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A bid to save the coalition

HE had cried wolf so often that when he finally did what he had been threatening to, it came as a shock. Ever since his Socialist Party's poor performance in last July's Upper House elections in Japan, Tomiichi Murayama had been making no bones about his intention to resign from his post of Prime Minister. But when he stepped down on Friday, it came as a bombshell to his party colleagues and the nation. What prompted him to bring his tenure to such an abrupt end is still a matter for speculation. While the Opposition, which has been pressuring the Government to call for early elections, would certainly be gloating over the resignation, it cannot but be unsettling for the Socialist party, buffeted as it has been by one crisis after another in recent times.

According to the explanation he offered to his coalition partners, Murayama had continued in his post for the last six months only on account of the series of catastrophes that continued to engulf the country. Which was a plausible enough reason, although it is possibly not the real issue at heart. The last year had indeed been something of an *annus horribilis* for Japan. Starting with the Kobe earthquake, there was a string of crises, most notably the Aum cult bombings, the pressure on Japan to apologise for the World War II crimes,

the unhealthy state of the country's finances, most evident in the bank failures including the infamous Daiwa scandal, the long-drawn trade war with the US, the decline of the Nikkei and the hitherto soaring yen. Of course, the year ended on a somewhat more optimistic note, with the market showing signs of recovery, and many decisive steps being taken to bring the hobbling Japanese economy back to its feet.

But the real reason behind Murayama's resignation, according to analysts, is something else. After all, they argue, which Prime Minister would resign before presenting the budget he had so painstakingly drafted? Obviously, the imperatives that motivated the stepping down are more political than otherwise. Of late there has been considerable pressure from the Liberal Democratic Party (LDP)—the three-party ruling coalition's largest member—to force the elevation of one of its own leaders to the position of premier in place of Murayama. But this demand had been strongly resisted by the Socialist party and the small Sakigake party—the other two components of the coalition. Obviously, Murayama realised that if he did not step down, and allow the LDP to name its contender for the post vacated by him, the survival of the coalition itself would be threatened.

SAARC without vision

PRANAB MUKHERJEE is wrong. According to him, "the crucial question is whether extending zero-duty facility to SAARC members will not tantamount to extending the same facility to other signatories of WTO". Going by Mukherjee's reasoning, the United States has to accord NAFTA facilities to India and all others; the intra-EC concessions should be mandatorily extended to the rest of the world; and both blocks are thus contrary to WTO. However, a customs union, implied in zero-duty facility, requires the lowest duty levied by a member on an import from the rest of the world to be uniformly levied on that import by all members of the union. Thus, if the lowest import duty on steel is five per cent in Bangladesh, other members of the SAARC union cannot charge a higher duty on steel imports from the rest of the world, even though steel imports by India or Bangladesh from, for example, Pakistan may be duty free. Such an arrangement does not fall foul of WTO.

The crucial question will thus be seen to be one of converging import duties at the lowest prevailing rates among members. At first sight, this may seem easy. South Asian nations are all on the path of reform. Import duties are being lowered. Even so, there are sharp disparities in national

duty rates. Evening these out at one go will not be possible. Each SAARC nation has a balance of payments problem. The advance to convergence will have to be phased. The SAARC trade ministers' meeting on January 8-9 should decide to quickly prepare a harmonised Customs list and identify differences in duty rates for periodic review. That will be a worthwhile first step. But haste on convergence will be akin to putting the cart before the horse. The SAARC nations have yet to decide whether they want to form a massive domestic tariff area, where supplies from states within India will be treated on par with those from, for example, Sri Lanka and vice versa. This is tricky issue in a situation where denial of visa to hockey players by one country attracts retaliation against its cricketers in another.

If the European Community could start with three nations (now 16-nation strong), a South Asian start could perhaps be made by Nepal, Sri Lanka and India. May be India could extend its hand to a seemingly willing Bangladesh. Precisely what steps should be taken, and how fast, will be governed not by perceptions of self-interest, often regrettably narrow, but by political vision which, alas, is not in sight.

Growth with a conscience

FOR too long environmental goals have been considered to be at variance with policies aimed at accelerating industrial growth and competitiveness. And, for an equally long time, the two areas, growth and preservation of the ecosystem, have been compartmentalised to be dealt with separately by different groups of people. Now, there is increasing awareness that industrial growth has to take place in tandem with appropriate environmental and ecological considerations. And the onus for protecting the environment for tomorrow's world has been placed on the top decision-makers and managers in industry. This was, appropriately, a major outcome of a recent workshop on the Indian chemical industry, which is one of the fastest growing areas in the country and also the one with the worst record of pollution.

The importance of making managements accountable for the environmental standards of industry cannot be overstressed. As it is, several industries in West Bengal and tanneries in Tamil Nadu have blithely been polluting the neighbouring

water supplies for years despite successive warnings and directives from the Supreme Court. The relocation of several thousand polluting units from the National Capital Region that the court ordered seems to have made little, if any, progress; in any case, transferring "dirty" industry from one region to another is hardly an effective long-term solution to the problem. It has to be tackled at the source, by making each unit reduce and eventually eliminate the pollutants it produces.

Public censure has been found to be extremely effective in some industrialised countries. Producers proudly display "eco-labels" on their products, which states that their products have been found to be environmentally more friendly than other similar goods. Such labels are not merely an effective marketing device in countries where consumers actively show their preference for "green" products. Consumer awareness about environmental issues can make competitors of "green" products adopt more environmentally friendly methods of production.

Not a total break from the past—I

Deepak Nayyar says that the process of globalisation is not altogether new and there is much we can learn from history

THE theme that I have chosen for my address is globalisation, in part because it gives rise to confusion or controversy, and in part because it provides a fascinating intersection of economics and history. It is also a subject that is centre-stage in the contemporary world economy.

Globalisation means different things to different people. It can be defined, simply, as the expansion of economic activities across political boundaries of nation-states. More important, perhaps, it refers to a process of increasing economic integration and growing economic interdependence between countries in the world economy. It is associated not only with an increasing cross-border movement of goods, services, capital, technology, information and people, but also with an organisation of economic activities which straddles national boundaries. This process is driven by the lure of profit and the threat of competition in the market.

The word globalisation is used in two ways, which is the source of confusion and the cause of controversy. It is used in a positive sense to describe a process of increasing integration into the world economy; the characterisation of this process is by no means uniform. It is used in a normative sense to prescribe a strategy of development based on a rapid integration with the world economy: some see this as salvation, while others see it as damnation.

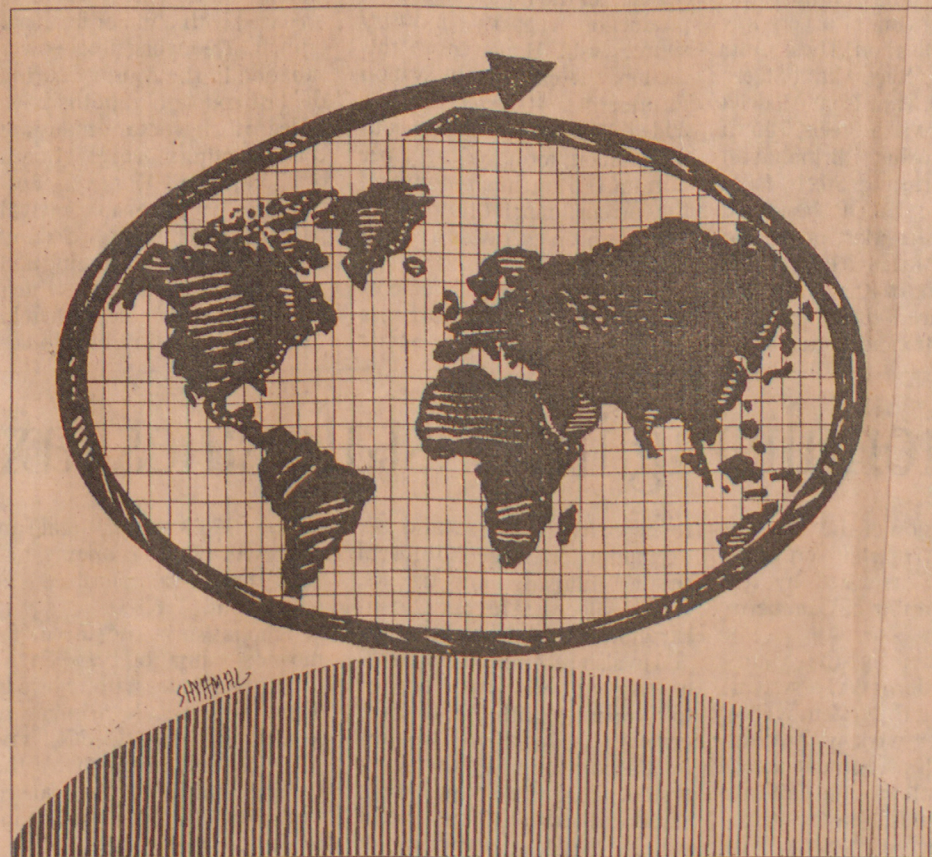
There is a common presumption that the present conjuncture, when globalisation is changing the character of the world economy, is altogether new and represents a fundamental departure from the past. But this presumption is not correct. Globalisation is nothing new. In many ways, the world economy in the late 20th century resembles the world economy in the late 19th century. And there is much that we can learn from history, for there is the past in our present.

The world economy has experienced a progressive international economic integration since 1950. However, there has been a marked acceleration in this process of globalisation which began a century earlier, circa 1870, and gathered momentum until 1914 when it came to an abrupt end at the outbreak of the First World War. But this recognition is essential for an understanding of the issues.

The fundamental attribute of globalisation, then and now, is the increasing degree of openness in most countries. There are three dimensions of this phenomenon: international trade, international investment and international finance. It needs to be said that openness is not simply confined to trade flows, investment flows and financial flows. It also extends to flows of services, technology, information, ideas and persons across national boundaries. There can be no doubt, however, that trade, investment and finance constitute the cutting edge of globalisation. This emerges clearly from a comparison of the late 20th century with the late 19th century.

The second half of the 20th century has witnessed a phenomenal expansion in international trade flows. World exports increased from \$ 61 billion in 1950 to \$ 315 billion in 1970 and \$ 447 billion in 1990. Throughout this period, the growth in world trade was significantly higher than the growth in world output, although the gap narrowed after the early 1970s. The share of world exports in world GDP rose from about six per cent in 1950 to 12 per cent in 1973 and 16 per cent in 1992. For the industrialised countries, this proportion increased from 12 per cent in 1973 to 17 per cent in 1992. This experience is not anything new for the world economy. The period from 1870 to 1913 witnessed a similar expansion in international trade flows (Maizels, 1963 and Bairoch, 1982). For 16 major industrialised countries, now in the OECD, the share of exports in GDP rose from 18.2 per cent in 1900 to 21.2 per cent in 1913 (Maddison, 1989).

The parallels between the two periods emerge more clearly if we consider available evidence for selected industrialised countries. In the United Kingdom, the share of exports in GDP rose from 14.4 per cent in



1950 to 16.4 per cent in 1973 and 18.2 per cent in 1992, compared with 14.9 in 1900 and 20.9 per cent in 1913. In France, the share of exports in GDP rose from 10.6 per cent in 1950 to 14.4 per cent in 1973 and 17.5 per cent in 1992, compared with 12.5 per cent in 1900 and 13.9 per cent in 1913. In Germany, the share of exports in GDP rose from 8.5 in 1950 to 19.7 per cent in 1973 and 24 per cent in 1992, compared with 13.5 per cent in 1900 and 17.5 per cent in 1913. In Japan, the share of exports in GDP

rose from 4.7 per cent in 1950 to 8.9 per cent in 1973 and nine per cent in 1992, compared with 8.3 per cent in 1900 and 12.3 per cent in 1913. In the United States, the share of exports in GDP rose from 3.6 per cent in 1950 to five per cent in 1973 and 7.1 per cent in 1992, compared with 7.5 per cent in 1900 and 6.1 per cent in 1913.

In many ways, the world economy in the late 20th century resembles the world economy in the late 19th century... The fundamental attribute of globalisation, then and now, is the increasing degree of openness in most countries

The story is almost the same for international investment flows. The stock of direct foreign investment in the world economy increased from \$ 68 billion in 1960 to \$ 502 billion in 1980 and \$ 1948 billion in 1992. The flows of direct foreign investment in the world economy increased from less than \$ 5 billion in 1980 and \$ 171 billion in 1992. Consequently, the stock of direct foreign investment in the world as a proportion of world output increased from 4.4 per cent in 1960 to 4.8 per cent in 1980 and 8.4 per cent in 1992. Any comparison with the period 1870-1913 cannot be complete because we do not have similar data. An estimate made by the United Nations suggests that the stock of direct foreign investment in the world economy as a proportion of world output was nine per cent in 1913. The total stock of long-term foreign investment in the world reached \$ 44 billion by 1914, of which \$ 14 billion, about one-third, was direct foreign investment. At 1960 prices, total foreign investment in the world economy in 1914 was \$ 347 billion compared with the actual stock of direct foreign investment in 1980 at \$ 448 billion.

The past two decades have witnessed an explosive growth in international finance. The movement of finance across national boundaries is enormous. So much so that, in

terms of magnitudes, trade and investment are now dwarfed by finance. This internationalisation of financial markets has four dimensions: foreign exchange, bank lending, financial assets and government bonds. Consider each in turn.

The international market for financial assets experienced a similar growth starting somewhat later. Between 1980 and 1993 gross sales and purchases of bonds and equities transacted between domestic and foreign residents rose from less than 10 per cent of GDP in the United States, Germany and Japan to 135 per cent of GDP in the United States, 170 per cent of GDP in Germany and 80 per cent of GDP in Japan. In the UK, the value of such transactions was more than 10 times that of the GDP in 1993. Similarly, between 1980 and 1993, the share of foreign bonds and equities in pension-fund assets rose from 10 per cent to 20 per cent in the

UK, from 0.7 per cent to six per cent in the United States, and from 0.5 per cent to nine per cent in Japan. IMF estimates suggest that total cross-border ownership of tradable securities was \$ 2,500 billion in 1992. There are four similarities that I would like to highlight: the absence or the dismantling of barriers to international economic transactions; the development of enabling technologies; emerging forms of industrial organisation; political hegemony or dominance.

The four decades from 1870 to 1913 were the age of *laissez faire*. There were almost no restrictions on the movement of goods, capital and labour across national boundaries. Government intervention in economic activity was minimal. The gold standard, strictly adhered to by most countries, imparted stability to the system. Keynes (1921) believed that a virtuous circle of rapid economic growth and international economic integration in this era created the core of a global economy. This was followed by three decades of conflict and autarchy. The two World Wars and the Great Depression interspersed these troubled times. Economic growth was a casualty.

The politics of hegemony of dominance is

conducive to the economics of globalisation. The first phase of globalisation from 1870 to 1913 coincided with what Hobsbawm (1987) has described as 'the age of empire', when Britain more or less ruled the world. The second phase of globalisation beginning in the early 1970 coincided with the political dominance of the United States as the superpower. This political dominance has grown stronger with the collapse of communism and the triumph of capitalism, which has been described by another contemporary historian Fukuyama (1989) as 'the end of history'. Apart from dominance in the realm of politics, there is another similarity in the sphere of economics between *Pax Britannica* and *Pax Americana*. That is the existence of a reserve currency which is the equivalent of international money: as a unit of account, a medium of exchange and a store of value. In the late 19th century and the early 20th century, this role was performed by the pound sterling. In the late 20th century, this role is being performed by the US dollar, ironically enough after the collapse of the Bretton Woods system when its statutory role as a reserve currency came to an end. It would seem that, in both phases, globalisation required a dominant economic power with a national currency that was, and is, acceptable as international money.

There are, also, important differences between the two phases of globalisation. I would like to highlight four such differences: in trade flows, in investment flows, in financial flows and, most important perhaps, in labour flows, across national boundaries.

Let me begin with trade flows, where there are differences in the composition of trade and in the channels of trade. During the period from 1870 to 1913, an overwhelming proportion of international trade was constituted by inter-sectoral trade, where primary commodities were exchanged for manufactured goods. This trade was, to a significant extent, based on absolute advantage derived from natural resources or climatic conditions. It is possible to discern two phases since 1950. During the period 1950-1970, inter-industry trade in manufactures, based on differences in factor endowments, labour productivity or technological leads and lags, constituted an increasing proportion of international trade (Glyn, 1990).

During the period 1970-1990, intra-industry trade in manufactures, based on scale economies and product differentiation, constituted an increasing proportion of international trade. At first sight, it may seem that trade flows were in the domain of large international firms then as much as now. There are, however, two important differences. First, the large trading firms of the 19th century, such as the East India Company or the Royal African Company, "were like dinosaurs, large in bulk but small in brain, feeding on the lush vegetation of the new worlds" (Hymer, 1972). The forerunners of what we now describe as transnational corporations were not these giant trading firms but the small workshops and the entrepreneurial firms of the late 19th century. Second, during the present phase of globalisation, an increasing proportion of international trade is intra-firm trade, across national boundaries but between affiliates of the same firm.

In early 70s, such intra-firm trade accounted for about one-fifth of world trade, but by the early 1990s, this proportion was one-third trade, but by the early 1990s, this proportion was one-third of world trade. Even more important perhaps is the changed composition of intra-firm trade. The second half of the 20th century has witnessed a steady decline in the importance of primary commodities, and a sharp increase in the importance of manufactured goods and intermediate products, in intra-firm trade.

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.

(To be concluded)

Pollution control and court verdicts

In recent times, far-reaching judgments have been pronounced by various High Courts and the Supreme Court on environmental issues relating to chemical projects. In a number of instances, the courts have firmly directed closure of units, till such time that adequate treatment systems were introduced. In several other cases, courts have issued warnings and firm directives to the pollution control boards to implement the environmental regulations strictly.

While the general public has reacted enthusiastically to such judicial activism, the industries affected have not done so, for obvious reasons. It is possible that an over-riding concern over pollution has come in the way of a balanced assessment of issues of technology. The limitations posed by the investment capabilities and technological constraints faced by individual units should

not, obviously, be ignored. The standards of pollution are one of degree and demands for zero pollution would be impossible to meet.

An inadequate understanding of technology-related matters can lead to unfair assessments. Technology is a subject of continuing development and some of the recent practices adopted in developed countries in combatting pollution cannot be immediately introduced in India due to investment and other con-

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straints. Thus, caution would seem warranted on matters of pollution.

In environment-related policies, the judicial machinery does not have any precedents to fall back upon, since the environmental issues are a subject of recent origin. In such circumstances, it is necessary for the Supreme Court to lay down certain guidelines for handling environmental issues by the lesser courts, particularly since complex technologies are involved in

the matter. Forcing long closures of industrial units by the courts can render the units hopelessly sick, apart from creating loss of jobs and unemployment as well as upsetting the economics of individual families depending upon such units for their livelihood.

It needs underscoring that judgments on environmental issues in industrial projects cannot proceed solely on a legal interpretation of law. May be, the apex court should consider the creation

of highly specialised environmental courts in the country that would be presided over by judges with a techno-legal background and considerable knowledge of industrial projects. The training that the lawyers and judges hitherto received have more to do with the interpretation of laws and there have been no opportunity for them to study aspects of technology that should govern the framing and implementation of environmental laws.

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