FINANCIAL EXPRESS

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Luxury for those who pay

WITH a massive shortage of hotel rooms looming large, the Government has no option but let the industry raise equity abroad. Given the potential for foreign currency earnings, there should be no objection to even 100 per cent equity participation. The target users should be the globe-trotting businessmen, who not only can afford but want high-price accommodation on the basis of quality service. The transnational chains must be actively lured to Indian metropolises as well as the best-known tourist spots. Singapore has succeeded in a big way in getting foreign tourists and there is a lesson in this for the Indian Government. The infrastructure has to be improved and this has to be high on the agenda. For, behind all the self-congratulation about the tourist arrivals exceeding one million lie several depressing facts—lack of hotel accommodation, ad hocism in respect of development of places of tourist interest and poor roads.

The hoteliers are justifiably complaining about the impact of the Central expenditure tax and the luxury tax levied by state governments and withdrawal of fiscal incentives for construction of hotels after March 1995. Both the expenditure and luxury taxes are symptomatic of a penny-wise-pound-foolish approach. With deepening liberalisation, the socialist ideology of the past does not make any commercial sense. When there should be more hotel rooms, one wonders why the exemption of 30 per cent of profits for construction has been denied since April 1, 1995. Knowing that the national tourism action plan envisages raising tourist arrivals from 0.4 to one per cent of the tourist movement globally by 2000, the policy stress should be less on ideology and more on making money. This is not the time to view the five-star hotels as monuments of economic disparities. It is downright foolish to confuse issues of poverty alleviation with the imperative of getting super-rich foreigners to visit India both for business and pleasure.

Tourism is a money spinner and has to be seen as such and the Government must steer clear of the question whether or not catering to this is a priority activity. Power generation is, no doubt, more critical to the nation's economic uplift than setting up hotels for the affluent, but this conflict of conscience should not be allowed to come in the way of attracting tourists on a large scale. The Government must look at the fallout of an obviously luxury activity on development of higher priority areas. After all, with all the foreign currency that tourism is earning, it will be possible to finance mega power plants without recourse to foreign assistance and the Government will also have more rupees to spare for programmes of poverty reduction.

Produce more, or import

A RECENT suggestion for tea imports made by the Tea Board's core committee virtually stirred a storm in the tea cup, literally. The committee thought that such a course was needed as part of the strategy to double exports of the commodity by 2000. This inevitably provoked strong protests from the industry. Indeed, the opposition was so vociferous that the Tea Board did not waste any time in constituting another panel to redraft the strategy paper prepared by the core committee earlier. It would appear that the proposal to import tea has been given a quiet burial.

Yet, one must realise that this had been mooted against the backdrop of falling domestic production and exports. The country produced 754 million kg in 1992. Production improved marginally to 758 million kg in 1993 but moved down to 744 million kg in 1994. Exports, which had been of the order of 241 million kg in 1981, declined to 180 million kg in 1993 and still further to 149 million kg in 1994. According to the Tea Board, if the present rate of growth in production and consumption continued by 2000 consumption would be 755 million kg while production would be in the region of 900 million kg. This would leave just 145 million kg as surplus for exports. The situation is expected to deteriorate by 2010, when domestic requirement is projected to be 1,150 million kg against a production of 1,174 million kg. By 2020, a crisis point is anticipated with demand touching 1,700 million kg against a production of 1,500 million kg. Clearly, the nation is heading for a shortage. A review of the global scenario reveals that India, the largest tea exporter in the world till the 1980s, has slumped to the fourth position in 1994. The countries that have overtaken India (its share in global tea exports in 1994 being 14 per cent) were Sri Lanka (22 per cent), Kenya (17.5 per cent) and China (17 per cent).

The producers' response to this emerging scenario so far has been to seek enhanced fiscal benefits and subsidies for themselves. However, experience shows that their performance has seldom been to the promised levels. If there is to be no import, then domestic production must increase by a substantial margin, both to feed the local and the international market. In order to push up export earnings, the industry should work for value addition—in the form of tea bags, herbal-flavoured, speciality and instant teas with high quality standards. If the industry fails to improve its productivity and change its functioning in tune with global market trends, the country will have little option but to go in for imports.

From militancy to wooing

IT is very rarely that the hand which often rises to strike lends a hand during moments of crisis. Yet, this is just what the employees' unions of banks are now doing. Alarmed by sagging growth in deposit mobilisation, the unions of the Bank of India, Bank of Baroda, and the Central Bank are now trying to woo customers to meet the deposit target of the respective banks. Knowing that they have contributed to the woes of banking industry through frequent strikes, this will be construed only as an image-building exercise. Yet, this demonstration of responsibility has to be welcomed, given the strains of the banking system.

Fiscal 1995-1996 threatens to end up with dismal figures for the banking sector in terms of deposit mobilisation. Against Rs 65,000 crore targeted by the Reserve Bank for the year, banks could mobilise only Rs 34,550 crore till December 1995 and are expected to close the fiscal year with Rs 55,000 crore. Sops to depositors by way of enhanced interest rates didn't yield the desired results. The interest rate hike in October last year had a favourable impact on term deposits by way of a rise of Rs 9,005 crore but this was neutralised by a fall of Rs 3,174 crore in demand deposits during the period.

Coming back to what the unions are doing, on the face of it, their concern over the failure on a key aspect of banking activity would help to deflect much of the flak they received in the recent past due to their belligerence towards the management. With competition hotting up, this kind of involvement by workers makes sense. But the real remedy lies in the unions scaling down their wage-related demands and accepting greater computerisation. Wage economies are critical to depositors being lured with attractive interest rates. The unions must make these possible.

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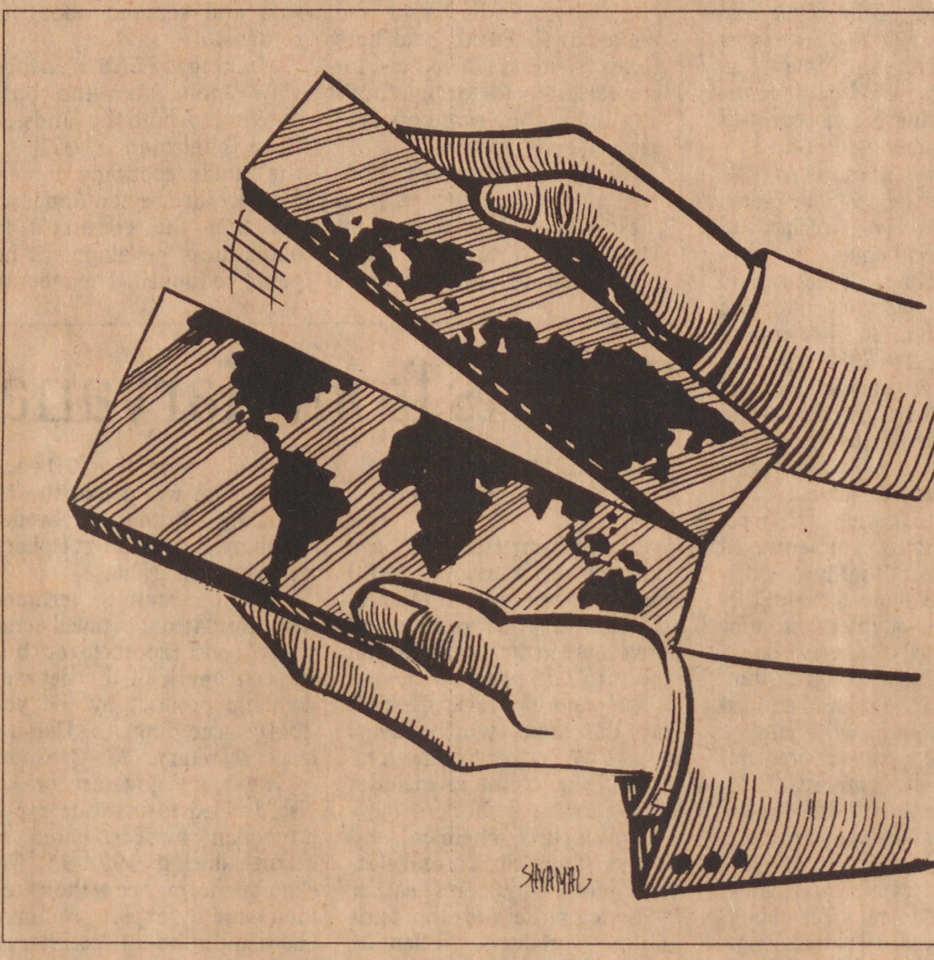
Not a total break from the past—II

Deepak Nayyar says that while nation-states are politically important they are not so in economic terms

EARLIER, I discussed trade flows. Here, the focus is on investment flows where there are differences in the geographical destination, the sectoral distribution and the risk-form of the investment. In 1914, the stock of long-term foreign investment in the world economy was distributed as follows: 55 per cent in the industrialised world (30 per cent in Europe, 25 per cent in the United States) and 45 per cent in the underdeveloped world (20 per cent in Latin America and 25 per cent in Asia and Africa). In 1992, the stock of direct foreign investment in the world economy was distributed in a far more uneven manner: 78 per cent in the industrialised countries and 22 per cent in the developing countries. We do not have comparable data for flows of foreign investment during the two periods. However, during the 1980s, industrialised countries absorbed 80 per cent of the inflows of direct foreign investment in the world economy whereas developing countries received only 20 per cent.



Let me now turn to financial flows. The most striking difference is the size of international financial markets in absolute if not relative terms. There are, however, important differences in the destination, the object, the intermediaries and the instruments. In the last quarter of the 19th century, capital flows were a means of transferring investible resources to underdeveloped countries or newly industrialising countries with the most attractive growth opportunities. In the last quarter of the 20th century, these capital flows are destined mostly for the industrialised countries which have high deficits and high interest rates to finance public consumption and transfer payments rather than productive investment (Kregel, 1994).

The fundamental difference between the two phases of globalisation is in the sphere of labour flows. In the late 19th century, there were no restrictions on the mobility of people across national boundaries. Passports were seldom needed. Immigrants were granted citizenship with ease. Between 1870 and 1914, international labour migration was enormous. During this period, about 50 million people left Europe, of whom two-thirds went to the United States while the remaining one-third went to Canada, Australia, New Zealand, South Africa, Argentina and Brazil (Lewis, 1977). This mass emigration from Europe amounted to one-eighth its population in 1900. For some countries such as the UK, Italy, Spain and Portugal, such migration constituted 20 to 40 per cent of *their population (Stalker, 1994). But that* was not all. Beginning somewhat earlier, following the abolition of slavery in the British empire, about 50 million people left India and China to work as indentured labour in mines, plantations and construction in Latin America, the Caribbean, Southern Africa, South-East Asia and other distant lands (Tinker, 1974 and Lewis, 1978). The destinations were mostly British, Dutch, French and German colonies.

In the second half of the 20th century, there was a limited amount of international labour migration from the developing countries to the industrialised world during the period 1950-1970. This was largely attributable to the post-war labour shortages in Europe and the post-colonial ties embedded in a common language (Nayyar, 1994). Since then, however, international migration has been reduced to a trickle because of draconian immigration laws and restrictive consular practices. The only significant evidence of labour mobility during the last quarter of the 20th century is the temporary migration of workers to Europe, the Middle East and East Asia. The present phase of globalisation has found substitutes for labour mobility in the form of trade flows and investment flows. For one, industrialised countries now import manufactured goods that embody scarce labour: the share of developing countries in world manufactured exports rose from 5.5 per cent in 1970 to 15.9 per cent in 1990, while the share of manufactured exports in total exports of developing countries rose from 18.7 per cent in 1970 to 54.7 per cent in 1990. For another, industrialised countries export capital which employs scarce labour abroad to provide such goods. In 1992, for example, total employment in transnational corporations was 73 million of which 44 million were employed in the home countries while 17 million were employed in affiliates in industrialised countries and 12 million were employed in affiliates in developing countries; the share of developing countries in such employment rose from one-tenth in 1985 to one-sixth in 1992.

The benefits of integration with the world economy through globalisation would accrue only to those countries which have laid the requisite foundations for industrialisation and development

It is not surprising that the advent of international capital has meant significant political adjustments in the contemporary world. It has induced a strategic withdrawal on the part of the nation-state in some important spheres. Thus, nation-states are not the key players that they were in late 19th century during the first incarnation of globalisation. They remain the main political players but are no longer the main economic players. We live in an era where the old-fashioned autonomy of the nation-state is being eroded by international industrial capital and international finance capital everywhere, both in the industrialised world and in the developing world. It needs to be stressed, however, that there is a qualitative difference in the relationship between international capital and the nation-state, when we compare the industrialised world with the developing world. The nation-state in the former has far more room for manoeuvre than the nation-state in the latter. In the industrialised countries, the political interests of the nation-state often coincide with the economic interests of international capital. This is not so for developing countries from which very few transnational corporations or international banks originate. In spite of the profound changes unleashed by the present phase of globalisation, however, it would be naive to write off the nation-state, for it remains a crucial player in political and strategic terms. Even today, only nation-states have the authority to set rules of the game. The nation-states in the industrialised world provide international capital with the means to set new rules for the game of globalisation. The nation-states in the developing world provide these countries and their people with the means of finding degrees of freedom *vis-a-vis* international capital in the pursuit of development.

The Uruguay Round of multilateral trade negotiations was launched in an attempt to resolve the crisis in the international trading system, but was different from its predecessor rounds in a fundamental sense. It was not concerned with conventional tariff reductions for trade liberalisation. At one level, in the realm of traditional GATT issues, it was about the implementation of existing rules in the multilateral trading system which have been eroded, circumvented or flouted in the recent past. At another level, apropos new issues, it was about the formulation of new rules in vital spheres of international economic transactions, many of which have thus far been a matter for bilateral negotiations. The interests of transnational corporations provided the nation-states of the industrialised countries with the political impetus to conclude the negotiations.

The international regime of discipline that is being created is asymmetrical in almost every dimension. In the sphere of textiles, the dismantling of the MFA remains a distant promise and in substantive terms trade liberalisation would begin only after the onset of the 21st century. The pressure from the industrialised countries to introduce a 'social clause' and an 'environment clause' on the agenda for the world trading system is simply a pretext for circumventing the rules of trade liberalisation wherever necessary. In the General Agreement on Trade and Services, there is almost nothing on labour mobility which would allow the developing countries to exploit their comparative advantage in services. In sharp contrast, it caters to the interest of the industrialised countries, which have a revealed comparative advantage in capital-intensive or technology-intensive services, even if this implies changes in investment laws of technology policies of developing countries.

The benefits of integration with the world economy would accrue only to those countries which have laid the requisite foundations for industrialisation and development. This means investing in the development of human resources and the creation of a physical infrastructure. This means raising productivity in the agricultural sector. This means the acquisition of technological and managerial capabilities at a micro-level. This means the creation of institutions that would regulate, govern and facilitate the functioning of markets. In each of these pursuits, strategic forms of state intervention are essential. The countries which have not created these pre-conditions could end up globalising prices without globalising incomes.

The object of any sensible strategy of development in the context of globalisation should be to create economic space for the pursuit of national interests and development objectives. In this task, there is a strategic role for the nation-state. Success at economic development is observed mostly in cases where the state has performed such a strategic role vis-a-vis international capital, as also created the pre-conditions for industrialisation. This is evident if we consider, for example, the development experience of industrial capitalism in Japan after the Meiji Restoration in 1868 or the emergence of market socialism in China after the modernisation and reform programme was launched in 1978. The economic role of the State has been just as crucial in South Korea, Taiwan and even Singapore (Amsden, 1989 and Wade, 1991).

The process of globalisation has been uneven over time and across space. The inequalities and the asymmetrics implicit in the process which led to uneven development in late 19th century, mostly for political reasons, are bound to create uneven development in late 20th century, mostly for economic reasons. There is a real danger that some countries may experience an exclusion from this process of globalisation, just as many people within these countries would experience an exclusion from prosperity. Such exclusion from the process of development would increase the economic distance between nations and widen the income disparities between peoples of the world. This would be difficult to sustain in a world where demonstration effects are strong and are reinforced by globalisation which creates strong aspirations for consumption patterns or life styles. Economic deprivation could accentuate social divides and political alienation.

The nation-states in the developing world cannot wish away these problems. The enthusiasts of globalisation must recognise that we have reached neither the end of history nor the end of geography. We have not reached the end of history, for the market has met its match in Eastern Europe where it did not improve the living conditions of the people, and the electoral process is returning reformed communist parties to power in country after country. We have not reached the end of geography, for nation-states cannot exist in a political vacuum and must strive to improve the economic conditions of their people. There is, then, a strategic economic and political role for the State which must be recognised and performed. If it is not, history would repeat itself and globalisation would only reproduce uneven development.

This article is excerpted from the author's presidential speech at the 78th annual conference of the Indian Economic Association in Chandigarh on December 28-30.

(Concluded)

Letters to the Editor

No need for a godfather

On November 16, the President signed an Ordinance bringing into effect a new pension scheme. This was done just 11 days before the winter session of Parliament. The reason for issuing an Ordinance instead of approving the Bill after discussion in Parliament was not known. Maybe the Government was not confident of securing the approval of Parliament for the new scheme, as on the face of it the scheme is not in the interests of workers.

The Union Government is at pains to convince workers that the measure is good for them. If the scheme was good, where was the need for a campaign to convince workers? People can understand what is good for them and what is not. The Minister for Labour and his advisers are trying to play 'god' for the nation as if they alone can appreciate and decide what is good for others. If the Government believes that the new scheme is beneficial for workers, then it should make it optional. Let workers decide either to join or keep out.

I fail to understand why the Government is bent upon 'doing good' when the recipients are crying hoarse. We do not need a self-appointed godfather.

Even if the scheme has merit the administrative set-up is so poor that a large number of employees will not receive the so-called benefits and will have to resort to bribing the authorities to get their legitimate dues. The pension is not at par with the pension scheme applicable to Central Government employees. The reason for disparity has not been explained, other than simply saying that the Central Government pension scheme will not be applicable to workers under provident fund pension scheme.

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IT cannot be abolished without a revenue option

This is with reference to the report "Reduction of IT associated red-tape sought" (Dec 16). The report quoted the Tamil Nadu Governor as suggesting that income tax be abolished since it yielded only two per cent of the national income and such a step would eliminate complications in the IT network and avoid wastage of time in the management of company accounts.

Both the reasons advanced do not carry conviction. The remedy to headache cannot be to cut the head itself. Today the IT and corporation tax are important sources of the Centre's revenue. IT contributed seven per cent and corporation tax eight per cent of the total revenues in 1994-95. In absolute terms, out of the total tax revenue of Rs 103,762 crore, as per the budget estimates of 1995-96, direct taxes together account for something like Rs 30,275 crore.

This revenue is earned by spending nearly 1.60 per cent of the total collections and cannot be foregone without finding alternative sources to fill in the gap. Hence, before making any suggestions of this nature, it is necessary to suggest the alternatives too. Further, the grounds given for abolition do not appear to be sound. Income-tax law does not lay down any rules for the maintenance of accounts by companies. And complications in tax law are mostly because of incentive provisions, which are the Government's own creation and have nothing to do with the concept of income tax.

T N Pandey, Noida, UTTAR PRADESH

New and old

The caption of a recent report in *Financial Express* reads, "New car models to hit Indian roads". Would it not have been more appropriate to caption it as "New car models to hit old Indian roads"?

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