the sagging demand for rubber. There are fears that cheaper imports will hit the rubber-processing sector in the State.

Despite falling rubber prices, the Rubber Board, aided by the World Bank's subsidisation programme, has continued its rubber planting promotion scheme. In fact, it had projected an increase of 40,000 hectares under rubber cultivation; of this 25,000 ha is to be in the traditionally rubber-growing areas. Critics of the Board's policy have argued that its logic, based on the premise that the price collapse is temporary fallout of an industrial recession, is likely to impose more hardships on the growers as prices are driven down further.

Indeed, those who have followed the fluctuations in the international commodity markets argue that the World Bank's purpose in intervening in such programmes is to ensure supplies for consumers (the big-time tyre manufacturing companies, in this instance) rather than to stabilise prices and protect the large numbers of growers whose livelihoods may be at stake. These critics also believe that the Board would be better advised to initiate steps to widen and deepen the demand for rubber. They have suggested that the proceeds of the cess collected on the sale of rubber be used for this purpose.

Indian spices are likely to face a serious threat from competitors. Indian garlic is facing competition from Chinese garlic. At the local wholesale market at Koyambedu in Chennai, a trader said that garlic from China, arriving by the containerloads at the Chennai port, had destroyed his business.

Other spices such as ginger, cardamom, pepper, cloves and cinnamon face similar perils. Ginger from China and Nigeria may jeopardise Indian export prospects. Pepper, cloves and cinnamon produced in Vietnam, Malaysia and Brazil are also a threat. In recent years, cardamom producers have complained of large-scale smuggling through the porous Indo-Nepal border.

T. Vidyasagar, former president of the International Pepper Exchange in Kochi, said that although the trade regime had been made "import-friendly", Indian spice producers continue to face many hurdles. Having accepted the WTO regime, India had no choice but to "fall in line with the global market", he said. Imports face only one hurdle, at the Customs, while Indian producers face many more hurdles: the 22 agencies involved - from the village office issuing licences up to the Union Agriculture Ministry in New Delhi - impose a tight system of controls, complains Vidyasagar.

State promotion of spice production, in the form of education for cultivators leading to better and scientific cultivation practices, is inadequate, says Vidyasagar. This, he says, has resulted in the neglect of commercial crops. A leading spice exporter said that the International Pepper Exchange in Kochi is "just about alive, not dead yet". He complained that the "swadeshi-videshi tussle" is being played at the Exchange.

Black tea still remains on the QRs list, tea concentrates and instant tea have been removed. However, S.M. Kidwai, managing director, Tata Tea, said that Indian tea producers would face problems only when imports of tea of African origin were permitted. He said that Indian tea was competitive vis-a-vis tea produced in Sri Lanka and Bangladesh. Tata Tea does not expect any change in the situation in the domestic market. He is positive that in the

new situation, "our competitors cannot do anything in the market that we also cannot do and, perhaps, do better".

Although foodgrains still remain on the QRs list, wheat, rice and maize flour have been removed. Murasoli Maran has maintained that sensitive items, which involve the livelihood of large sections of the population, would be afforded high levels of tariff protection, within the bound rates prescribed in the WTO framework. The government said that its recent decision to impose 80 per cent tariff on rice imports was in keeping with this commitment. However, whether tariffs alone can afford protection is a question that remains to be answered.

In the international grain trade, for instance, major wheat producers such as Canada and the United States are exploring markets in the developing countries. Since the fall of socialist governments in Eastern Europe, markets in Eastern Europe, which at one time bought more than 25 million tonnes of foodgrains annually, have virtually collapsed. To the agribusiness multinationals, therefore, developing countries such as India are potential markets to replace the ones lost in Eastern Europe.

The common argument that cheaper imports will benefit Indian consumers and that they will put pressure on the Indian producer to be competitive vis-a-vis "international best practices" is flawed on several counts. For instance, agricultural subsidies in the U.S., Japan and Europe were increased sharply in the 1980s. By 1986-88, the base period, which is being adopted for the pruning of subsidies, the producer subsidy equivalent (PSE) in the U.S. covered 45 per cent of the total value of agricultural production in 1986, up from 9 per cent in 1980. In Japan, the PSE covered 93 per cent of the value of agricultural output in 1986, up from an already high 71 per cent in 1980. In 10 countries of the European Union the PSE covered 66 per cent of the value of agricultural output in 1986, compared to 66 per cent in 1980. Thus, by the time negotiations within the framework of the General Agreement on Tariffs and Trade (GATT) concluded after tortuous negotiations, the advanced countries had already hiked the subsidies paid to farmers in their countries.

In such a situation, tariffs can only play a limited role as a barrier. This is because prices are already seriously distorted by the big subsidies that agricultural producers in the advanced countries enjoy. This also gives them the ability to undercut prices when competing in economies that are less developed or those in which state support to the agricultural sector is weak. Measures of productivity or competitiveness, based purely on relative prices, thus become illusory.

In retrospect, India's position at the WTO was deeply flawed from the beginning. Its reasoning that QRs were needed to tackle a balance of payments problem undermined its own case. In fact, the rationale for continuing with QRs was dictated by the nature and needs of the Indian economy and society. Issues of employment, livelihood and food security provided the logical underpinnings for the continuance of such a policy. The ground beneath the weak Indian position adopted at the WTO negotiations slipped when balance of payments factors could no longer be cited for the continuance of QRs. That India did not have much of a choice at the WTO is another story.

Courtesy :
Frontline, Vol. 17, No. 8, April 15-28, 2000

India is one of the largest producers of horticulture products but the Indian farmer is denied the advantages of advanced technology. So, in the post-harvest period, a lot of items like onions, tomatoes and many other vegetables go waste. We need storage facilities so that vegetables and fruits do not go waste. The gap between the producers' price and the retailers' price is very high.

In commodities like rice, cotton, vegetable and fruits, we have a very big advantage over other countries. We are one of the cheapest producers of these items in the world. But we don't have the infrastructure to store. India can easily export all these items and export is very important for us as we import oil and it is a big burden on the Indian economy. Even though we have excellent prospects in agriculture, we talk only about the export of software. We can easily export rice products, wheat products, agro-based products, processed fruits and vegetables and thus employment and income are generated.

Extracted from Neeru Haridas's report on Rediff.com

Experts Decry India's Inertness on Food Issue in WTO Regime

After President Bill Clinton of the USA signed a trade agreement with Mexico, somebody asked him, "How many jobs would the agreement create for the Mexicans."

Clinton said, "I am the President of the United States of America and not Mexico."

Whenever Clinton signs a trade treaty, he says, "My countrymen, countrywomen, this agreement will create one million more jobs for the Americans."

What about the Indian government? It seems, in the name of liberalisation, the Indian government is trying hard to please and oblige the developed countries and not its countrymen, opine three exerts.

"Why is the Indian government inactive and silent when the lives of 70 per cent of India's are going to the trampled upon soon? As per an agreement India signed sometime back with the World Trade Organisation, there is going to be a free import of agricultural products from April 1, 2000," points out an observer.

Take the case of milk production. We are number one in the world ahead of even the superpower USA. But unlike in the USA, 90 million people in India, who own one or two buffaloes, deal in 75 million tonnes of milk. Under the WTO regime, India would be free to import milk and milk products. What will happen to one of the most successful co-operative movements in India now? What will happen to the white revolution we are so proud of?

India, which is the largest producer of vegetables, would import vegetables at a very low tariff. India, one of the largest producers of rice, will hereafter import rice freely under the agreement. What will happen to the green revolution, which made the country (born in the backdrop of famine) the largest producer of food products in just 50 years?

By allowing the free import of pulses and oilseeds, we are going to kill India's dryland farming because pulses and oilseeds are the most important crops of the dry farming areas and it is the poorest of the poor who are in the dry farming business. Although the WTO talks about micro-enterprises supported by micro-credit like our own Grameen Bank, the macro-economic policies of the developed countries are going to destroy the micro-enterprises of the poor and developing countries.

"There was no justification in having zero import duty when they have bounded tariff of 50-100 per cent. It was a past hangover, which they have committed and India can raise the issue. And they have already raised the import duty of wheat. The problem here is that so many ministries are involved and there is no coordination in their work. We cannot create policies every year, what we need is a long term policy. What we need is, we have to make exports attractive. But there is no justification in having free import of agricultural commodities at all, according to Dr. U Shankar, Director, Madras School of Economics.

He further mentioned, "The advocates of liberalisation argue about fair competition. They expect an Indian farmer who has invested just $ 100 in his farm and who dries his paddy on the road, to compete with an American farmer. So, where is the level-playing-field when the comparison is 1-100,000?

"The countries, which are competing with our poor farmers, have only macro-enterprises where one farming family may have 1000-2000 acres of land and they use highly automated, mass production technology in agriculture. Agriculture in India belongs to the Gandhian pathway of production by masses in contrast to the western, highly industrialised and automated agriculture.

"Every fourth farmer in the world is an Indian farmer. Still when it comes to taking policy decisions, he has no voice and his needs and requirements have no value at all. Agriculture is the mainstay of our economy though it provides only less than 30 per cent of GDP. But 70 per cent of our people depend on agriculture and their livelihood is on agriculture.

"But in the western economy, agriculture contributes only 3-4 per cent of its economy. About 20-25 per cent are involved in the secondary sector, which includes processing, etc. and 65-60 per cent are in the tertiary sector, that is, various services like transportation, communication, electricity and infrastructure. But in India, 70 per cent are in the primary sector, 5-10 per cent are in the secondary sector and only 3-4 per cent in the tertiary sector. It is a totally different scenario. The growth rate of the secondary and tertiary sectors in India is also very poor.

"Naturally, the government

subsidises. And the subsidies are as high as 80 per cent to 90 per cent in Western Europe. And as per the agreement they has with the WTO, they need to reduce the subsidies only by 25 per cent to 30 per cent and even if they reduce by 25 per cent to 30 per cent, they still have more than 60 per cent as subsidy. When developed countries like the European Union, Japan, Canada, the USA, etc. subsidise agriculture, poor countries like India, Brazil and some of the African countries talk about taxing agriculture.

"If we were to compare the case of Indian agriculture with Indian industries itself, we would find that Indian industries enjoy a lot of protection. The import duty on most of the industrial commodities is 50-100 per cent. As the industrialists have powerful associations like the CII, FICCI, etc. their voices are heard. But who will talk for the emancipated, poor farmer?

"Agriculture shouldn't be viewed as a tool to produce agricultural commodities needed for the urban consumers. That is so in the western world. So, you have to look at trade policies from two ways, one is our external obligation, which is to WTO, etc. At the same time, we have our internal obligation also. And our obligation should be to our own people and not to the WTO".

Extracted from Shobha Warrier's report on Rediff.com

Fifty Years of Multilateral Trading

The multilateral trading system celebrated 50 years of its existence at the Geneva Headquaters at the (World Trade Organisation) WTO in 1998. As the WTO celebrated the Golden Jubilee to commemorate the achievements of the free-trading system, a number of countries, social organisations and special interest groups voiced their sense of unease about the achievements of WTO and its predecessor, the GATT (General Agreement of Tariffs and Trade).

The GATT came into operation in January 1948, as a result of an interim agreement signed by 23 countries, including India at an international conference the previous year. Nothing came out of the latter, but the GATT proved a useful body for international tariff bargaining in spite of the skepticism of many countries, organisations and economists about the feasibility of such a project.

In 1948, a club of 23 countries cut tariffs on each others' exports under the GATT, the first multilateral accord to lower trade barriers since Napoleonic times. The economists reacted somewhat equivocally. "To assess the exact consequences of an agreement involving 106 sets of bilateral negotiations and two volumes of liberalisation schedules weighing eight pounds was, we concluded, an impossible task. We feared that the GATT's complexity and its members caution and timidity would hobble the intended growth of Trade" pointed out an article in the Economist.

"Our scepticism proved ill founded. The GATT set in train a series of ever-thicker agreements that removed many of the shackles restricting trade. Today, average tariffs are a mere tenth of what they were when the GATT came into force."

"Since the GATT was implemented in 1948, there have been eight 'rounds' of global trade talks, each involving more countries and taking liberalisation further than the last. The most recent of these, the Uruguay round completed in 1993, was also the most ambitious. The round's other success was the creation of the WTO."

The GATT underwent a decisive transformation in 1994 when the WTO was created as its successor with 132 members and 31 candidates for membership. The WTO held its first ministerial meeting in Singapore from December 9-13, 1996, to set a course for global commerce in the 21st century.

The second ministerial meeting of the WTO at Geneva in 1998 was to be a grand celebration of half-a-century of free-trade system but 'will instead

> This year is the Golden Jubilee of the multilateral trading system. The creation of this system surely ranks among the greatest economic achievements of the post-World War II era. For a war-torn international community, the system gave substance to a shared dream of a fair and open world trading system. More than that, it has led directly to the breaking down of barriers not just between countries but between peoples. At the heart of the system are its rule-based structure and the principle of nondiscrimination.

be remembered as a turning point in the rush towards globalisation'.

On the eve of the 50th anniversary of the multilateral trading system, Renato Ruggiero, the Director-General of the WTO, said:

The multilateral trading system continues to grow in scope and credibility. Currently, there are 132 member governments with an additional 31 negotiating their terms of membership. It would be difficult to overstate the contribution the WTO makes to growth and development on a world scale.

As far as the opening up a international trade is concerned, it is clear that the 12th December, 1997 accord on financial services under the auspices of the WTO is a giant step forward and as the WTO Director General, Mr. Renato Ruggiero said, the agreement is nothing short of a "historic deal" and that it is "a referendum in favour of liberalisation .... a tremendous instrument for growth and development around the world". The financial services agreement was the third feather in the WTO's cap last year. This pact complements WTO's deal to liberalise basic telecommunications trade and another accord to free up the $ 500 billion information technology trade.

Renato Ruggiero and the EU trade diplomat, Sir Leon Brittan said that together the three pacts represented a judge boost to the credibility of WTO, launched just under three years ago to replace the old General Agreement on Tariffs and Trade (GATT). "This has been an annus mirabilis for the WTO", said Ruggiero.

As world leaders and trade ministers gathered in Geneva the public backlash against rapid liberalisation was all too clear. On the eve of the conference 10,000 people from many parts of the world staged a peaceful demonstration that paralysed Geneva's streets. They were protesting against the social dislocation caused by the free trade and holding of the WTO meeting.

Gathered under the umbrella of 'Peoples Global Action', the groups represented farmers from both the South and the North who believe the removal of trade barriers will cause multinational companies to take over their markets and lands.

World leaders arrived to celebrate the global system's 50th anniversary amid flaring violent protests against free trade in Geneva. US President Bill Clinton, as the star guest, was to sing the virtues of free trade. "Less hesitant about partaking of the occasion in a spirit of serious global debate were two heads of state whose presence on the world stage is a continuing reproach to the world order that the US oversees - Fidel Castro of Cuba and Nelson Mandela of South Africa."

Unfortunately, the celebrations turned into a protest against globalisation. Geneva was like a city under seige as demonstrations organised by social movements were being staged on the streets and the free-trade philosophy was questioned by development, social and environmental groups.

The world's 'most powerful' president came waving the free-trade and democracy banner. Bill Clinton delivered a aggressive speech, promising to continue his campaign to open up markets worldwide. He affirmed that in an "era of global financial markets, prosperity depends on government practices that are based on the rule of law instead of bureaucratic caprice, cronyism or corruption". Seeking to please the disenchanted non-governmental organisations of the North, Clinton vowed to harmonise trade with environmental and labour causes and to open up the WTO to the NGOs.

Castro and Mandela attracted attention just by being present. The loudest cheers at the conference were reserved for none other than Cuba's President Fidel Castro. He began by excoriating the US economic embargo against his country and went on to a minute dissection of the coercive tactics that the US had employed to have its way in the Uruguay Round. He called for unity and solidarity among developing countries to protest their vital interests against the growing encroachment of the West. And he urged that the WTO be galvanised by this unity and transformed into a forum for advancing economic justice for all those who have been denied it.

He attacked the US for its unilateral trade actions, the North for trying to smuggle in a multilateral agreement on investment and the unfair and unbalanced trade system.

The third world countries, said Castro, have been losing everything : customs tariffs that protected their emerging industries and produced revenues agreements on commodities, produces' associations .... and any other instrument protecting their export value and contributing to their development.

Why isn't the unfair and unbalanced trade mentioned, he asked?

Why is the unbearable weight of external debt no longer discussed?

Why is official development aid being reduced?

How are we supposed to make a living? What goods and services shall we export? Which

industrial production will be left to us? And he ended by reminding that even the US, having inflated share prices, may not be able to prevent a financial meltdown. He proposed that among the new issues, the WTO should assess the risks of a breakdown and answer the question : "Global Economic Crisis : What to do?

The long and warm applause following Castro's speech showed it had struck a chord with the delegates of many developing counties who have increasingly felt that the free-trade race of the WTO system is leaving them behind.

Although similar in content, Mandela's speech was more sober and restrained and directly challenged the comfortable assumption that had underlain Clinton's speech that free-trade is almost axiomatically an engine of economic growth and universal well-being.

"There is no reason for us to celebrate 50 years of the trade system as it has not brought us benefits," said the Ambassador of an African country.

The UNCTAD, Secretary-General Rubens Ricupero articulated the concerns of the South in his official speech at the meeting. After talking about the failure to reduce unemployment and inequality among nations, he had some hard truths for the trade ministers and the few heads of government there, and the WTO officials and promoters.

"Trade," he said, "is certainly not to blame for the failure of the 20th century to solve this burning problem. But, at a time of global trade liberalisation, the existence of mass unemployment, job insecurity and acute inequality undoubtedly has had something to do with the malaise - even backlash in places - against trade and investment liberalisation that we have noted in various quarters ..."

"No one should be fooled by the festive atmosphere of these celebrations," he said at the end of his speech. "Outside there is anguish and fear, insecurity about jobs and what Thoreau described as a 'life of quiet desperation'. That is also part of the reality as much as the impressive achievements of global liberalisation."

"It is the sacred duty of the United Nations system, the WTO and the Bretton Woods institutions, to create reasons to hope."

The WTO succeeded the GATT at the end of 1986-93 Uruguay Round of international trade negotiations. The agreement was formalised in the final act of the Round, which was signed by the trade ministers in Marrakesh, Morocco in April 1994.

Launched on January 1, 1995, the WTO is officially defined as the legal and institutional foundation of the multilateral trading system. The WTO is a permanent organisation crated by an international treaty ratified by the member states. It has been assigned the status of a principal international body concerned with solving trade-related problems between countries and providing a forum for multilateral trade negotiations and is similar to that of the International Monetary Fund (IMF) and the World Bank (WB). But, it is not an agency of the United Nations, although the WTO has a cooperative relationship with it.

The basic principle of the WTO is underlined in Article 1 of the 38 article General Agreement, which binds all members to give equal treatment to the products and services of all other WTO states. The General Agreement is aimed at ensuring open and fair trade in goods, services, agricultural produce and textiles.

The WTO's ruling body is the General Council, comprising each member country's permanent envoys. It sits in Geneva once a month on an average. Its supreme authority is the ministerial conference that is held every two years. The General Council appoints the Director-General for a four-year term after consultations among member countries. The WTO has a current membership of 135. Members range from the 'Quad Group' of top four world trade powers to the increasingly influential emerging economics of Asia to some of the world's poorest countries.

Two key units of the WTO are the Dispute Settlement Body (DSB) and the Trade Policy Review Body (TPRB). The DSB, on which all member countries can sit, usually meets twice a month to hear complaints of violations of the WTO rules and agreements. It sets up expert panels to study disputes and decide if the rules are being broken. The DSB's final decisions, unlike those of a similar but less powerful body in the old GATT, cannot be blocked. The TPRB is a forum for the Council for Trade in Goods, the Council for Trade in Services and the Council for Trade-related Aspects of Intellectual Property Rights.

REFERENCES : From Singapore to Seattle, The Free Trade Juggernaut Faces Peoples' Wrath, AWTO File # March, 2000, CEC, New Delhi

Writing on the wall
Signals from last two budget speeches

Anil K. Chaudhary

There are some subtle signals provided in last two budgets of the present government which have far reaching implications on policy shifts and the lives of the common citizen. These signals either went unnoticed or deliberately ignored by the media, commentators and experts alike.

The Finance Minister declared commencement of "a *National Movement of Watershed Development* that fosters implementation ability at the local level and creates community infrastructure for micro watershed projects through active involvement of Gram Panchayats, Local Self Help Groups and NGOs. For this, a *Watershed Development Fund* will be established with NABARD to cover 100 priority districts within 3 years. The Central Government will provide necessary matching assistance to NABARD."

The fact hidden beneath this proclamation is that the government will no more bear the burden of even 'hard works' involved in providing irrigation facilities. The involvement of NABARD is key to affect this shift. Finances from NABARD to Gram Panchayats etc. for micro irrigation projects will imply that the 'users' (farmers) of the village will have to pay back to NABARD, probably with interest, in cash. Hence, the villages opting to join the proposed movement will not only look after 'operation and maintenance' cost but also be taxed for the hard work and the interest.

The Finance Minister further claimed that "the centre will provide larger financial assistance to the States that rationalise their water rates to cover at least Operation and maintenance costs". He also made clear that "all registered Water Users Associations (WUA), linked to incremental water rate collection" will be provided one time management subsidy and recurring assistance over an initial period of 3 years.

Isn't the message loud and clear enough to draw attention? The State governments that will be substantially increasing the rates of water and the WUAs taking responsibility of collection of "incremental" water rates will be bestowed with favour. By implication, those do not fall in line shall suffer.

So the signal is loud and clear! Under the proposed National Movement of Watershed Development the irrigation will be regarded as a 'service' or 'utility' and the costs of the same along with interest have to be shifted from State to the individual users. This appears to be the first step towards making water a marketable commodity and ultimately transform the irrigation sector into 'profit-making sector' as the government has already done with power and telecom sectors of Indian economy.

The second significant signal is to shift the burden of 'savings' from middle class to the shoulders of 'poor'. For the managers of macro economy, its important that the certain rate of savings is maintained in order to keep the 'capital market' - the artillery of the economic system, going strong enough. At the same time the consumer market's elasticity reaching its threshold soon as a consequence of ever shrinking employment opportunities. So the challenge, the managers of macro economy are faced with, is to strike the balance in a way that the required levels of 'savings' are attained without draining out money from the 'consumer market'.

Till recently, the target of savings was 'middle class' and/or 'service class', which was provided several incentives and tax benefits for savings. As a result, the institutions like Provident Fund, Life Insurance, Unit Trust etc. were the major players in 'capital market'. In present day context, if these sections are discouraged to save, the money is bound to go to the 'global consumer market' and keep the rhythm of the market without necessarily bringing newer entrants into its fold. Whereas, if the 'poor' is targeted for savings, the required targets could be achieved without draining out money from the 'global consumer market' because the money in the hands of poor at the most reaches the local economy if not saved.

Let us take an example to understand this. For instance if the practising Lawyer, Doctor, Chartered Accountant, Consultant or Bureaucrat, Professor, Corporate Executive etc. save less, where their earnings will go? Certainly to the luxuries of various types which are core of the 'global consumer market'! On the contrary, if labourers, vendors, petty artisans, petty entrepreneurs etc. do not save, where will they spend money? Locally made

sweetmeats, locally brewed liquor or local 'satta' etc. There are remote or minimal chances of it reaching to the 'global consumer market'.

Hence from the point of view of macro managers who should be encouraged to save and who should be encouraged to spend? Obviously, the 'middle and service' class should spend and the 'poor' should contribute to 'savings'. Only this will be in National interest under what is referred as New Economic Policy. And the present Government is precisely proposing to do the same.

The finance minister in his budget speech this year has said "In my last budget I had asked NABARD and SIDBI to cover 50,000 Self Help Groups to develop micro enterprises. NABARD and SIDBI will cover an additional One Lakh Groups during 2000-2001. To give further boost to this programme a Micro Finance Development Fund will be created in NABARD with start up contribution of Rs. 100 Crore from RBI, NABARD, Banks and others. This fund will provide start up funds to micro finance institutions and infrastructure support for training, system management and data building. This illustrates the seriousness and long term interest of the managers of macro economics in micro finance.

Some of us are not able to comprehend the magnitude of savings by the poor. Lets assume that 1 Crore people in India (1% of the population) have the capacity to save Rs. 10/- per day and their savings are tapped and brought to Banks. Such savings will amount to Rs.300 Crore in a month and Rs. 3,600 Crore in a year. And we shall also know that every 10 Rupees that enters the bank becomes 80 rupees in terms of its book value or circulation. Thus in banks business this amount will become Rs.28,800 Crore. So even if few hundred Crore from this amount is distributed to saving groups as credit, the Banks will be able to plough back a substantial amount to the public and private limited companies. And in any case the distributed credit in Banking business is considered as asset and not as lost amount. What the managers of macro economy are eying at is the high magnitude of small savings by the poor.

On the other hand the present government had given two important signals which indicate its intention to discourage 'middle and service class' from savings. The first in this series was even before the budget by reducing the interest rate on pensions, provident fund and National Saving Certificates. While, during the budget the finance minister has announced the taxation of dividends earned from mutual funds and some other such schemes.

If these signals are seen as just the beginning and are extrapolated for next five years the situation of common citizen appears pretty bleak. Transport, communication, electricity, fuel, water, health, civic amenities and education - all the sectors will be in the hands of private corporations, where the Citizen will not only be subjected to recovery of cost of service it is using but also to fill the coffers of corporate greed. And in the name of a 'mirage of better life' the hard earned and scarce savings of the poor will be canalised to run the business of Big Corporations and Companies.

The popular wisdom says - those who are not able to see can be helped to see but those determined not to see cannot be helped.

Government to Loose Revenue Worth Rs. 1,000 Crore

The Hindustan Times, New Delhi, May 5, 2000

The Vajpayee Government has conceded revenue worth Rs. 1,000 crore during current fiscal year as a result of the fresh dose of tax breaks and concessions doled out by Finance Minister, Yashwant Sinha.

Ten-year tax holiday for units in STPs, EPZ, EOUs and units in special economic zones especially IT, pharma and biotech sectors along with exempting the income of Venture Capital Funds (VCFs) from the impost will lead to this possible revenue loss.

This was stated by the Minister of State for Finance, Dhananjaya Kumar. The revenue loss has been allowed by Prime Minister, Vajpayee, while the Centre was adamant on not rolling back the cuts in food and fertiliser subsidies.

Wheels Within Wheels:

Some Unexplored Aspects of Constitution Review

Anil K. Chaudhary

There is a lot of hue and cry about the proposed review of the constitution by the present government. Every editor, every columnist and every politician worth their salt has already shared his or her mind on this issue in the public domain. But there seems to be some thing amiss in this discourse.

It has generally been assumed that the key stakeholders in the wherewithal of Constitution review are the leaders of the present Government- the BJP and their ideological mentors RSS. If this ideological assumption is true, the guardians of secular space have all the reason to be vigilant, proactive and aggressive in opposition to the attempts at fiddling with the Constitution. At the same time it seems to be equally important that the forces determined to fight attempts to tamper with the Constitution should not confine themselves to a 'myopic vision' of the phenomenon.

There are 'global corporate interests' led by the 'market fundamentalists' of various ideological and political shades which are vehement in seeking a metamorphosis of our political system and processes to suit their interests. These hawks, under the leadership of well oiled and lubricated machinery of The World Bank are working overtime for years to achieve this purpose. The fundamental difference between this lot and the BJP/RSS is that they are interested in the final product and not in the process, i.e., 'who gets the credit or discredit?'.

The pursuit of this lot appears to be more determined and consistent and, as it is above the trivial concerns of name, fame and shame.

The concerns of this lot revolve around four major areas - (a) the economic decisions shall not be hampered by the political decision making processes; (b) the participation of 'stakeholders' shall be ensured in such decisions by the formal system; (c) there shall be a balance between the 'democratic representation' and the 'experts' in the matters of governance; and (d) the 'executive' function of the governance must have in-built stability (fixed term). Mr. Joseph Stiglitz, Vice President and Chief Economist of The World Bank has been forcefully campaigning on most of these issues for quite some time and on March 17, 1998 has penned down his arguments in a paper entitled "Redefining the Role of the State: What should it do? How should it do it? And how should these decisions be made?"

Believe me or not, they have already covered substantial grounds in these directions even without touching the constitution. Appointment of non-cadre 'experts' i.e. Sam Pitroda and M. S. Ahluwalia and others on key positions exemplify this trend. Mr. Ahluwalia's continuance as Secretary to the three successive Finance Ministers representing three different political blocks is not mere a coincidence. The backdoor entry of so called 'experts' like Manmohan Singh, Ram Jethmalani, Arun Shourie and Arun Jaitely to the Council of Ministers by the two major ruling political parties during past ten years is also a welcome development from the standpoint of protagonists of this point of view.

The announcements of critical decisions on economic issues before the budget session and outside the parliament by the respective Finance Ministers - Manmohan Singh, P. Chidambaram and Yashwant Sinha during the last ten years is another feather in their cap. The discussion on the 'departmental demands' disappearing from the domain of parliamentary debates and finding their way to the 'committee system' during last two budget sessions is another feat. The 'unanimous' passage of the previous budget despite the ruling political leadership defeated in the house must have been a moment of rejoicing for these forces.

If the recent practice of leaders of major political parties making appearances in the meetings organised by bodies like CII and FICCI before elections and the Finance Ministers indulging in pre- and post-budget dialogues with these bodies is any indicator, it speaks a lot for the ground work which has already been done for the participation of the stakeholders in decision making. These forces have substantial reason to believe that a sort of consensus has emerged in the political domain over their agenda. The final blow needs to

be struck when the iron is hot and nothing better could have come their way than 'review of the Constitution' to make a decisive bid to formalise and legalise their agenda.

During the recent visit by the US President to India 'convergence of interests' became the buzzword among the fraternity of media and politicians. Apart from other areas, the phenomenon of 'convergence of interests' syndrome needs to be understood in the context of governance as well. The biggest paradox/duality that the BJP has to live with, lies in the field of economic policies and if that is somehow removed from the arena of political decision making, their life in government becomes less difficult. The BJP is eager to offload the 'economic decisions' on to 'experts' and the 'stakeholders' and thus kill two birds with one stone. On the one hand it helps the BJP to carve out an escape route from owning the 'hard decisions' and facing the consequences of such decisions and on the other to the pleases the global masters, who nowadays matter a lot in the functioning of the government.

Another area of 'convergence' between the BJP requirement and the demand of 'good governance' by the global hawks is 'stability and continuity' in economic policies and executive decisions. Once the decisions are made by the 'participation of stakeholders' and the 'experts' and the tenure of the government is 'fixed', all problems of 'coalition politics' (to which the BJP appears to have reconciled) and the problems faced by the global financial institutions will be over.

The quest of the present Government to appease these forces on the matters of governance is peaking up as it is miserably failing in maintaining the promised growth rate and containing the deficit within prescribed norms of 5%. Though it is trying its best to compensate for its folly by rushing the WTO agenda before schedule time, but that does not seem to satisfy the hard negotiators on the other side of the table. Hence, it shall not surprise the political observers if the underlining terms of reference of the Review Commission turns out to be guided by the influence of 'global corporate interests'.

However, it does not diminish the fears of 'Saffronisation" of the constitution nor should this be cause for a complacency for those resisting these attempts. Equally important is not to lose sight of other forces that are proactively soliciting changes in India's political system and appear to have an upper hand in the prevailing circumstances. The basis of opposition to Constitution Review from the point of view of fears of 'Saffronisation' appears to come from a broad spectrum of people and their opposition is vociferous. But we must be careful and watchful about the allies who will stand by us in case the 'global corporate interests' prevail over the review exercise. Many may fall by the wayside and support such suggestions by the commission inside the parliament as they have done in the past as it happened in case of privatisation of insurance sector and adoption of patent regime, which were part of the US and WTO agenda. It is high time to take stock of the situation and begin to prepare for the eventuality.

Anxiety of Indian Industry on Downsizning the Government and Sale of PSU

Has Yashwant Sinha concealed more than he has revealed in his Union Budget for 2000-2001? While admitting that the fiscal deficit has overshot the targeted 4 per cent to a whopping 5.6 per cent of the gross domestic product, Sinha attributed it to five primary expenditures -- the 50 day Kargil war, the supercyclone in Orissa, expenses due to the general election, somewhat weak monsoon, a near tripling of world oil prices and the continued fragility in world economic recovery.

But there is a wide gap between the current fiscal deficit of Rs. 1.112 trillion (1,000 million = 1 billion; 1,000 billion = 1 trillion) and the budgeted deficit of Rs. 799.55 billion which was then revised to Rs. 1.088 trillion because of the Kargil conflict and the general election. In other words, there is a rise of Rs. 23.77 billion on the revised estimate -- an increase of 2.1 per cent. But the rise on the budgeted estimate is much higher at Rs. 333.94 billion.

Sinha had said, "These two provisions together add up to Rs. 24 billion, that is 1.2 per cent of

the GDP. If these provisions were not to be made, I could have contained the fiscal deficit at four per cent."

However, economists who have read between the Budget lines say, there are more villians in the fiscal drama -- the government expenses, interest payments and the failure in meeting the disinvestment targets. In fact, interest payments form 91 per cent of the fiscal deficit.

"It is imperative that the government debt is brought down immediately, otherwise the economy may fall into an internal debt trap."

"The Kargil war, cyclone, election, poor monsoon, etc. no doubt contributed to the increase in fiscal deficit. But the government has also failed in controlling its own expenses, and could not meet many of its targets."

Despite the fiscal deficit having soared to 5.6 per cent of the GDP as against the targeted 4 per cent, there was no reason to be over-concerned about India's fiscal situtation. The government is now aiming to confine it to 5.1 per cent in fiscal 2000-2001.

According to economists, the failure to control the deficit lies within the corridors of government itself. Despite claim to trim the government expenses in the last budget, nothing of the sort happened. For one, the wage bills are on the rise.

"When the minister said 'hard budget', I thought he is serious about it. I thought there would be some major downsizing in the government. But if you ask me, what the government should do is tell 40 per cent of the government employees to go home for two years, and that their salaries will reach home. They should be told to venture out and look for other opportunities in self-employment. After two years, if they want to come back they can. Believe me, nobody would want to come back", say Tarun Das, Director-General, CII.

This means the government has had to make provisions to allocate additional funds to the ministries. Says Bhattacharya, "What happens is certain schemes and plans are not implemented by the ministries in the speficied time. There is a lot of backlog, which means the expenses rise." "The industry is concerned that the government has failed to address the issue of expenditure control and downsizing of the government", says Mr. Mitra.

The government did not bite the bullet on the divestment front too, which has also added to the high fiscal defict. CII's Das Says, "Why should the government still sit on some of these public sector units. If it had divested last year, there would have been less problems. Instead, the minister is blaming it on the absence of a national consensus on divestment. In fact, it is being attributed to the uncertainty at the Centre -- to the six months lost in electioneering process last yar."

Extracted from Neeru Haridas's report on Rediff.com

Uttar Pradesh Government has taken Rs.1075 Crore Loan from the World Bank for reforming its administrative structure as per the suggestions made by the World Bank itself. This loan is a good example how the World Bank - As the global "mahajan" first tells its client what is wrong and what it needs to do. Than gives the credit to carry out its prescriptions and earn profit in this business.
Out of total credit, Rs.430 Crore are from IBRD arm of the World Bank, which charges interest and Rs.645 Crore is from IDA which gives 'soft loan' i.e. with low or no interest. The world Bank, thus stands to gain financially and politically both.
We are reproducing the "Project Information Document" of this credit for your perusal.

India-Uttar Pradesh Fiscal and Governance Reform Loan/Credit

1. Country and Sector Background

Notwithstanding a decade of relatively rapid economic growth in India following the sweeping economic reforms implemented in response to the balance of payments crisis of 1991, the pace of reforms has slowed down in recent years. Although the economic performance remains favourable, there are rising concerns about the increases in the overall fiscal deficit, mainly due to a deterioration of the budgetary situation in many of the states, and about the overall persistence of the incidence of poverty. The latter is partly explained by increasingly differentiated economic growth rates among the 14 major states of India and the fact that states with the largest concentration of poor, such as Bihar and Uttar Pradesh, are also the

states with the poorest infrastructure and social indicators and where growth has been slowest.

Region	South Asia
Sector	Poverty Reduction and Economic Management
Project ID	INPE65471
Borrower(s)	GOVERNMENT OF INDIA
Beneficiaries	State of Uttar Pradesh
Implementing Agency	Government of Uttar Pradesh (GoUP) Mr. Sushil Chandra Tripathi, Principal Secretary, Finance Department, Government of U.P., Council House, Lucknow Phone 91-522-238062; Fax 91-522238918
Environment Category	C
Date PID Prepared	January 29, 2000 (update)
Projected Appraisal Mission	November 11-18, 1999
Projected Board Date	April 25, 2000 (tentative)

State of Uttar Pradesh

With a population of 160 million, Uttar Pradesh (U) is India's largest state, accounting for 9 percent of India's land and 17 percent of its population. If UP were a country, it would be the world's seventh largest in terms of Population. It is the largest producer of foodgrains and oilseeds in India and produces about half of India's sugarcane, with agriculture accounting for 40 percent of the state's gross state domestic product (GSDP) and 75 percent of its total employment.

Despite its rich natural and human resources, UP's per capita income is third lowest among India's states (ahead only of Orissa and Bihar), and its position relative to other states has been sliding. There has been little Progress at reducing poverty since the late 1980s, and an estimated 41 percent of the population are below the poverty line. Notwithstanding its potential, economic growth has decelerated in the UP since 1991, even as growth accelerated in other parts of India. In 1950, UP's level of per-capita income was almost equal to the all-India average. Since then, the per-capita of UP has declined to only 65% of that of India. The gap between UP and the rest of India widened substantially in the 1990s as annual growth in per-capita income slowed down to less than 1 percent in UP. The downturn in the state's overall rate of economic growth in the 1990s, primarily a result of serious power shortages as well as lower agricultural productivity and under-development of human capital, appears to be the most important factor behind UP's poor progress in reducing poverty in recent years.

UP is currently facing a fiscal crisis of unprecedented proportions. The state is now caught in a vicious circle, with low growth not only holding living standards down but also reducing revenue yields, and the fiscal crisis prevents the state from investing enough to provide the foundations for economic growth and improve social indicators. Frequent government changes over the past decade have led to a rapid deterioration in the quality of governance. Poor governance has resulted in a narrowing of the tax base (a 25 percent decline in the number of taxpayers between 1993 and 1997), and unsustainable growth in the government's wage bill and subsidies. High and growing deficits for more than a decade, together with the slow pace of economic growth, have resulted in an unsustainable level of indebtedness. Debt service has increased its claim on total state revenues from 13 percent in 1985-86 to more than 39 percent in 1998-99. Salaries, pensions, and interest payments absorbed more than three-fourth of total revenues in 1998-99. The overall fiscal deficit rose to a new peak of 7.7 percent of GSDP in 1998-99, among the highest across India. A decline in the quantity and quality of public outlays in physical and social infrastructure, both in new asset creation and in operation and maintenance, is one of the most visible consequences of the state's fiscal crisis. Reversing these trends requires dramatic improvements in UP's economic policy framework, restoring trust in its public institutions, and restoring its fiscal capacity to invest in high-priority development programs in basic infrastructure and social services.

Uttar Pradesh's Response to Crisis

As the first step in its response to the crisis, the Government of Uttar Pradesh (GoUP) decided to inform the public of the magnitude of the problem. It issued a White Paper on the state's finances in March 1998. Following this, the GoUP requested the Bank to conduct an in-depth economic and fiscal assessment, which was carried out in close collaboration with the state officials. This report laid the basis for an intensive policy dialogue that helped define GoUP's strategy for fundamental economic reforms in the state. Over the last twelve months, GoUP has embarked on a set of reforms to restore fiscal sustainability and initiated reforms in the key sectors of the economy.

2. Objectives

The Government of Uttar Pradesh has responded to its economic and fiscal crisis by introducing multi-year reforms to restore fiscal sustainability, improve governance, and accelerate economic growth. Fiscal and governance reforms will bring about the enabling environment for implementation of the state's multi-sector reform and investment programmes in the education, health, irrigation, power, road and urban sectors. The key objective of the proposed operation is not only to create additional fiscal space over the medium term for well-targeted public investments but also to "crowd in" private investments by changing the negative perception of investors and donors about Uttar Pradesh. The proposed operation is an integral part of the Bank's assistance strategy for UP, which encompasses a broad programme of lending and non-lending assistance, aimed at turning around the state's deteriorating economic and developmental performance.

3. Rationale for Bank's Involvement

Focus on reforming states is at the heart of the India Country Assistance Strategy (CAS). The last CAS Report documented the substantial progress being made in the implementation of this strategy. Increasingly, the Bank's limited financial and technical resources are being directed towards a small number of reforming states. The proposed operation has been structured as the first adjustment loan in a series of loans to support growth-oriented fiscal adjustment and structural reforms, with a focus on governance. It is justified on the basis of the state's need for financial assistance to proceed with a growth-oriented stabilization and structural reform program.

The state-level reforms will contribute to the overall macroeconomic stability in India and complement the reforms initiated by the central government. In this context, external financial and technical assistance, which can be targeted at individual states, can significantly strengthen the incentives for reforms and complement the efforts by the Government of India.

Budgetary Support

The fiscal projections under GoUP's medium-term fiscal framework indicate that the state will face a significant financing gap in the early years of the proposed comprehensive reform programme. Increased spending on infrastructure, social sectors and non-wage operation and maintenance (O&M) will be required to improve the quality of services provided before such costs can be recovered through increased user charges. Increased budgetary outlays will also be initially required to finance the restructuring of the power sector while the fiscal gains from privatising the sector are likely to materialise over a number of years. Reform of public enterprises will entail up-front costs of retrenchment and retraining of workers.

Enabling Environment for Sectoral Investments

The fiscal and governance reform framework will ensure that the Government's proposed investments are feasible from a fiscal perspective and benefit from greater technical and financial efficiency. In turn, the wider government reform programme, which the Bank's overall assistance is supporting, provides UP with a unique opportunity to escape from stagnation and start reducing poverty again. The predicted increase in growth and improvement in government services are anticipated to be highly pro-poor.

4. Description

The Uttar Pradesh Fiscal and Governance Reform Loan (UPFGRL), which is the first sub-national adjustment loan in India, will support GoUP's efforts in initiating multi-year reforms that are designed to stabilize the fiscal situation, improve governance, and foster an enabling environment for structural reforms and sectoral investments over the medium term. The UPFGRL is a single-tranche loan, the first in a series of loans that may follow depending on GoUP's success in implementing reforms, as well as downstream lending in the power, water and irrigation, health, education roads and urban sectors. The loan will strengthen the long-term process of reorienting government towards its core functions and reducing its role in the economy, improving civil service efficiency and strengthening fiscal management and financial accountability.

The proposed operation would support GoUP as it implements a comprehensive set of reforms in the following areas: (i) public expenditure management, (ii) tax policy and administration, (iii) civil service, (iv) anti-corruption, deregulation, and decentralisation to local bodies, (v) public enterprise and privatisation, and (vi) financial management and accountability. The proposed loan would be disbursed to the Government of India, with immediate transfer of the local counterpart funds to GoUP according to on-lending terms agreed with the Bank.

5. Financing

Total	US$250 million
IBRD	US$100 million
IDA	US$150 million

6. Implementation Arrangements

A Governance and Civil Service Reform Core Group, headed by the Chief Secretary, and a Reform Implementation Task Force, headed by the Principal Secretary, Finance, would spearhead and monitor the implementation of governance and fiscal reforms, respectively. Technical working groups would be created under each of these steering groups, as well as a Tax Reform Working Group reporting to the Principal Secretary of Tax and Registration. These working groups would be staffed with personnel dedicated to the implementation of reforms, and would induct and work closely with professional consultants, who would be hired under various Technical Assistance components that would be financed by the Bank under a parallel Technical Assistance Project for Economic Reform, which will be open to all levels of government in India, with UP expected to be one of the major beneficiaries.

7. Sustainability

In the absence of the proposed fiscal and structural reform, per capita growth in UP will continue to stagnate, further widening the gap in living conditions between the state and the rest of India. For the poor, the risks of taking no action far outweigh the risks associated with the reforms. With the wide-ranging reform programme, the state authorities are convinced that UP can improve the quality of its public services, stabilise its debt and begin to reduce its debt servicing ratio over the next several years. More importantly, the reforms can also significantly raise per capita growth rate in the state from about 1 per cent now to 3 per cent or higher over the medium term and make a significant dent on poverty and the quality of life of the population. Given the size of UP and its relatively poor economic performance senior officials in the central and state governments expect that a turnaround in UP would also have a measurable positive impact on the performance of the Indian economy. An acceleration of real per-capita income growth in UP would make a significant contribution to reducing poverty in India.

The states have an increasingly important role in the ongoing process of economic reforms and fiscal correction in India. They account for about 40 per cent of the consolidated public sector deficit and for more than 50 per cent of public spending in infrastructure and social services. Successful economic reforms and fiscal correction in UP would contribute to the overall fiscal correction in the country and are likely to have a strong demonstration effect upon other states. The projected fiscal correction would enable GoUP to revamp its development efforts, including sustaining further Bank-assisted investments and other priority expenditures in infrastructure and the social sectors, by enabling it to ensure the required counterpart funding during the project period, as well as to adequately finance operation and maintenance expenses once such projects are completed.

The recognition of the serious fiscal and governance issues faced by the state on the part of civil service, the major political parties and the public at large, together with a strong support from the Government of India for the state's reform initiatives, is likely to lead to sustained reform efforts provided that serious political instability does not return.

8. Lessons Learned from Past Operations

The proposed operation is the first sub national adjustment loan to India. However, a different type of lending instrument (a hybrid) is being utilised in Andhra Pradesh (AP), which was the first state to benefit from the Bank's state-focused lending in support of fiscal adjustment. The Andhra Pradesh Economic Restructuring Project (APERP), for which a $543.2 million package was approved by the Board in June 1998, is a multi-sectoral project that provides resources to AP for health, education, nutrition, irrigation, roads and public enterprise reform while supporting reforms intended to redirect spending towards priority areas and introduce a value added taxation system. The project is a package of sector investment loans and credits within a medium-term fiscal framework. While the APERP approach is innovative and is proving effective in Andhra Pradesh, it may not be appropriate for UP for two important reasons. First, given the high level of indebtedness and immediate cash-flow problems in UP, assistance through investment lending alone (which itself would require additional resources for counterpart funding) will not be feasible. Second, an AP-type operation is a complex operation involving a number of sector components being implemented simultaneously and presupposes strong administrative capacity throughout the state, which is not assured in UP in the initial years of the reform programme.

9. Programme of Targeted Intervention (PTI)

In addition to the conventional monitoring and evaluation associated with each individual project under preparation for UP, the GoUP and the Bank intend to monitor the impact of the Government's overall reform programme. While the project-specific monitoring will of course vary depending on the nature of the project (from fiscal monitoring to health surveys), the program monitoring will focus on the core objective of the overall program - poverty reduction.

The benefits of growth are likely to accrue over the medium to long term. In the short run, while many segments of society will benefit from reform-led changes, some may suffer from adverse impacts of certain measures. It is a matter of concern, both to the GoUP and to the Bank, to maximise and capitalise on medium-and longer-term gains while ensuring that the poor and vulnerable sections are protected. However, rather than devoting extensive resources to anticipating reform-induced impacts, a carefully designed monitoring system is being developed to track actual changes in outcomes (e.g., incomes, poverty levels, mortality and morbidity), in key intermediate variables (e.g., quality of services, provision of basic infrastructure) and inputs (e.g., spending on priority sectors) that are likely to impact on living conditions. Monitoring efforts will be directed to backward regions of the state and focus intensively on groups considered most at risk.

10. Environment Aspects

Given the nature of the reform components of the proposed operation, there are no major environmental issues identified under this loan/credit. In fact the environmental impact of overall governance and fiscal reform programmes will be indirect but generally positive. However, there are certain environmental issues relating to the proposed divestment or closure of public enterprises (PEs) and privatisation component of the operation: (i) potential environmental liabilities associated with past pollution; and (ii) environmental compliance by each PE. In this context, the proposed operation envisages that at the time of privatisation or closure of each PE, an environmental audit should be carried out to assess the current environmental compliance and liabilities of the PE. In the case of privatisation, the audit will result in actions recommended to bring each PE into compliance.

In the case of PE closures (as opposed to divestitures), any environmental liabilities will be the responsibility of GoUP. In order to address the above issues, GoUP is inviting consultancy offers to assist it in developing transaction guidelines on environmental matters to ensure that the divestment and closure process will be environmentally sound.

Note: This information has availabel at the time of preparing the document. Certain components may not be necessarily included in the final project. Processed by the InfoShop week ending February 18, 2000.

BOOK POST

For Limited Circulation Only

To _____

Our Address:
APPEAL
F-93, 1st Floor
Katwaria Sarai
New Delhi 110 016

Telefax : 6968121 & 6858940
E-mail : peaceact@vsnl.com