Unit 20
Economic, Social and Cultural Dimensions of Globalisation

Contents

Learning Objectives

In this unit you should be able to critically analyse:

- the term globalisation and its various features;
- the social and economic dimensions of globalisation; and
- the various cultural processes and relate them to globalisation.

20.1 Introduction

As you know, the theme of Block VI is Globalisation. It is a fact that in the contemporary world there is hardly any social, cultural, economic and political realm which can said to be impervious by the process of globalisation. Globalisation as an interchange of various attributes among different societies is not a new phenomenon, but an ongoing process. What makes the present day process of globalisation different and distinct from the earlier ones is the rapid increase in the frequency and the density of these interchanges. It is important to learn more about the current pace of the process of globalisation and related aspects. Block VI deals with the process of globalisation and its impact on the notion of development. In this unit the concept and features of globalisation and its various dimensions are discussed. The first part of the unit deals with the very concept of globalisation and how different scholars have defined this concept. Then it goes on discussing the economic, social and cultural dimensions of globalisation in more detail. Each aspect has been elaborated in general and in relation to the Indian situation as well.

20.2 The Concept and Definition of Globalisation

In very simple terms globalisation can be depicted as increasing global interconnectedness. It is a process rather than an outcome, which refers to the trend toward the growing interconnectedness of different parts of the world, not to their being interconnected. It primarily is an interchange of economic, social, cultural, political, technological attributes that takes place between societies when different societies come into contact with each other. Though this interchange is going on for times immemorial, this process was termed as "globalisation" for the first time around the second half of 20th century while much of the literature on this has appeared since the late 1970s and 1980s (Beyer 2003).

Globalisation as an idea of modernisation within the global market was mentioned in the writings of Marx and Saint-Simon also (Cable 1999). Certain scholars even argue that this process of globalisation has been going on since the beginning of mankind and it has affected all cultures, even remote and isolated, though in varying degrees (Griffin 2004). The contemporary globalisation differs from the process that could be observed in the past primarily in terms of the quantum of interchange and inter connectedness. Everything happens much faster today than it did in previous eras. The current process of globalisation, which is popularly described as gradual removal of barriers to trade and investment between nations, was started towards the end of the 20th century. It is said to aim to achieve economic efficiency through competitiveness, while seeking the broader objectives of economic and social development. It touches all spheres of human life; economic, social, cultural, political and environmental.

The most common definition of present day globalisation refers to the growing integration of various countries to the world economy. It results mostly from a freer movement of capital, products and information, which affects not just the economy, but also, as we said earlier, the political, cultural, social and environmental arenas. Different disciplines such as Economics, History, Political Science, Sociology, etc. employ different criteria for elaborating and defining the concept of globalisation. Antony Giddens, a sociologist, defined globalisation as an intensification of worldwide social relations, via which far away places are linked together in such a way that events in one place are affected by a process taking place many miles away and vice versa (Giddens 2000). David Henderson (1999), an economist, views globalisation as a model of fully internationally integrated markets meeting the two conditions of i) the free movement of goods, services, labour and capital resulting in a single market in inputs and outputs, and ii) full national treatment for foreign investors as well as nationals working oversees, so that economically speaking there are no foreigners. For Meghnad Desai (2004) globalisation is the growing reciprocal interdependence and integration of various economies around the globe.

Keniichi Ohmae's phrase "the borderless world" captures the sense of radical progress and modernity and of life beyond the constraints of the traditional nation-state, which infuses much of the popular writing about globalisation (Ohmae 1990). For Richard O'Brian (1992), globalisation essentially refers to a mixture of international, multinational, offshore and global activities and involves a general progression from the domestic to the global. Malcolm Waters (1995) finds globalisation as a social process in which the constraints of geography on social and cultural arrangements recede and in which people become increasingly aware that they are receding. For him globalisation merely implies greater connectedness and de-territorialisation. Scholte (1999) too understands globalisation as a process of de-territorialisation and global relations as supra territorial. For some others globalisation essentially means an intensification of multinational, international and transnational linkages in all spheres of human activity, including trade and commerce, governance and non-government lobbying as a consequence of new communication technology of the contemporary period (Galligan et al 2001). Pieterse (2001) calls the contemporary globalisation as accelerated globalisation. Current accelerated globalisation is shorthand for several major interwoven trends. According to him current accelerated globalisation comes in a package together with i) informatisation, which means the role of information and communication technologies ii) flexibilisation that means changes in production systems towards flexible production, and iii) reconfiguration of states and regionalisation. He views globalisation as a process — the growing interconnectedness of different parts of the world; globalisation as awareness — the recoganition of growing interconnectedness (globalisation as subjectivity); and globalisation as project (see Box 21.1) — the advocacy and pursuit of particular forms of globalisation and attempts to manage and steer globalisation in a particular direction.

Box 20.1: Globalisation as Projects	
Globalisation Projects	**Agents**
Strategic globalism	Super Power Politics, NATO
Corporate globalism	International banks, multinational corporations, transnational enterprises
Economic and financial global management	International financial institutions, WTO, G-7
Developmental globalism	World Bank, UN agencies (UNDP and so on)
Ecological globalism	UNCED, global environmental facility
Media globalism	Media Ind., CNN
Feminist globalism	Sisterhood is global (Nairobi, Beijing, Cairo meeting)
Labour globalism	ILO, trade union internationalism
Islamic globalism	Ulmma politics
Catholic globalism	Vatican (for example, Lumen 2000)
Ecumenical globalism World Council of Churches	Inter religious dialogue, as in the
Consumer globalism (everyday globalism)	Mc Donaldization
Anti-globalism	Localism, new protectionism, delinking

Source: Pieterse 2001

From the above account, it can be concluded that globalisation is a multifaceted, multidimensional and comprehensive phenomenon having its potential impact on a whole range of contemporary social, political, cultural and economic relationships. Now let us try to understand what makes the present day process of globalisation distinct from the past.

20.3 The Features of Present Day Globalisation

Since the Second World War there has been a deliberate selection of a more market-oriented approach by many countries and increased internationalisation of economic activities. This tendency increased significantly in the early 1980s as industrialised countries such as the United States of America and the United Kingdom shifted towards more market coordination of economic activities. Previously socialist countries, bringing their transition to capitalism, followed this trend in the early 1990s. During this period there also has been a widespread adoption of export-oriented development strategy and trade liberalisation (you will learn more about this in later part of this unit as well as in subsequent units of this Block) as a favoured path to development all over the world either by choice or under compulsion by the International Financial Institutions like World Bank and IMF (Pyle and Forrent 2002). This increased the pace of globalisation to a great extent.

As a result there has been faster growth in world output during the past few decades compared to former days. World trade has grown significantly more rapidly than world output and the national economies have become more open and more closely integrated. International capital flows have grown even faster than international trade. Ideas, technologies and cultural attributes are exchanged at a higher acceleration. Contemporary globalisation has led a greater volume of exchanges of goods and services and it has led to a greater variety of things being exchanged. Many goods and services, once non-traded, now regularly enter the world market. For example, a Japanese architect may design a building in France; marketing services may be transmitted from India to USA or UK, etc. The advancement of Information and Communication Technologies (ICTs) reduced the geographic distance significantly. Technologies such as Internet and mobile phones made it possible for people to communicate anywhere around the globe instantly. This accelerated the growth and development of knowledge society (you will learn more on this in Block VII).

There have also been increased incidences of people migrating for work globally. There is a significant change in the relative power of world organisations during the current phase of globalisation. On the one hand the international financial institutions such as IMF and World Bank as well as WTO — an international organisation to regulate global trade — become more powerful. On the other, global institutions that have focused on more human-centered interests such as United Nations (UN) and International Labour Organisation (ILO) have found their position relegated to the background and their power and effectiveness relatively diminished in the face of global changes (Coicaud and Heiskanen 2001). The more powerful institutions (IMF, World Bank, WTO) have pushed for increased use of markets and less government involvement in economies in order to achieve free flows of trade and investment of funds and less regulation by the national governments. The shift in power of the global institutions is reflected in all spheres of human life.

The current process of globalisation also resulted in the globalisation of national policies and policy-making mechanisms of national governments. National policies including in economic, social, cultural and technological areas, which were till now under the jurisdiction of states and people within a country, have increasingly come under the influence of international agencies and the big private corporations. Under pressure from these international organisations the national governments have had to restructure their economies that demandes more thrust in free trade and less spending in social sector. They had to increase taxes or shrink government spending by reducing expenditures on social sectors such as education, healthcare, sanitation, subsidies in housing, fuel, public distribution systems and transportation. The national governments had to dismantle the administered price mechanism applicable to the essential commodities of mass consumption. The externalities associated with globalisation have also had a global impact on the environment, a new set of global 'bads' have been produced, for e.g., global warming, depletion of ozone layer, etc.

The globalisation process received additional impetus in India when she opened up her economy in the early 1990s following a major crisis that led by a foreign exchange crunch that dragged Indian economy close to defaulting on loans owed to international financial institutions. India adopted a New Economic Policy that included the elements of "globalisation", "liberalisation" and "privatisation". The two central components of these neo-liberal policies adopted by the Indian government have been the liberalisation of India's private sector and reform of the public sector. Globalisation integrated the Indian economy with the global economy through reduction in import duties and export restrictions, promotion of foreign investments and permission for free flow of foreign technology and skills, etc. (Buggi et al 2001).

Along with the easing of restrictions on external trade there has also been a removal of some internal restrictions on the movement of commodities. At the same time there has been a considerable loosening of the existing governmental licensing system (popularly called as licence-permit *raj*), especially on private sector firms, as well as the lifting of reservations for many products. The licence-permit *raj* has become a buzzword of the past. The role of the Directorate-General of Foreign Trade has been near non-existent and the near free flow of foreign goods and services has been permitted. The subsidies given to fertiliser and agriculture had to be drastically reduced or withdrawn. A drastic reduction was there in the allocation to poverty alleviation programmes and health and education. At the same time there has not only been an integration of production globally, but also across the country internally. There has been rapid privatisation of publicly owned companies, of state and community headed resources of hitherto reserved areas like banking and insurance (refer unit 16 for more details). There has been deregulation of labour protection leading to massive growth of contract labour and sub-contracting (Jhabvala and Sinha 2002).

Reflection and Action 20.1

What did you understand by the process of globalisation? Based on your understanding pinpoint any four impact of globalisation in the lifestyle of common people of your locality.

20.4 Economic Dimensions of Globalisation

We have already learnt in the earlier section of this unit that globalisation is a complex and multidimensional phenomenon. Although it makes an impact in all spheres of human life, the economic dimension of globalisation is more prominent and far-reaching than any others. The most important dimensions of the current phase of economic globalisation are the breaking down of national economic barriers; international spread of trade, financial and production activities and the growing power of transnational corporations and international financial institutions. Here in this section the economic dimensions of globalisation will be discussed in terms of liberalisation and privatisation; free flow of trade and services, which includes the origin and functioning of WTO, multilateral trading system and end of national economies; foreign direct investment which includes globalisation of financial markets, transnational integrated production and functioning of multinational and transnational companies; liberalisation in investment; growth of global economy; infrastructural development; development of information and communication technologies (ICTs); outsourcing of services; and Trade Related Intellectual Property Rights (TRIPs).

a) **Liberalisation**

In general, liberalisation refers to a relaxation of restrictions, usually in areas of social or economic policy. Most often, the term is used to refer to economic liberalisation, especially trade liberalisation or capital market liberalisation; the policies often referred to as neo-liberalism. A major revolution in the policy environment caused by the current phase of globalisation is liberalisation of economic policy, which included the freeing up of markets and reduction in the role of national governments in terms of ownership and control over production of goods and services. The “liberalisation revolution” challenges the legitimacy of many of the activities nation-state governments have performed in the modern (post-1914) world such as running nationalised industries, trade exchange and price controls and monopoly over infrastructure and public services (Strange 1996).

Free market economic policies advocated by neo-liberals in the Western countries, put into practice by Margaret Thatcher in Britain and Ronald Reagan in the U.S. during the 1980s, soon became the official policy of International Financial Institutions (IFIs), which started insisting on the deregulation of national economies and liberalisation in the trade and investment sectors as conditions for the grant of financial assistance or loans to countries the world over. Since the movement of economic forces in the contemporary world is beyond the control of national governments, neo-liberals call for a fundamental restructuring of relations between the state and civil society with the state maintaining a low profile in the area of economic activities which should be governed by the free play of market forces (Banerji 2000). They advocated free trade, which in modern usage means trade or commerce carried on without such restrictions as import duties, export bounties, domestic production subsidies, trade quotas, or import licences. The basic argument for free trade is based on the economic theory of "comparative advantage" that means, each region should concentrate on what it can produce most cheaply and efficiently and should exchange its products for those it is less able to produce economically.

In India, the pace of globalisation gathered momentum when the then central government (Narasimha Rao government) introduced the package of reforms at the behest of IMF and World Bank aimed at economic liberalisation in June 1991. The roots of the liberalisation programme in India, in fact, may be traced to earlier periods of liberalisation of trade regime in the late 1970s under the Janata government initiative as well as in the industrial policy reforms of the early 1980s introduced by Indira Gandhi and finally in the New Economic Policy fashioned by the Rajiv Gandhi government in the mid-1980s. But these earlier initiatives and their implementation were rather slow compared to Narasimha Rao's initiative in 1991, which was more ambitious and aimed at freeing the economy from state intervention.

The reforms introduced by Rao's government included short-term stabilisation measures encompassing devaluation of the rupee, restraint on public expenditure (by reducing subsidies on fertilizer and petroleum), a plan for the reduction of the fiscal deficit and removal of restrictions on the flow of foreign capital to Indian markets. The medium and long term Structural Adjustment Programme (SAP) included a series of measures aimed at liberalisation of trade and deregulation of industry, restricting the ambit of the public sector including disinvestment of equities in profit making concerns and withdrawal of subsidies for the loss making ones, reforms of the financial sector and the tax systems and measures to facilitate foreign capital flows (Byres 1998).

The main features of the liberalisation policy of Indian government have been:

- General reduction in the role of the state in economic governance;
- Withdrawal by the State from some economic sectors and its replacement by the private sector;
- Decline in the government/public sectors in basic and key industries, banking, insurance and other public sector undertakings;
- Decline in the role of the State in provision of public social services like education, housing and health;
- Future development through wider participation of the private sector and hence more dependence on the market for the exchange of goods.

b) **Privatisation**

Along with the liberalisation of the economy in the 1980s the neo-liberals of the U.K. and the U.S also advocated the privatisation of industries and services to make enterprises more competitive and efficient so as to meet the challenges of the global economy. The U.K. privatised 80% of its public sector by the 1980s (Mandel 1993). Privatisation largely means selling of public owned assets to private ownership by stages. Privatisation can be done using any or all of the following techniques:

- Public offering of shares – all or part of the shares of public limited company are offered for sale to the public;
- Private sale of shares – all or part of the state-owned enterprise is sold to private individual or a group of purchasers;
- New private investment in a state-owned enterprise – private share issues are subsidised by the private sector or the public;

- Entry of the private sector into public sector – private groups allowed to get into areas reserved for the public sector, such as the power and telecommunications sectors in India;
- Contracting out the services and utilities to private operators or contractors for operation and maintenance, while retaining ownership with the government. Like water supply, sewage treatment, etc.;
- Sale of government or state enterprises' assets as private sale instead of shares;
- Reorganisation or fragmentation of subsidiary units of a company;
- Management/employee buy-out – in which the management or the employees acquire the controlling interest in which shares are purchased on credit extended by the government.

With the aim of privatising the economy, the Indian government adopted various measures in the 1990s. Initiatives such as abolition of licence *raj* for deregulation of the industries, scrapping of legislations such as MRTP and FERA, approval for 100% equity for NRIs, streamlining of approval committees, disinvestment in Public Sector Undertakings (PSUs), and reference of sick industrial units to Board of Industrial and Financial Reconstruction for rationalisation were meant for more and more privatisation of the Indian economy.

c) **Foreign Direct Investment (FDI) and Globalisation of Financial Market**

Foreign Direct Investment (FDI) is money invested in production by a foreign party rewarded with part-ownership of production. Of the three important aspects of liberalisation – finance, trade and investment – financial liberalisation has been the most pronounced. During this globalisation era there has been progressive and extensive liberalisation of controls on financial flows and markets leading to economic globalisation. Economic globalisation and financial liberalisation centres on the movement of capital of which FDI was a major form.

From the beginning of the 1980s, FDI flows have grown much faster than the world output or trade or domestic fixed investment. The growth of FDI in the 1990s was enormous. The initial burst of FDI in the late 1980s was almost entirely in developed countries (over 80% of the total) and predominantly from five leading developed countries (over two thirds). In the 1990s developing countries began to attract substantial FDI and there has been genuine geographical broadening of FDI. Since early 1990s, FDI flows to the developing countries have raised relatively averaging 32% of the total in 1991-1995 compared to the 17% in 1981-1990. This was due to the liberalisation of foreign investment policies in most of the developing countries during the 1990s (Khor 2001). Private capital flows for direct investment and portfolio investment for developing countries have grown from $ 25 billion in 1990 to $150 billion in 1997 (Parikh 1999). Also, during this period there have been qualitative and quantitative changes in the world of international integration of global markets through the medium of FDI. The FDI explosion of the 1980s charecterised by the investment inflows within the triad of EU, Japan and North America shifted in the 1990s to the non-OECD (Organisation of Economic Co-operation and Development) countries as well. The flows were accounted by Asian countries (China, Singapore, Malaysia, Thailand, Indonesia), Latin American countries (especially Mexico, Chile, Argentina and Brazil) and Eastern European countries. There had also been a growth of major corporate alliances at global level during this period. FDI remained mainly market driven and they dominated service sector.

However the flow of FDI even among developing nations was not uniform. Much of this FDI has centred on only a few developing countries. Least developed countries in particular were receiving only very small FDI despite having liberalised their policies. There were some negative impacts of these private capital flows. There was a general and increasing concern about the fragility and vulnerability of the system due to the interconnectedness of financial markets and systems and the vast amounts of financial flows. These were the risk of a breakdown in some critical parts or in the general system itself, as a fault developing in one part of the world or in the system can have widespread repercussions. These concerns were heightened by the East Asian financial crisis that began in the second half of 1997 and spread to Russia, Brazil and other countries, causing the worst financial turmoil and economic recession in the post-World War II period.

Nonetheless in the 1990s a consensus gradually emerged around the globe that foreign capital, if utilised properly, can contribute significantly to economic development. The same was true with India. The largest proportion of FDI approvals in India has been in the infrastructure and core sectors such as power, telecommunications, energy exploration, and chemical and metallurgical industries. India followed a case-by-case approach in approving FDI. FDI in India depends on the assessment of India relative to other countries on several fronts. The main considerations are the political stability and credibility of reforms, the state of the infrastructure, especially power, transport and communication, national policy regime, speed and transparency in implementation of government policies, labour market conditions and the intellectual property rights issue (Ray 2000). FDI in India is permitted under the following forms of investments.

- through financial collaboration;
- through joint ventures and technical collaboration;
- through the capital market via Euro issues;
- through private placements or preferential allotment.

FDI is not a one-way process. In the open market system Indian companies are also going global through joint ventures abroad. India's export in the year 2001-02 was to the extent of 32,572 million. Many Indian companies have started becoming respectable players in the international scene. Agricultural products, marine products, cereals, oilseeds, tea, and coffee are some prominent products that India has been exporting.

Reflection and Action 20.2

With the help of two examples explain foreign direct investment in Indian context. List three advantages and disadvantages of FDI on local economy.

d) **International Trade Regulatory Body – WTO**

After the Second World War, steps were taken by countries around the globe to regulate world trade by proposing to set up an International Trade Organisation (ITO) along the lines of the International Monetary Fund (IMF) – a world body to facilitate international liquidity; and the World Bank – a sectoral lending institution (see Box 20.1). When ITO could not materialise due to various reasons, 23 nations around the globe agreed to continue trade negotiations that were eventually incorporated in the General Agreement on Tariffs and Trade (GATT), which formally came into existence in October 1947. This increased the role of trade during the post-World War II period. This was accompanied by the reduction in tariff barriers gradually both in developing and developed countries due partly to autonomous policies and partly to the series of multilateral trade rounds under GATT. In the eighth round of GATT negotiations popularly known as Uruguay Round, the contracting parties agreed to establish the World Trade Organisation (WTO) to undertake multilateral trade negotiations.

Box 20.2: The Bretton Woods Institutions

The Bretton Woods Institutions are the World Bank and the International Monetary Fund (IMF). The creation of the World Bank and the IMF came at the end of the Second World War. They were set up at a meeting of 43 countries in Bretton Woods, New Hampshire, USA in July 1944. They were based on the ideas of a trio of key experts - US Treasury Secretary Henry Morganthau, his chief economic advisor Harry Dexter White, and British economist John Maynard Keynes. They wanted to establish a postwar economic order based on notions of consensual decision-making and cooperation in the realm of trade and economic relations. It was felt by leaders of the Allied countries, particularly the US and Britain, that a multilateral framework was needed to overcome the destabilising effects of the previous global economic depression and trade battles. Their aims were to help rebuild the shattered postwar economy and to promote international economic cooperation. The original Bretton Woods agreement also included plans for an International Trade Organisation (ITO) but these lay dormant until the formation of World Trade Organisation (WTO) in 1995.

Source: http://www.brettonwoodsproject.org

The World Trade Organisation, which came into being on 1st January 1995 replacing GATT, is an international organisation setting out the global rules of trade between nations. Whereas GATT was a bilateral agreement WTO is a organisational set up, which means any decision of the organisation is applicable to all the member nations. The stated aim of WTO is to provide a global decision making structure of setting and enforcing rules in relation to international trade. The WTO secretariat is based in Geneva. Its main function is to ensure that international trade flows smoothly, predictably and as freely as possible. In 2005, 148 countries are members of WTO accounting for 97% of the world trade and more and more countries are compelled to be members of WTO. Decisions are made by the entire membership of WTO and the agreements have to be ratified by the parliament of each and enery member nation. The WTO's top-level decision-making body is the Ministerial Conference, which meets at least once every two years. The fifth WTO ministerial conference was held in Caneun, Mexico, in September 2003.

The main functions of WTO are:

- Administering trade agreements;
- Maintaining a forum for trade negotiations;
- Handling trade disputes;
- Monitoring national trade policies;
- Technical assistance and training for developing countries; and
- Cooperation with other international organisations.

WTO became an important player in regulating global trade. It became more significant to have a world trade regulatory body as trade liberalisation gradually increased during the 1990s. The share of world exports in world GDP rose from about 6% in 1950 to 12% in 1973 and to 16% in 1992 (Nayyar 1997). WTO trade agreements are mainly in goods, services, intellectual property, dispute settlement and policy review. Trade agreements in goods deal with all aspects such as lower customs duty rates and other trade barriers as well as with specific sectors such as agriculture and textiles and specific issues such as state trading, product standards, subsidies and actions taken against dumping. The service sector includes banks, insurance firms, telecommunications, tour operators, hotel chains and transport companies. All these now enjoy freer and fairer trade. The intellectual property agreement amounts to rules for trade and investment in ideas and creativity. The WTO system encourages countries to settle differences through consultations. Countries bring disputes to WTO if they think their rights under the agreements are being infringed.

The trade policy review mechanism of WTO proposes to improve transparency in national policies of individual countries (for more details refer unit 23).

The WTO has a range of rules designed to prohibit "trade-related investment measures" (TRIMs), including many of the ways in which national governments might seek to develop industry and investment policies to assist the development of industries and firms. The WTO rules in relation to "trade related intellectual property" (TRIPs) provide unprecedented protection in the areas of copyright and intellectual property rights.

The existing agreements of the national governments with WTO require domestic legislation and policies of member states to be altered and brought into line with it. Non-compliance can result in trade sanctions being imposed against a country's exports through the dispute settlement system, thus giving WTO a strong enforcement mechanism. Thus national governments have to comply with the disciplines and obligations in the wide range of issues under the purview of WTO. The functioning of WTO promotes the empowerment of the market or the minimal role for the State and rapid liberalisation.

India is a founder member of GATT and its successor the WTO. India's participation in an increasingly rule based system in the governance of international trade is claimed to ensure more stability and predicability, which may lead to more trade and prospirity. By being a member of WTO India automatically avails most favoured nation and national treatment (refer unit 23 for more details) for its exports to all WTO nations. India made necessary legislative changes to implement WTO standard intellectual property laws in the year 2005, although after showing initial resistence.

e) **Multinational and Transnational Companies and their Functioning**

The deregulation of economies and financial markets led to a sharp increase in financial transactions across national boundaries. The process of globalisation has brought to the fore a new set of international actors – the multinational corporations (MNCs). The MNCs are often described as corporate giants. The annual turnover of certain MNCs is equal to the combined GDP of a few countries (Kurian 1994). These institutions have financial activities in different countries simultaneously. During the 1990s the process of globalisation intensified the activities of the MNCs across the world.

This process further intensified towards the end of the 20th century resulting in a larger concentration and monopolisation of economic resources and power by transnational corporations, a process Martin Khor (2001) calls transnationalisation. Here fewer and fewer transnational corporations are gaining a large and rapidly increasing proportion of world economic resources, production and market shares. Where a multinational company used to dominate the market of a single product, a big transnational company now typically produces or trades in multitude of products, services and sectors. Through mergers and acquisitions, fewer and fewer of these TNCs now control a larger and larger share of the global market, whether in commodities, manufactures or services.

Box 20.3: Multinational or Transnational Companies

Multinational companies, also known as transnational corporations depending on nature of operations, are a very important feature of the modern, globalised economy. A multinational company may be defined as one, which operates in a number of countries and has production or service facilities outside its country of origin. The history of multinational companies could be said to have begun with the founding of the British East India Company in 1600. Since the end of the Second World War there has been a rapid growth of such companies. According to United Nations estimates, there are 5,000 companies with direct investments outside their headquarters country. The 100 largest of them account for about 40 per cent of cross-border assets. It is possible that they account for about one-quarter of world trade. Much trade is intra-company trade, i.e., taking place between different branches of the same company.

There are a number of reasons why companies decide to become multinational by investing in overseas operations. There may be a desire to have production facilities nearer to the market or the source of raw materials in order to keep down transport costs. If a country has high tariffs on imported goods, establishment of a factory in that country may be seen as a way of obtaining tariff-free access to that market.

Although multinational companies, like all businesses, are primarily motivated by a desire to make profits, their establishment of production facilities in developing countries may be both beneficial and detrimental to the peoples of such countries in certain ways. It may be beneficial, for example, in terms of a) creation of jobs, bringing in improved technological process and thereby higher labour and environmental standards, provide revenue by way of paying taxes, etc. It may be detrimental by way of a) influencing the policies of the host governments, b) providing vulnerable and exploitative labour conditions for making maximum profits, c) repatriating their profit to the home countries rather than reinvesting in the host nation, d) driving small scale companies out of business e) evasion of taxes, f) violaton of human right and damaging the environment, etc.

Source: www.curriculamonline.gov.uk

Other than liberalisation, privatisation and other trade related aspects there are some additional economic avenues, which reflect the impact of globalisation process. Let us discuss some of them.

f) Infrastructure Development

The current phase of globalisation warranted for the world countries faster and large-scale development of infrastructure to facilitate industries dependent on import and export as well as to become more competitive in the world market. For example, India needed to develop port facilities if it is to be internationally competitive. The total handling capacity of Indian ports during the mid-1990s was 190 million tonnes of trade annually, which was far less than individual ports abroad such as Singapore. Also, container-handling rates were much lower than the international rates (Gordon 1997). This shows that India needed massive investments in road building, development of port facilities and in power and telecommunications sector to attract more and more foreign trade. In the mid-1990s the Indian government estimated a total spending of 200 billion dollars over the next one decade in infrastructure development. To meet this requirement the government drew funds from the private sector and from oversees investors and with this aim, it opened power, telecommunications and transport sectors to foreign direct investment.

g) Expansion of Information and Communication Technologies (ICTs) and Birth of Information Age

One of the striking aspects of contemporary society is the rapid development of the information technology for application in different areas of electronic activities with significant implications. If we analyse the progression of global economy we can see that since the 19th century, the story of the global economy has been a regular succession of leading commercial and industrial sectors (Modelski and Thompson 1996). From mid- nineteenth century onward, the leading sectors were electric power, chemicals and steel. The industries that took off after 1914 were electronics, including telephones, radio and then television and autos plus oil and rubber. Since the 1970s, leadership in the global economy has begun to shift to another set of industries, one that combines computers, the television, the (digital) telephone and other communication tools, which can be collectively called as information industries. Prominent among these are the computer industry, composed of several subsections including large, hard and software sectors; the revitalised telephone industry transformed into telecommunications with such new sectors such as cellular, wireless and cable and multifaceted ever changing media complete with their content providers and distributors. Alvin Toffler in *The Third Wave* (1980) describes three periods of economic evolution: the Agricultural wave that lasted from 8000 B.C. to the mid-eighteenth century, the Industrial wave which lasted until the late twentieth century and the information wave which began in the 1960s and will last for many decades to come. According to him the first wave was driven by physical labour, the second wave by machines and blue-collor workers and the third by information technology and knowledge workers.

The contemporary speed of change, the enlargement of capacity for information transmission and the proliferation of communications media are very different from what has been experienced in the past. The extraordinary explosion of both technology and information has considerably reduced the twin concepts of time and space. In particular Information and Communication Technology (ICT) has emerged as perhaps the most dominant force in the global system of production although with significant ramifications in all other spheres of contemporary human existence (Kacowicz 1999). Improved communication reduced effective distance for the transmission of information. International telephone and fax traffic has become largely instantaneous, cheap and simple for individuals to access. The Internet provides a genuinely global system of communication and information. Satellite and cable TV and VHF radio have created an abundance of choice in news and entertainment. The augmented expansion of information technology in the past few decades resulted in a phenomenal growth of "outsourcing" of service in the world over.

During the third wave the process of information handling, transmission, storage and retrieval became the key to prosperity and qualitatively different way of life. Success in just about in any field has become impossible without information technology. In farming, manufacture, education, policing, medicine, entertainment, banking or whatever IT is apparently set to change everything that human beings do in advanced societies (Lyon 1988). Beginning of computing with tele-communications is considered to spell the start of the new age of information and communication age. Daniel Bell (1976) forecasts vast expansion of information technology and foresees major social changes resulting from the establishment of new tele communications infrastructure and he called it information society. Bell argues in the information society information technology shortens labour time and diminishes the production worker and actually replaces labour as the source of added value in the national product. Here the knowledge and information supersede labour and capital as the central variables of the economy. To Peter Drucker (1988) information society is post-capitalist society in which capitalists and proletarians are replaced by knowledge workers and service workers. And the economic challenge of this society is the productivity of knowledge work and knowledge worker.

Reflection and Action 20.3

Do you think the penetration of information and communication technology such as television, mass media, telephone, Internet etc. changed the parameters of kinship relationships? Discuss.

h) **Outsourcing of Services**

In a more and more globalised world, information and communication technologies became the backbone of the business world and there was a rapid growth of the information technology enabled services (ITES) around the globe. This sector became a major part of the IT industry. Business Process Outsourcing (BPO) forms an important part of the ITES industry. Outsourcing is required in different areas like Finance, Health, Accounting, Human Resources of companies, etc. "Outsourcing" is the process through which one company hands over part of its work to another company, making it responsible for the design and implementation of the business process under strict guidelines regarding requirements and specifications from the outsourcing company. Thus BPO takes a set of activities and takes on the responsibility of reengineering the entire way the operation is done. This process is beneficial to both the outsourcing company and the service provider, as it enables the outsourcer to reduce costs and increase quality in non-core areas of business and utilise their expertise and competencies to the maximum.

The BPO services includes:

a) Customer Service Interaction including Call Centers

b) Back Office operations/Banking/Revenue/Accounting/Data Conversion/HR etc. - Verticals such as banks and aviation require large-scale data processing and data based decision-making capabilities. Raw data and or paper documents are sent to remote locations (IT-enabled destination) where data entry and necessary reconciliation is carried out.

c) Transcription Services - Medical transcriptions involve the transcribing of medical records from audio format or dictated by doctors or other healthcare processionals into either a hard copy or electronic format.

d) Content Development/Animation etc.

e) Data Research, Market Survey, Consultancy, Management etc.

BPO Opportunities in India

The BPO industry is built around the policy of efficiency and cost-effectiveness. In the contemporary period companies are increasingly outsourcing select business functions and related IT operations to expert partners. India's abundant skilled manpower has made it a target destination for multinationals to back end their operations in India. With the advantage of English speaking population, low cost manpower and quality service, many companies are increasingly outsourcing their operations to India. India ranks high in areas such as qualifications, capabilities, quality of work, linguistic capabilities and work ethics, and thus is ahead of competitors such as Singapore, Hong Kong, China, Philippines, Mexico, Ireland, Australia and Holland, among others. Indian companies have unique capabilities and systems to set, measure and monitor quality targets. In specific ITES categories, Indian centers have achieved higher productivity levels, for example, the number of transactions per hour for back office processing, than their Western counterparts. Also, India is able to offer service without break and reduction in turnaround times by leveraging time zone differences. India's unique geographic positioning makes this possible (http://www.indiainfoline.com).

The opening up of telecom sector in 1994 encouraged liberalised private participation in IT sector. This allowed the flourishing of BPO industry in India. Many state governments in India now offer incentives and infrastructure to set up IT enabled services. The new telecom policy of 1999 brought in further changes in telecom industry, which also ended the state monopoly on international telephoning facilities. This in turn heralded the golden era for ITES and BPO industry and leading to a spectacular growth of inbound/outbound call centers and data processing centers in India. The ITES industry, of which BPO forms a very important part, is expected to be a $17 billion industry in India and generate over 1.1 million jobs by 2008. The sector has grown by 73% during the last fiscal and recorded revenues of Rs. 7,100 crore (NASSCOM).

Reflection and Action 20.4

Do you think women are more favoured by the BPO opportunities in India? If so why?

i) **Trade Related Intellectual Property Rights (TRIPS)**

A major problem that inventors faced for most of the 19th century, a period of rapid technological progress, was the absence of international regulations governing patent protection. While individual countries had quite effective patent laws and regulations, they varied from one another. Inventors had to apply for patents simultaneously in many countries so that an application for a patent in one country would not make it ineligible for the grant of a patent in all others, because it had lost novelty (Abraham 2001). By patent it means a convention granted by the State to protect the interest of the inventor/ investor of a product.

According to the U.N., a patent is defined as a statutory privilege granted by the government to inventors and other persons deriving their rights from the inventor for a fixed period of years to exclude other persons from manufacturing, using or selling a patented product or from utilising a patent method or process (Baxi 1992). Through an international treaty, the Paris Convention for the Protection of Industrial Property, 1883, already existed; in the accelerated pace of globalisation and highly competitive atmosphere MNCs/ TNCs demanded more security to their products. As a result the Agreement on Trade related Intellectual Property Rights (TRIPs) was negotiated as a part of the Uruguay Round of GATT and it became effective from the day WTO was formed, i.e., 1st January 1995.

With India becoming a signatory to the WTO agreement, it became obliged to follow the TRIPs regime. Till then India was governed by the Indian Patents Act, 1970, which permitted only process patents. The same product, for example a drug, can be produced by a number of alternative processes, each somewhat different from the rest. This made possible for Indian companies to produce any patented product, patented in other countries as well, following a slightly different process, without violating the patents' right under Indian law. This would no longer be possible under the WTO regime as India being a member will have to amend the patent law to allow both product and process patent. However, developing countries like India, which did not have product patent have been given time till January 2005 to amend their patent law. The amended Patents law was passed in the Indian Parliament on 22nd March 2005.

20.5 Social Dimension of Globalisation

It is strongly refuted that the current pace of globalisation reflects on the economic front only. The ramifications of globalisation process reflect directly in the social and cultural arena of human life as well. Consequently understanding social and cultural dimensions of the phenomenon of globalisation is essential to the development of a rational and considered response to it. The social dimension of globalization refers to the impact of globalisation on the life and work of people, on their families and their societies. Concerns and issues are often raised about the impact of globalisation on employment, working conditions, income and social protection. Beyond the world of work, the social dimension encompasses security, culture and identity, inclusion or exclusion and the cohesiveness of families and communities etc. In this section let us see some of the social dimensions of globalisation.

a) **Withdrawal of National Government from Social Sector**

The liberalisation of the economy resulted in a general reduction in the role of the State in economic governance. The reduction in the government's economic role reflected in a decline in the public spending. Total government expenditure in India in public spending increased at a per annum rate of 11.0% during the 1960s, 7.1% in the 1970s, 6.46% in the 1980s, but it declined to a per annum rate of 4.7% in the 1990s. The consequence of the reduction in the role of the government and the public sector and its replacement with private sector means that the access of people to employment, capital and social services like education, housing and health services will be much less. The structural adjustment policies of the national government involving the relinquishing of economic activities from the public sector into the hands of the private sector, i.e., the state moving away from economic planning and leaving economic decisions to the market, will result in the withdrawal of social protection to the public. Reducing social benefits in order to reduce payroll fringe costs to increase competitive ability leads to "social dumping" which means a process that lowers production costs through low wages and substandard social conditions.

In India the social sector expenditure as a proportion to GDP had been stagnant in the 1990s and there had been a definite shift away from rural development (Dev and Mooji 2002). The share of health expenditure had been stagnant and that of education had been declining. The government is further trying to reduce the size of current expenditure by reducing expenditure on pensions, subsidies etc.

Box 20.4: Social Dumping

The industrial countries often accuse the governments of less developed countries of practicing social dumping in the sense of maintaining an underdeveloped welfare state to create a competitive cost advantage for their own industries. In particular they argue that the less developed countries deliberately neglect legislation for good social standards in terms of social fringe benefits, protection against injuries, pension schemes, co-determination rights and the like. To stop the seemingly unfair competition resulting from social dumping, they postulate an international harmonisation of social conditions and sometimes they even advocate retaliatory trade restrictions to enforce harmonisation. For example, restricting the import of carpets from India that are made by child labour. But at times the developed countries, in order to protect the interests of their industries, take it as a tool to restrict import from less developed countries where labor is comparatively cheap and hence the production cost, which enables the less developed countries to take over the market in developed countries with comparatively lesser priced products.

b) Labour Reforms and Deteriorating Labour Welfare

Deregulation and privatisation of state enterprises have been key components of structural adjustment programmes introduced by International Financial Institutions as conditionalities attached to aid packages to developing countries and for the acceleration of economic liberalisation. Labour market deregulation has been an important feature of the structural adjustment programme. There has been explicit deregulation, whereby formal regulations have been eroded or abandoned by legislative means, and implicit deregulation whereby remaining regulations have been made less effective through inadequate implementation or systematic bypassing. Such deregulation has been based on the belief that excessive government intervention in the labour market through such measures as public sector wage and employment policies, minimum wage fixing, and employment security rules is a serious impediment to adjustment and should therefore be removed or relaxed. States around the world has felt compelled to ease labour standards, modify tax regulations and generally relax standards of security and oversight in the bid to attract more and more FDI. This progressively lowered labour standards. The big corporate companies like TNCs and MNCs have evolved a vendor system of subcontracting for their production. The companies give out their work to labourers, through contractors, who in turn deliver the output to the company. This results in job insecurity of the labourer and worsening of labour welfare since there is no checking system for their welfare.

The current pace of globalisation also results in casualisation or informalisation of the work force causing low wages for labourers and less job security, although it created employment opportunities to some of the work force. The growth of the informal sector means that the traditional employment related benefits and mechanisms of protection are not available to those employed in this sector. Increased mechanisation and use of new technology demand more skilled labour and displace unskilled labour. The new technologies and fast changing market – the resultant features of globalisation – also tend to make existing skills obsolete and require upgradation, new skills and multi-skilling. It also opens up new markets, which workers can reach by adapting existing or traditional skills.

Liberalisation of the economy has in some sectors caused loss of employment without creation of new employment. Opening up of the market and free flow of trade and low tariffs encouraged flow of foreign goods lowering the employment opportunities of Indian labourers. For example, thousands of silk spinners and twisters of Bihar have totally lost their job due to the import of China-Korea silk yarn as weavers and consumers prefer this yarn because it is somewhat cheap and shiny.

Reflection and Action 20.5

Analyse the impact of globalisation on labour conditions in India.

c) Feminisation of Labour

Women have entered the labour force in large numbers in countries that have embraced liberal economic policies. Industrialisation in the context of globalisation is as much female-led as it is export-led (UN 1999). The overall economic activity rate of women for the age group 20-54 approached 70% in 1996. The highest absorption of women has been witnessed in the export oriented industrial sector. This is especially the case in the export processing zones and special economic zones and in those labour intensive industries that have relocated to developing countries in search of cheap labour (Hillary 1999). Investors have demonstrated a preference for women in the soft industries such as apparel, shoe- and toy-making, data processing, semi-conductor assembling industries that require unskilled to semi-skilled labour. Nevertheless this did not ensure a better status for women in any way. The informal sector where women were absorbed in large numbers along with globalisation offer very poor labour conditions. Such industries where women were mostly engaged happened to be highly labour intensive, service oriented and poorly paid. In many countries workers in the export processing zones find unionisation and collective bargaining nearly impossible. In call centres in India women comprise an estimated 40% of the workforce.

d) Poverty

Opening up of economies was primarily visualised as a mechanism where trade would function as "an engine of growth" and the fruits of growth would "trickle down" to the poor. However, the results have been mixed, with many countries observing widening inequalities in their economies, contrary to the conventional trade theory prescriptions (Bardhan 2003). The internalisations of trade has opened up vistas for globalisation of production, creating profound changes in the labour market, such as widening wage disparity, increasing contractualisation of work, skill-based segregation of work, etc. The globalisation and liberalisation policies resulted in impoverishing more and more people of the lower strata the world around. Industrialisation and genetic engineering of food and globalisation of trade in agriculture accelerated poverty in the agriculture-based nations of the world. The globalisation of non-sustainable industrial agriculture adversely affected the incomes of the farmers of the developing and least developed countries through a combination of devaluation of currencies, increase in costs of production and a collapse of commodity prices, all resulting from the liberalisation of the economy.

In India the first generation reforms concentrated on the industrial economy and the agricultural and rural sector were neglected. In the urban sector the large metropolitan cities are the most immediately affected from liberalisation and globalisation, with significant changes in land use and work patterns. The claims made in the beginning of reforms that they are going to bring about employment growth does not seem to be true after studying the data for the post-reform period (Chadha and Sahu 2002; Sunderam 2001).

Economic liberalisation and globalisation had a direct impact both on rural and urban poverty. The substantial changes the institutional arrangement for rural credit, a key factor in helping the poor to escape poverty, due to the reforms in the banking sector have gone against the interests of the rural poor. The unsustainable development practices also lead to the impoverishment of the poor. The decline in social sector expenditure or stagnation in social sector expenditure in proportion to GDP also went against the interests of the poor. In urban areas, the large scale private investment, both foreign and Indian, led to the acquisition of city lands which in turn affected the poor, mainly slum dwellers, hawkers, destitutes, street dwellers as they were pushed out of the city to the peripheries which are marked by degeneration with low value employment and poor living conditions.

e) **Unsustainable Development Practices**

Sustainable development is defined as development that meets the needs of the present generation without compromising the ability of future generations to meet their own needs. Under this definition development is not just limited to economic growth but is made to encompass environmental protection, and an equitable distribution of wealth and resources with the goal of improving and raising the standards and quality of living for everyone. The development practices followed the world over during the globalisation era marked by a high level of market competitiveness often seemed to follow unsustainable development practices.

For instance, in India the replacement of native seeds by imported hybrid seeds or cash crops resulted in more and more exploitation of ground water through tube-wells since these crops need more water. The over exploitation of the groundwater in turn resulted in the depletion of ground water level leading to famines and poverty. The high yielding hybrid seeds are vulnerable to pest attacks resulting in more use of pesticides. The indiscriminate use of chemical-based fertilizers, especially subsidised fertilizer, has created an imbalance between the essential mineral contents such as Nitrogen and Pottasium. There is a growing realisation of the degradation of land, water and environment due to the current pattern of agricultural production and its sustainability among the people (Chand 1999). The export oriented policy of the Indian government in the fisheries sector opened up the waters of the Exclusive Economic Zone to MNCs and TNCs for fish trawling. This resulted in the indiscriminate destruction of the marine eco system and the livelihood of the traditional fishing community.

Box 20.5: The Case of Plachimada Coco-Cola Company in Kerala, India

United States multinationals own 90 soft drink factories in India, Coca-Cola 52 and Pepsi 38. They describe these as bottling plants; actually they are pumping stations, each of which extracts up to 1.5 million litres of water a day from the ground. It takes nine litres of clean water to manufacture a litre of Coke. The processes used in manufacturing these soft drinks are inherently damaging. The extraction of groundwater deprives poor people of their fundamental right of access to clean water. The factories spew out toxic waste that threatens health and the environment. And the products themselves are harmful. The Indian Parliament has set up a joint committee to inquire into the presence of pesticide residues in soft drinks.

In March 2000 Coca-Cola opened a plant at Plachimada, a village in the Palakkad district of the southern state of Kerala, intended to produce 1.2m bottles of Coca-Cola, Fanta, Sprite, Limca, Thums Up, Kinley Soda and Maaza everyday. The conditional licence granted by the local Panchayat authorised the use of motorised pumps, but the company drilled more than six wells and illegally installed high-powered electric pumps to extract millions of litres of pure water. The level of the water table fell from 45 to 150 metres below the surface.

Coca-Cola then polluted what little water it had not stolen from the community. It started by dumping waste outside its premises. During the rainy season, this spread into paddy fields, canals and wells, causing a serious health hazard. The company abandoned this practice and began pumping dirty water into dry boreholes that had been drilled on-site for the disposal of solid waste. This contaminated the aquifers. As the water supply deteriorated, the local adivasi women had to travel about 5 km to fetch drinkable water. The women organised a dharna outside the factory gates to protest against the depletion of the groundwater.

Because of Coca-Cola's activities, 260 wells — sunk by the authorities to supply drinking water and meet irrigation needs — have run dry. This part of Kerala is known as the rice bowl but agricultural yields have plummeted. Worse, Coca-Cola has been distributing the toxic waste from its factory to the villagers as free fertiliser. Analysis has shown that this sludge is rich in cadmium and lead, both carcinogenic.

In 2003 the district medical officer advised the people of Plachimada that their water was so polluted that it was unfit for consumption. The adivasi women were the first to denounce Coca-Cola's hydro-piracy with their sit-in. Their initiative sparked national and international expressions of solidarity. In February 2004, the Kerala Government finally ordered the closure of the Coca-Cola plant.

Source: Vandana Siva 2005

f) Migration and Urbanisation

Migration is not a new phenomenon. People have always left their homes in search of better economic opportunities, both within and outside their own homeland. But the current pace of economic globalisation has put a new spin on global migration, causing global uprootedness and human displacement on an unprecedented scale. Estimates say that nearly 1 out of 6 people in this world, more than one billion people, are crossing national borders as migrant workers (Moussa 1999). Migration for many becomes not a choice but an economic necessity mainly because of the unequal development between nations, and between rural and urban centres.

Urbanisation is an important driving force for commuting because urban areas offer many economic opportunities to rural people. Urban labour markets offer opportunities to switch jobs rapidly, diversify incomes, and become upwardly mobile with a very low asset base and skills although there is a lot of variation in the rate of urbanisation around the world. The pattern of economic force, not the rate of economic force, acts as a determining factor in the increasing rate of urbanisation (Deshingkar and Anderson 2004). Economic growth based on the expansion of manufacturing industry, a trade mark of current glabalisation, tends to be associated with higher rates of urbanisation while growth based on the expansion of agriculture is associated with the reverse. Though it is too early to say with certainty how agreements through WTO will affect urbanisation, it is predicted that if the economic growth pattern is shifting towards manufacturing, there is likely to be a higher rate of urbanisation than there would be with agriculture-based growth (Stevens et al 2004). It is likely therefore that countries such as China whose comparitive advantage lies mainly in labour intensive manufactured produces will see an acceleration of rural-urban migration, both temporary and long term. The driving force will be the expansion of labour-intensive exports, which will boost the demand for labour in urban areas, and widen wage gaps between rural and urban areas. South Asia on the other hand is likely to have a greater emphasis on agricultural produce and export of skilled services such as IT, both of which may not create such a great demand for labour in urbanised areas. At the same time cheap imports — a result of liberalisation measures and low import tariffs — can threaten local agricultural production systems with the result that illiterate people with a limited skills base might migrate to urban areas in search of work (see Box 20.4). There is also evidence that in India people move away from; farming sector due to macro-economic reforms where reduction of subsidies and removal of inter-district movements of grains have put smaller farmers out of business. In such cases the option before them is to migrate to places where there are better economic opportunities.

Box 20.6: Groundnut Farmers and Sericulture in Chitoor District, Andra Pradesh, India

Groundnut was once regarded as the "wonder crop" that allowed small farmers in dry areas to use their family labour productively and earn good cash profits. It spread rapidly during the 1960s in the drought prone Rayalaseema region of Andhra Pradesh, and has been credited with breaking the system of bonded labour in the area. But the profitability of groundnut, like many other crops, has fallen over the 1990s due to rising input costs and drought. Lately diseases such as a bud necrosis have also led to heavy losses. In several parts of Ananthapur and Chitoor districts of Andhra Pradesh, groundnut used to be the first choice of dryland farmers during normal monsoon years. A common ex-ante coping strategy followed by dryland farmers in these areas was to plant horsegram or foxtail millet if they expect the rains to fail. But they continued with groundnut farming even through worsening drought and disease because just one good crop in three years would be enough to feed a family.

However this form of livelihood could not survive the added stress introduced by the liberalisation of edible oil imports. The import duty on edible oils was reduced from 65% in the mid-1990s to 15% by the end of the 1990s, Palm oil primarily. The share of imported edible oil, mainly palm oil, has increased from less than one percent in the early 1990s to about 45% by 2001. The government responded by increasing import duties but international prices declined further and other countries gave their exporters further concessions in order to capture the lucrative India market. Groundnut prices fell and many farmers who were locked into credit-sale agreements could not repay their debts. Hundreds of farmers in Rayalaseema have committed suicide because they could not recover their costs and pay back money that they had borrowed. A few with sufficient capital, skills and contracts diversified into mango orchards. Many more started migrating out to the cities in search of work.

Source: www.dbtindia.gov.in

g) Commercialisation of Indigenous Knowledge

The globalisation process invades territories, habitats and resources of indigenous people, which may lead to destruction of their way of life. Big corporate entities get access to indigenous knowledge and patent it for their gain and profit. The result can be that the indigenous people and the rest of the humanity will have to pay for access to the knowledge that will thus have been commercialised.

Pharmaceutical corporations in the United States of America under the auspicious of Human Genome Diversity Programme, are patenting the indigenous people themselves. They monopolise the use of seed, medicines and traditional knowledge systems and human genomes. Even the life supporting systems of humanity such as land, water, wildlife, aquatic life, mineral resources became commodities in the present globalisation process at the cost of the lives and livelihoods of vast majorities around the world. This may result in environmental devastation, social displacement, wiping out of cultural and biological diversity. Also, the centralised management of natural resources imposed by trade and investment agreements does not have space for intergenerational and intra-generational sustainability.

h) **Rising Inequality in Wealth Concentration**

Globalisation is a very uneven process, with unequal distribution of benefits and losses. In the ongoing process of globalisation investment resources, growth and modern technology are focussed in a few countries such as North America, Europe, Japan, and the East Asian countries, which are the newly industrialised countries of the world. The majority of the developing countries are excluded from the process and participating in marginal ways that are often detrimental to their interests; for example, import liberalisation may harm their domestic producers and financial liberalisation may cause instability (Nayyar 1997).

Globalisation affects different categories of countries differently. While growth and expansion is visible in fully participating countries, moderate and fluctuating growth is seen in some countries attempting to fit into the new globalised framework and marginalisation and deterioration are experienced by many countries unable to get out of acute problems such as commodity prices and debt. The uneven and unequal nature of the present globalisation process is manifested in the fast growing gap between world's rich and poor people and between developed and developing countries and in the large differences among nations in the distribution of gains and losses. Polarisation among countries has also been accompanied by increasing income inequality within countries. In India, average incomes rose more rapidly in urban areas than in rural areas between 1993 and 2000, implying the widening gaps between rural and urban areas (Deaton and Dreze 2002).

Reflection and Action 20.6

Urban migration is not a new phenomena but an orgoing process. Do you think urban migration increased in the recent decades. Economic the reasons for that.

20.6 Cultural Dimension of Globalisation

Globalisation has a profound effect on all our cultures and on the ways we live our lives. It has affected what we eat and the way we prepare our food, what we wear and the materials from which our clothing is made, it has affected the music we hear, the books we read, even the language we used to communicate with others. Globalisation has made certain languages extinct (dead language) or dying, for example, Latin. At the same time more people today are bilingual or multi-lingual than ever before. English, though in variant forms (e.g., British English, American English, Indian English) has become the lingua franca and the number of English speakers throughout the world is growing rapidly. The central problem of today's global interactions is the tension between cultural homogenization and cultural hetrogenisation (Appadurai A. 2003). While scholars like Mc Luhan talk about global integration and global village, which may result from the process of globalisation, and resulting cultural integration across borders, there have been apprehensions about cultural marginalisation or cultural exclusion as well. Global flows of goods, ideas and people and capital can seen as a threat to the national culture in many ways (HDR 2004). In the this sections let us see some of the cultural dimensions of globalisation.

a) **Increased Pace of Cultural Penetration**

Cultural change or cultural dynamics has always been a product of interaction with other cultures. Though individual cultures are capable of endogamous developments, cultural boundaries are quite often porous leading to the interpenetration of cultures. Cultural dynamism is the outcome of a process of mixing; borrowing and adapting cultural attributes and often the attributes that are borrowed and adopted come from cultures that are alien, distant and foreign.

Historically cultural dynamism has been greatest where trade and exchange in general have been voluminous and frequent. National and regional cultures are invariably a product of assimilation of various elements from other cultures, of a synthesis of elements that is a product of cultural interpenetration.

Seaports and river ports have historically been centres of cultures and civilisation. Today in the hi-tech communication era, in which ICTs made communication easier, faster and cheaper than in the past, more and more cultural interpenetration is taking place. In other words, we can put it that the acceleration of globalisation hasten the pace of cultural change.

Cultural interpenetration through the exchange of commodities is today so pervasive that it is difficult if not impossible to distinguish between original and imported cultural attributes. Consider a person drinking 'Turkish Coffee' in Istanbul. The coffee originated in Ethiopia, the sugar in India or New Guinea, the porcelain cup in China, the tablecloth in the restaurant is made from cotton, which originated from a plant domesticated in Central America, and the restaurant itself is a French invention. Likewise diseases, which originated in one place of the world, are exported to other parts of the world, e.g., HIV/AIDs exported from Africa to the rest of the world. The penetration of global music has resulted in the marginalisation of traditional music among different cultures of the world. Today, pop music and its local variations can be heard in all social settings from weddings to religious festivals and birthday celebrations.

b) **The Globalisation of Culture**

Trade agreements have removed all obstacles and resistance to corporate invasion and control of human society. With liberalisation of telecommunications, corporate culture is set to rule the world. Today the whole world is wired and plugged into the same TV programmes, movies, news, music, lifestyles and entertainment. Satellite cables, phones, Walkman, VCDs, DVDs and retail giants and other marvels and wonders of entertainment technology are creating the mass marketing of culture and expansion of consumer culture. This may lead to a homogenised global culture. In the case of the media industry, the logic of profit and competition has driven media corporations to enlarge media and space markets, and to break down the old boundaries and frontiers of national communities.

With the advancement of science and technology and the improvement of markets, the earth has turned into a global village. It has also resulted in the emergence of global mass culture due to the increase in consumerism. It may make for increasing similarities in life styles around the world evading local cultural heritage.

The contemporary global communication technologies lead to a globalisation of culture, which may undermine the meaning of community and traditional institutions and values of life. For example in India it has ended the tradition of story telling through which the old handed over their experience, culture, traditions, oral history and way of life to the young who had a sense of place and their roots (Mander 1996). Likewise the computers become the substitute for human interactions.

Our own culture is being systematically appropriated and "commodified". Folk and tribal festivals are being packaged and marketed through electronic media, plucked out of context and cut off from their roots (Panikkar 1995).

c) **Development of Hybrid Culture**

Like the two faces of Janus, globalisation at times has been inclusive and integrating and at other times unequalising and exclusivist. This is true of cultural impact also. As globalisation may lead to one single world culture or a homogenised culture, it is also likely to lead to new permutations, new combinations, new options and new cultures (Griffin 2004). Thus global encounters and interactions may produce inventive new cultural forms. In this sense there emerges a "third culture" or hybrid culture the trademark of which is social innovation and change co-existing with continuities and tradition in social and cultural life.

d) **Resurgence of Cultural Nationalism**

Globalisation also gives rise to active cultural campaigning to defend local identities. Nations reject global cultural integration and people remain loyal to local histories, identities and traditions. For example, European countries have campaigned against the threat of Americanisation (standardisation) and have defended the diversity and difference of European cultures. It is also possible to have attempts within the country by certain sections of people who refuse to integrate or adopt alien cultures as well as conduct massive movements against this trend. For example Shiv Sena activists have been campaigning against Valentine's Day celebrations in India.

Reflection and Action 20.7

Which aspect of cultural dimension of globalisation i.e. globalisation of culture, hybridization of culture or resurgence of cultural nationalism, do you think is more dominant in your region. Argue your point with the help of newspaper or other media reports to support it.

20.7 Conclusion

Globalisation as we have seen is a far-reaching process having its imprint left, though in varying degrees, in all walks of contemporary human life. Through our discussions on definitions and the features of globalisation in the initial sections of this unit, we did understand that globalisation basically means increased interaction and interconnectedness in terms of social, economic, cultural, political, ecological etc. between and among the nations across the world. We had a detailed look at the economic, social and cultural dimensions of globalisation in the latter part of the unit. Under the economic dimensions of globalisation, aspects such as liberalisation, privatisation, foreign direct investment, infrastructure development, expansion of information technology, etc., have been discussed. We have also learnt the regulatory mechanism for international trade – WTO – and intellectual property rights. Among the social dimensions of globalisation we have had a look at the various social aspects that have an impact on the everyday life of social beings. Finally we also looked at the cultural dimensions of globalisation. We have seen how multifarious cultures interacting at an ever increasing speed and various cultures are farming under testing conditions. Side by side, there is a resurgence of cultural nationalism in various parts of the globe.

20.8 Further Reading

Hazel, Henderson 1999. *Beyond Globalisation: Shaping a Sustainable Global Economy*. West Hartford, CT: Kumarian

Khor, Martin 2001. *Rethinking Globalisation: Critical Issues and Policy Choices*. Books for Change: Bangalore

Battacharya, Purushottam and Roy, Ajitava Chaudhuri (ed.) 2000. *Globalisation and India: A Multidimensional Perspective*. Lancers Books: New Delhi

Unit 21
Liberalisation and Structural Adjustment Programme

Contents

Learning Objectives

In the previous unit we have dealt with the various dimensions of globalisation. While dealing with the economic dimensions of glabalisation, we have highlighted the significance of the structural adjustment programme in the emerging economic order. In this unit we shall discuss the various aspects of this programme to enable you to:

- explain the terms liberalisation and structural adjustment;
- examine the crisis which have led to liberalisation ; and
- examine the implications for revenue and issues in external sector liberalisation.

21.1 Introduction

In the previous unit we have already learnt what is globalisation and the economic, social and cultural dimensions of globalisation. It was mentioned there that in India globalisation process received an increased impetus in the early 1990s with the adoption of New Economic Policy (NEP) and the Structural Adjustment Programme (SAP) at the behest of international financial institutions. This increased the intensity of liberalisation and privatisation of Indian economy. In this unit we will be discussing the policies of liberalisation and structural adjustment programme in relation to Indian context. We will be tracing the various conditions, which have prompted the adoption of structural adjustment policies and liberalisation. In the following sections we will also be talking about the various implications the liberalisation policies have for the economy and consequently for society.

The most significant change that has occurred in the Indian economy since 1991 concerns the relative roles of the markets and the state. Since the programme has run itself through more than a decade and the medium-term outcomes of these economic decisions are available to us now, it is possible to take a stock of what we have achieved and what the future is likely to be. The former would ofcourse determine the latter.

One method of evaluating the reform programme would be to “interrogate” the outcome and to examine the current status of economic indicators. What economists are not in agreement about is the set of variables to judge the reform process. In this unit, however, we will restrict ourselves to examining the macroeconomics of the reform programme and look at some of the variables around which the debate on economic reforms has evolved.

21.2 Defining the Terms

Let us start by defining what we understand by "liberalisation". In common parlance liberalisation is the loosening up of controls, which the government exercises on economic forces. According to Ghosh (1998: 295), liberalisation means, "reducing government regulation of economic activity and the space for state intervention (except in the all-important matter of guaranteeing private property rights) and allowing for the unfettered operation of market forces in determining economic processes." This could mean an opening up of the economy to external flow of goods and services or the relaxation of domestic controls. It is theoretically possible to undertake liberalisation in only one of the areas – domestic or external – but in most instances, as in India, both domestic and external fronts are simultaneously opened up.

Structural adjustment, on the other hand, relates to changes which have sectoral implications – tax rates, deficit and debt ratios, levels of subsidy, intervention of the public sector in provision of goods and services, etc. "Structural adjustment policies may be defined as policy responses to external shocks, carried out with the objective of regaining the pre-shock growth path of the national economy. Regaining the growth path, in turn, will necessitate improvements in the balance of payments following the adverse effects of external shocks, since a country's balance-of-payments position constrains its economic growth. ... A broader definition will also include adjustments to internal shocks which may find their origin in inappropriate policies." (*Balassa 1982 cf Chandrashekhar undated*: 1). Does this mean the economy left to market forces or does the government regulate the functioning of the market? Does it directly intervene with public expenditure and taxes to ensure outcomes in a manner that a social planner would like to? What are the areas that government expenditure gives priority to? What is its approach to deficits and social sectors? Are the interest rate and exchange rate market determined or institution determined? The answers to these questions would broadly define the structure of the economy. Once again, theoretically it would be possible to have structural adjustment without liberalisation and vice versa.

In the Indian economy, however, we have seen both a programme of liberalisation – domestic and external – as well as structural adjustment in the period since 1991, which marks a defining break in the way our economy has been managed.

The devaluation of the rupee in July 1991 was a landmark in Indian economic development since such a drastic devaluation had been done only once before in 1966. The rupee was devalued by 18% in nominal terms and this meant a fall in the value of the rupee by 12.4% in real terms (Virmani 2001: 31).

Prior to 1991, the Indian economy had a fixed official exchange rate, and the Reserve Bank of India (RBI) maintained the foreign currencies at stable values. The disadvantage of a fixed official exchange rate is that it does not maintain parity in purchasing power of the currency in the international market. If the rate of inflation in India, for example, is higher than in the USA, this would reduce the purchasing power of the rupee vis-à-vis the dollar and therefore the amount one should pay to buy a dollar in rupees should go up. This did not happen under a fixed exchange rate regime.

Logically, there would be a profit involved in buying the dollar cheap from official sources and selling it in the grey market. The government would exercise control in this scenario by severe restrictions on foreign currency withdrawals. However, there was a very active grey market for foreign exchange, which reflected the true value of the rupee in the world market.

However, this was the culmination of a series of developments that originated long before the actual devaluation (Martinussen 2001). Let us look into the internal and external factors that lead to the genesis of this 1990-91 crisis.

21.3 Internal Political Crisis

In 1989, the general elections saw the defeat of Rajiv Gandhi-led Congress party and the installation of a coalition government led by former Congressman Mr V.P. Singh. However, the inner wrangling within the coalition government saw Mr V.P Singh lose majority support in Parliament and Mr. Chandra Shekhar became the Prime Minister with the help of the Congress, which had been his political adversary till then. His government collapsed by the end of 1990 and general elections were declared as no single party or leader could muster a majority in the House. In May 1991, the Congress became the largest parliamentary party in an election, which witnessed the assassination of Rajiv Gandhi during the election campaign. Narasimha Rao became the Prime Minister and it was his ministry that brought in significant changes in the policy framework of the Indian economy.

21.4 External Crisis

The political uncertainty within the country was matched by turbulence in the international arena of which two were of critical importance to the Indian economy. The first was the break-up of the Soviet Union into its constituent nationalities and sub-nationalities. The Soviet Union and its Eastern European neighbours had very strong trade links with India, which were on a rupee account, i.e., trade with the former USSR was not in hard currency like the dollar. This meant that trade between these countries and India did not require hard currencies and was mutually beneficial. The surplus of Indian exports to Eastern Europe partly financed the capital equipment and defence supplies India imported. By 1991-92 these arrangements had broken down imposing a further crunch on the limited hard currency available to India.

As if this was not enough, our woes on the external account were further compounded when Iraq decided to attack Kuwait in August 1990. India is largely dependent on crude oil imports from the Gulf to meet its domestic demand for petroleum products. In the five-month period between August 1990 and January 1991, crude oil prices rose by 65% and India's import bill on the oil account rose by a similar degree. The impact of this on India was double because its long-term oil import contracts with both Iraq and Kuwait became infructuous and India had to buy oil in the world spot oil market at substantially higher prices (Virmani 2001: 4).

Reflection and Action 21.1

Discuss the political and economical circumstances that compelled India to adopt economic structural programme planned out by international financial institutions.

21.5 Liberalisation and the Current Account Deficit

India had a persistent current account deficit since oil shocks (see box 21.1) in 1973 and 1979 but some believe that the situation worsened from the mid-1980s when the Rajiv Gandhi government relaxed import restrictions on many items. The trade deficit grew rapidly in the 1980s and it was felt by some commentators that the trade liberalisation initiated in the mid-80s needed to be reversed to check the growing current account deficit and to avoid a foreign exchange crisis (Ghosh 1991).

However, politico-economic developments in 1989-91 made the trade deficit unsustainable and the Indian currency was perceived to be grossly overvalued. Remittances by Indian workers abroad were major source of foreign exchange for the country. However, these remittances declined both due to the international disruptions that followed the Iraq war and uncertainties in India. In June 1991, the finance ministry was put on "red alert" as the supply of foreign exchange reserves with the Reserve Bank of India dwindled to barely $ 1 billion – enough to finance only 6 weeks of imports. The fiscal deficit, which measures the shortfall of the government's revenues vis-à-vis its expenditures, was at an all time high nearing 8% as a proportion of GDP. Inflation in the economy was in double digits (about 12%). India was also close to defaulting on its debt service commitments on earlier loans, which it had obtained in the '80s to finance a growing trade deficit.

Box 21.1: The 1973 and 1979 Oil Shocks

The first world oil shock began soon after Yom Kippur or Arab Israel War in 1973 when the Arab members of teh Organisation of Petroleum Exporting Countries (OPEC) announced that they would no longer ship petroleum to nations that had supported Israel that is to United States and its allies in Western Europe. At around the same time. OPEC-member states agreed to use their leverage over the world price-setting mechanism for oil to quadruple world oil prices. Real oil prices peaked well above $43 per barrel in 1974.

Almost exactly five years after the first oil shock, the second began. it came in teh aftermath of the Iranian Revolution. The upheaval in Iran has meant an interruption of oil supply and a loss to world production already as great as that from the 1973 embrago. With Iranian oil exports curtailed from late 1978 to the fall of 1979, the oil price nearly tripled— rising from $13 to $34 per barrel. This price disturbance hit a world economy that was only about three years into recovery from the first oil shock. The second oil shock hit a world that was trapped in a vicious inflationary spiral. Both these oil shocks were comparatively persistent taking 3-5 years until real price of fell back significantly affecting the economies of almost all nations around the globe.

In these circumstances, India was forced to approach the International Monetary Fund to help it tide over the external account problem (Acharya 2001, Pinto and Zahir 2004). The foreign exchange crisis, it is widely believed, paved the way for initiating the process of liberalisation and structural adjustment as part of the multilateral conditionalities on the loan sanctions (similar to the ones in Latin America and Africa). The domestic government justified the acceptance of these conditionalities citing the delicate forex reserves status.

Numerous changes in the Indian economy followed under the direction of the then Finance Minister, Dr Manmohan Singh. Industrial delicensing and trade liberalisation along with fiscal "consolidation" were the main focus areas of the reform process.

Questions that were debated at that time were: what should the sequencing of reforms be and which sector should take priority? With a bunch of domestic problems needing to be tackled urgently – rising inflation, fiscal deficit, trade deficit, and low forex reserves – many argued that liberalisation should be secondary to the needs of fiscal stabilisation.

What do we mean by stabilisation? When there is a shock to the economic system, economic activity can deviate from a historically established level – growth may slow down, unemployment may rise and despite deflationary pressures inflation may go up. This could develop into a vicious cycle feeding on each other and derail any growth prospects of the economy.

How does this work? Let us say there is an oil price rise because of a shock in the international market (like a war or natural calamity), and this leads to an increase in the price (cost) of production, which reduces demand. When demand falls, producers feel that in the next period too there will be further decline in demand and therefore reduce their investment and also the number of people they hire. The reduction in number of people in the employed pool reduces consumption expenditures leading to a further fall in aggregate demand thereby creating a vicious cycle.

In such circumstances, the only way an economy can recover is by the intervention of an autonomous agency and pushes up the demand in the economy. Since no individual rational agent in the economy has any incentive to increase its demand, the state is the only autonomous agent that has an interest and a mandate to ensure the recovery of the economy and to break this vicious circle. If the intervention is large and sustained, it would stabilise the economy and many economists argue that stabilisation must precede the liberalisation programme. If liberalisation is undertaken, then it must be to meet the stabilisation targets of reducing inflation, a fiscal and trade deficit, and to increase foreign exchange reserves.

21.6 The Official Crisis Management Schema

In the aftermath of the 1991 oil shock that was followed by Kuwait invasion by Iraq were, the immediate tasks at hand – reduce inflation, cut fiscal and trade deficit, increase forex inflows and bring the economy out of depression, especially industrial recession. The view amongst the economic managers of Dr. Singh's team was that the high fiscal deficit was leading to an over-heating of the economy – it was increasing the aggregate demand in the economy, causing an increase in prices which was also spilling over to the external account and increasing the trade deficit. The increased fiscal deficit meant higher borrowing by the government to finance its expenditures. This raised interest rates in the economy, and "crowded out" private investment.

A reduction of the fiscal deficit, on the other hand, would have a positive impact – it would bring down the interest rate, reduce the interest burden, have deflationary pressures which would bring down prices and help close the trade gap. Since, one single variable (the fiscal deficit) was held responsible for all this, it is but obvious that the target of adjustment policy was the reduction of the fiscal deficit (Acharya 2001: 21).

The three commonly used measures are: Revenue deficit = Revenue expenditures – Revenue receipts; Fiscal deficit = Revenue deficit + Net capital disbursement; and Primary deficit = Fiscal deficit – Disinvestment receipts – Gross Interest payments. Prior to the economic reforms, the most common measure of the government's balance was the "budget deficit". However, this was found to be too narrow a measure of the government's overspend and therefore the fiscal deficit was adopted as the standard measure of the government's over-spend.

There are two related questions that come up here – this single-minded effort to reduce fiscal deficit, (a) is it justifiable and (b) has it yielded results?

The neo-liberal economic doctrine described above that was propagated by the World Bank and IMF linked all ills of the economy to the rise in fiscal deficit (see for example Acharya 2001 for the official position). However, Rakshit (1998) found that the empirical evidence in support of the structural adjustment programme was weak — rate of inflation and the export-import gap had little to do with the level of fiscal deficit calling into question the very justifiability of the structural adjustment programme. Ghosh (1998) felt what was required to stabilise the economy was not further trade liberalisation but agrarian change, since the bulk of the Indian population was dependent on this sector.

In the first two years of the reform programme, the Centre introduced severe budgetary cuts, which were directed at reducing subsidies, social sector spending and capital expenditures. As a consequence of this, revenue deficit as well as the fiscal deficit declined briefly (see Table 1). But by the mid 90s, these returned to the pre-reform level. In fact, the revenue deficit persistently exceeded the 1990-91 figure by 1998-99. The share of the revenue deficit in the fiscal deficit grew from below 50% to 78%. This means that excess government spending was not for asset creation but for consumption purposes. From Table 1 as you can see, it seems that the fiscal deficit itself has been declining. And that should be reason to cheer.

Table 21.1: Trends in deficits of Central Government (All items as a proportion of GDP)

Year	Revenue Deficit	Primary Deficit	Fiscal Rev. Deficit	Deficit as a proportion of Fis. Deficit
1990-91	3.3	2.8	6.6	49.4
1991-92	2.5	0.7	4.7	52.7
1992-93	2.5	0.6	4.8	51.7
1993-94	3.8	2.2	6.4	59.2
1994-95	3.1	0.4	4.7	64.6
1995-96	2.5	0.0	4.2	59.2
1996-97	2.4	-0.2	4.1	58.2
1997-98	3.1	0.5	4.8	63.5
1998-99	3.8	0.7	5.1	74.8
1999-00	3.5	0.7	5.4	64.6
2000-01	4.1	0.9	5.7	71.7
2001-02	4.4	1.5	6.2	71.1
2002-03	4.4	0.5	5.3	82.2
2003-04(Prov.)*	3.6	0.1	4.6	78.0

Source: Economic Survey 2004-05. Table 2.1 and 2.2 pages 19-20 and previous issues

However, a closer look at the data tells another story. The Centre's deficits are only a part of the overall deficit of the Centre and states combined. Table 3 clearly shows that the revenue deficit has increased persistently and fiscal deficit has hovered around the pre-liberalisation figure. So, despite the fairly robust growth of the economy, and the wide-ranging fiscal changes that have been undertaken, we continue to have a government that invests too little and consumes too much. Further, the Centre very quietly is passing on its fiscal responsibilities to the states so while the Centre seems to be improving its fiscal performance, it is the states which have to suffer the fiscal burden of reform.

The major problem — large debts and deficits — pose for any government is the burden of servicing the debt. In fact, the central government has an interest liability amounting to more than 4.5% (as a proportion of GDP). This is a large drain on the government's limited revenues and squeezes expenditures on other heads.

Table 21.2: Combined deficits of the Centre and the states

Year	FD	RD
1980/81	7.5	0.4
1981/82	6.3	-0.6
1982/83	5.9	0.2
1983/84	7.3	1.1
1984/85	9.0	2.1
1985/86	8.0	1.9
1986/87	9.9	2.4
1987/88	9.2	2.9
1988/89	8.5	2.9
1989/90	8.9	3.2
1990/91	9.4	4.2
1991/92	7.0	3.4
1992/93	7.0	3.2
1993/94	8.3	4.3
1994/95	7.1	3.7
1995/96	6.5	3.2
1996/97	6.4	3.6
1997/98	7.3	4.1
1998/99	8.9	6.3
1999/2000	9.0	6.4
2000/2001	9.5	6.3
2001/2002	9.6	6.6
2002/2003	9.9	7.0
2003/2004 (P)	9.4	5.8

where FD = Fiscal Deficit, PD = Primary Deficit, RD = Revenue deficit

Source: Economic Survey, Various Years.

21.7 Revenue Issues

The government could however reduce its deficit by increasing revenues – by either increasing taxes or through higher profits of the public sector enterprises. As part of the reform package, in order to reduce its liabilities, the government decided to sell its non-profit making enterprises. Expectedly, there were no takers, because these were companies acquired by the government when the private sector was unable to run them. Since disinvestment was a stated policy of the government, it decided to sell the profit-making companies, thereby closing future sources of revenue. In 1999 the department of disinvestment was formed by the Indian government with a view to establishing a systematic policy approach to disinvestment and privatisation and to give fresh impetus to the govt's disinvestment programme.

Taxes form the major source of revenue for the government. In the initial phase of the structural adjustment programme, a series of reform measures were undertaken both on the direct and indirect tax front. The tax rates were reduced substantially with the hope that reduced tax rates would result in greater tax compliance. Further, attempts were made to increase the tax base by using non-income measures such as possession of mobile phones, luxary cars etc. to determine tax liability because it is widely acknowledged that there is gross underreporting of incomes.

However, despite all these measures, there was a decline and stagnation of tax revenues (when measured as a proportion of GDP). The tax-GDP ratio has not been able to climb back to the pre-reform period, which has severely affected the fiscal position of the government (see Table 3). A part of the decline can be attributed to the reduced customs collections since the process of liberalisation entailed a reduction of import duties and taxes.

There is, however, one thing to cheer about here – the share of direct taxes has gone up from a lowly 19% at the beginning of the reform period to a respectable 41% in 2003-2004. It is important that the bulk of tax revenue be raised from direct taxes otherwise the tax system will be considered "regressive". Indirect taxes impose the same burden irrespective of the income earned by individuals, which is undesirable under the principles of "Ability to Pay". According to this principle, the tax burden must increase with income.

Table 21.3: Tax Revenues

Tax revenue as a percentage of gross tax revenue GDP			Tax revenue as a percentage of		
	Direct	**Indirect**	**Direct**	**Indirect**	**Total**
1990-91	19.1	78.4	1.9	7.9	10.1
2003-04 (Prov)	41.4	57.9	3.8	5.3	9.2

Having discussed the revenue options of the government to finance its expenditures, we now turn to issues of borrowing – debt and its sustainability. Herein we will examine the debt liability status of the centre and this would link up with the discussion on rising revenue and fiscal deficit. When the tax and non-tax revenues are insufficient to meet the expenditure requirements of the government, the deficit can then either be financed by increasing the currency in circulation (printing more money) or by borrowing — increasing debt. The first option can be fraught with one kind of danger – it could lead to inflation in the economy. Since one of the targets of reform was to keep inflation under check, monetisation of the deficit, at least not all of it, was not a valid option.

The next option was to increase market borrowing. Though there may not be a direct inflationary impact of this, the flip side is that there is an increase of debt liability, debt servicing obligations and also fiscal vulnerability of the government. Patnaik (1986) has, however, demonstrated that financing of deficit by directly selling in market as opposed to the process of borrowing from the central bank is not necessarily less (or more) inflationary when the credit market does not clear and there is an excess supply of credit that the banks are saddled with.

In India, the debt-GDP ratio has risen over the reform period but this has been mainly on the domestic front (see Table 4). The external debt (as a proportion of GDP) has actually declined to 1.7% in 2003-04 from 5.5% in 1990-91. While increase in debt is not desirable, the fact that most of it is domestic has one advantage – at least the debt servicing is in domestic currency. This means that foreign currency is not required for repayment of loans to international lenders and this reduces the external vulnerability of the Indian economy. However, a secular rise in the debt even if domestic is not desirable as it could leave the economy vulnerable to a fiscal crisis (*Rakshit 2004*, Pinto and Zahir 2004, Singh and Srinivasan 2004).

Table 21.4: Liabilities of the Centre (as a percentage of the GDP)

Year	Internal liabilities	External debt (outstanding)*	Total outstanding liabilities
1990-91	49.8	5.5	55.3
1999-00	49.7	3.0	52.7
2000-01	52.8	3.2	55.9
2001-02	56.7	3.1	59.9
2002-03	60.7	2.4	63.1
2003-04 (P)	60.9	1.7	62.6

Source: Economic Survey 2004-05 page 30

The other area of concern that had emerged during the crisis of 1990-91 was the management of the external account. Trade deficit, which had grown steadily over the 1980s and was financed by short-term borrowing in the international market, created a payment crisis at the time of the Kuwait-Iraq war, forcing India to seek an IMF loan. As part of the loan conditionalities, India was asked to liberalise its external sector (imports and exports) and make the current and capital account fully convertible. After the East Asian crisis, which many felt was exacerbated if not caused by an open capital account, India slowed its move to a fully convertible capital account.

21.8 External Sector

Liberalisation on the external account implies making the flow of goods in and out of the country easier. This can involve a reduction in procedures as well as tariffs or removal of quotas. Quotas on import of various commodities had earlier been introduced because the government wanted to offer domestic industry an assured market in which to establish itself.

The removal of quotas meant that goods could be imported in any amount on payment of appropriate tariff. In the reform period, there has been a substantial increase in exports, but the trade balance continued to be negative as imports grew faster than exports (see Table 5). However, the positive side to this is that an increase in net inflows of invisibles has moved the current account balance to be positive from 2001-02.

Table 21.5: Current Account Balance (as a percentage of the GDP)

Year	Exports (2)	Imports (3)	Trade Balance (4) = (2) - (3)	Net Inflows on "Invisibles" (5)	Current Account Balance (6) = (4) + (5)
1980-81	4.8	9.2	-4.4	3.2	-1.2
1985-86	4.4	8.1	-2.9	1.7	-1.2
1989-90	6.4	9.3	-2.9	0.6	-2.3
1990-91	5.8	8.8	-3.0	-0.1	-3.1
1998-99	8.3	11.5	3.2	2.2	-1.0
1999-00	8.4	12.4	-4.0	2.9	-1.0
2000-01	9.9	12.7	-2.7	2.2	-0.5
2001-02	9.4	11.8	-2.4	3.1	0.7
2002-03	10.6	12.7	-2.1	3.3	1.2
2003-04(P)	10.8	13.3	-2.5	4.3	1.8

Source: Economic Survey 2004-05 page 110

In recent years, the current account and capital account are both positive, which implies that the foreign exchange reserves have been rising rapidly. Table 6 shows that in the net inflow on the capital account of the last few years there has been substantial inflow of funds from Foreign Institutional Investors into the stock markets which has increased the foreign exchange reserves to "unsustainable" levels. There have been suggestions from some economists that the rising foreign exchange in the RBI's coffers should be used for financing imports for infrastructure. This is fraught with danger since it amounts to borrowing in the international market. The increase in reserves is due to short run stock market inflows, which could exit with ease at little notice, and the RBI would have to come up with the necessary hard currency. If India chooses to invest these reserves in infrastructure it would have two flaws: (a) it would be borrowing short to invest long which runs the risk of a liquidity crisis, (b) infrastructure is not a foreign exchange earning area, therefore these projects even in future would not generate the necessary foreign exchange for repayment (Patnaik 2004, Rakshit 2004).

Table 21.6: Capital Account Balance (in $ US million)

Year	Capital Account Balance
1990-91	8402
1997-98	9393
1998-99	7867
1999-00	10840
2000-01	8508
2001-02	8357
2002-03	10640
2003-04 (P)	20860

Source: Economic Survey 2004-05 page 109

Let us discuss the external sector reforms in a little more detail. The liberalisation of the external account involved not only an easier flow of goods but also a large devaluation of the currency and a simultaneous move from a system of fixed exchange rates to a "managed" float.

Devaluation, theoretically, is good news for exporters because their goods become relatively cheaper in the international market and imports become more expensive resulting in a decline in the demand for imports in the country. The trade balance should therefore improve. However, if the domestic industry is undergoing inflation and imports are liberalised, then it could have the opposite effect, especially if exports are elastic and imports are not. A commodity is said to have elastic demand if a small price fall brings about a proportionately larger change in quantity demanded. So if exports are elastic and imports are not, then the import bill will rise further after devaluation since we will import the same volume of goods. In an inflationary situation, even after devaluation, if exports are elastic, we will not see an equivalent rise in the volume of exports. Therefore, the trade balance could worsen even when devaluation occurs in the process of external sector liberalisation.

There have been more serious fears about the domestic consequences of import liberalisation – it could lead to de-industrialisation. Much of the discussion on de-industrialisation here borrows from Patnaik (2003). De-industrialisation here is defined as a situation where there is a decline in the work force of the industrial sector due to a decline in aggregate demand, which pushes people out of the work force (Patnaik 2003: 1).

This could happen on three counts. The first and most straightforward one is where imports exceed exports and the current account balance is negative. This implies that there is a decline in demand for domestic goods, which reduces employment. In the second instance, de-industrialisation could occur even in the presence of a trade balance of export surplus where the agricultural surplus instead of augmenting production or demand in the domestic economy is used to consume imported goods. This is the classic colonial drain situation where the colonial ruler would siphon off a part of the surplus to the metropolis without either generating adequate demand for non-agricultural goods or augmenting the productivity of the land. This killed the market for domestic non-agricultural goods, which led to de-industrialisation. In the third instance, which is representative of modern day globalised economies, assume that we have an open capital account with a flexible exchange rate. If for some reason there is an increase in capital inflow, then the rupee will become more valuable vis-à-vis the foreign currency. This would make the imported commodity less expensive as compared to the domestic good even in the home market. Consumers will switch from domestic goods to imported goods thereby reducing domestic production and employment.

In such circumstances, the state could autonomously act by increasing expenditure to counteract the de-industrialisation. But even that may be curtailed by multilateral agency pressures who believe in "prudent finance" policies to balance budgets even at the cost of rising unemployment in the economy. The exercise of trying to curb fiscal deficits in India therefore must be seen with care since it is now well accepted that the decade of the 1990s was a period of "jobless growth".

There are two possible ways of reducing the fiscal deficit – pruning expenditures or increasing tax and non-tax receipts. It is politically easier to cut expenditures where there are no lobby groups opposing this, unlike increase in taxes which is politically undesirable. For example, social sector and capital expenditure reductions attract the least direct opposition, as the immediate effect of the decline is not felt by the current generation. It is therefore no surprise that these are the two areas, which have seen substantial reductions in expenditures as a proportion of the total national income.

Public expenditure as a proportion of GDP has declined from about 30% at the beginning of the reform period to 27% at the end of the 90s (see Table 7). The share of capital expenditures as well as the share of development expenditures has also declined substantially over the decade of the 1990s. Capital expenditures impact on long term growth since these are in the nature of infrastructure investments. Social sector expenditures enhance human security by ensuring access of the citizen to affordable healthcare and education. Reduced expenditures in both these areas therefore have long-term impacts on accumulation of physical assets as well as the growth of human capital in the economy (Balakrishnan 1996).

Table 21.7: Combined (Centre+States) Public Expenditure as PerCent of GDP and Capital Expenditure as PerCent of Public Expenditure

Year	Public Expenditure	Capital Expenditure Expenditure as a proportion of Total Public Expenditure (Revenue + Capital)	Development Expenditure as a proportion of Total Public Expenditure
1987-88	30.6	22.7	56.8
1988-89	29.3	21.3	55.9
1989-90	30.3	21.1	56.4
1990-91	29.1	19.5	54.3
1991-92	28.8	20.9	53.6

1992-93	28.1	18.6	50.8
1993-94	28.2	17.6	49.5
1994-95	25.6	15.4	50.0
1995-96	24.7	14.7	47.5
1996-97	23.8	11.8	48.4
1997-98	24.5	12.9	47.8
1998-99	25.4	13.3	46.3
1999-00 (R)	27.3	12.2	46.7

Notes: RE= revenue expenditure;

Source: Computed from the data available in Indian Public Finance Statistics, Ministry of Finance, GoI,various issues as reproduced in Dev & Mooij (2002: 854).

Let us now turn attention briefly to the social sector. The social sector includes Education, Health (and Family Welfare) and Rural Development. One of the core arguments of neo-liberal ideology is that intervention by the state should be restricted to social development and defence, which are its fundamental duty, and economic activity should be left with the private sector. Going by this logic, we should expect that irrespective of allocation changes in other sectors, in the social sector there should have been an increase. However, in the 1990s, there was lower social sector spending by the Centre as well as the states combined as a proportion of GDP even though there seems to be an increase in per capita expenditures in the social sector (Dev and Mooij 2002). What this implies is that the increase in social sector spending has not matched the increase in GDP in the reform period.

Table 21.8 : Social Sector (Social Services + Rural Development) Expenditure by Centre and States as a proportion of GDP

Year	Social Sector Exp (Revenue +Capital)	Social Sector Exp (Revenue)	Per capita expenditure at 1993-94 prices
1987-88	7.74	7.23	562
1988-89	7.40	6.95	583
1989-90	7.64	7.23	633
1990-91	6.78	6.43	623
1991-92	6.58	6.21	599
1992-93	6.39	6.06	594
1993-94	6.46	6.16	623
1994-95	6.41	6.06	633
1995-96	6.40	6.10	675
1996-97	6.48	6.15	739
1997-98	6.60	6.29	789
1998-99	6.94	6.60	890
1999-00(R)	7.55	7.11	1027

Note: R: revised estimates

Source: Estimate based on data from Indian Public Finance Statistics, GoI, 1995 and 2000-01 as presented in Dev & Mooij (2002: 856).

21.9 Economic Reforms — An Appraisal

Finally, we need to understand the impact of the reform process with respect to two not unrelated measures – the rate of growth of incomes and its distribution. The first is fairly easy to establish since we have data for per capita incomes as well as aggregate national income published annually by various government sources. It is true that the rate of growth in the Indian economy during reform period has been much higher on the average than in any other phase in the post-Independence era. So, on that count, economic reforms have something to celebrate about. It remains a moot question whether the economy would have done better (grown faster) if the earlier policies were pursued, and this is more difficult to establish. As Table 9 indicates, the GDP growth rate and the per capita growth rate have been higher in the reform period.

Table 21.9: Rate of growth of the GDP and per capita incomes

Period	1970-71 to 1979-80	1980-81 to 1989-90	1992-93 to 2000-01	1992-93 to 1996-97	1997-98 to 2000-01
GDP	2.95	5.81	6.1	6.68	5.35
Per Capita	0.73	3.67	4.17	4.75	3.42

Sources: RBI, Report on Currency & Finance, 2000-01; RBI Handbook, 2001;Economic Survey, 2001-02 as quoted in Rakhsit (undated)

On the second issue regarding distribution, there is wide divergence between the official estimates (and its adherents) and the dissenters. The official estimates suggest that poverty has declined to 27%, (some even went to the extent of arguing that this was an overestimate) (Sundaram and Tendulkar (2003), Deaton and Dreze (2002)). However, Sen and Himnagshu (2004) debunk these findings and suggest that during the 90s, the claim of poverty decline by earlier studies is not tenable due to miscalculations. They conclude that not only has poverty not declined but inequality in all dimensions has increased sharply during in the 1990s which makes this decade unique – it was the first decade in post-Independence India when inequality increased (see unit 20). However, all these measures of poverty use an indirect way to measure poverty — an income measure of the poverty line which is actually meant to be linked to an energy requirement measure — 2400 and 2100 calories for rural and urban areas per adult person.

U. Patnaik (2004), using calorie-based estimates to measure poverty finds the picture to be even more alarming. In the course of the last five years (1998 to 2003), the level of per capita foodgrains absorption has been lower than seen in the last 50 years. Between the early 1990s and 2003 the annual absorption of foodgrains per head has come down from 177 kg to 155 kg. The decline has accelerated in the second half of this period and 80% of the decline has been in the five-year period 1998-2003 and has been concentrated largely in the rural areas. Using the National Sample Survey data for calorie intake, she finds that in 1999-2000, seven-tenths of the rural population was below the norm of 2400 calories per day (the norm originally adopted in all poverty studies), and about two-fifths of the urban population was below the lower urban norm of 2100 calories.

To conclude, the period of the reforms has been one where numerous changes have occurred structurally. The role of the market is much greater than it ever was in independent India. The rate of growth has been higher in this period. But its distribution has been unequal which raises questions on the justifiability of the reform process especially when actual deprivation seems to be on the rise due to the process of global integration.

21.10 Conclusion

We have discussed in detail two of the important economic aspects of globalisation; liberalisation and structural adjustment programme with special reference to India. Liberalisation, as we have seen, is loosening up of controls, which the government exercises on economic forces that lead to opening up of the economy to external flow of goods and services or the relaxation of domestic controls. And the structural adjustment means a series of policy shifts by the national government with regard to the economic, political and social affairs.

The unit delineates on the national and international politico-social circumstances, which lead to the adoption of the national policies that drastically increased the pace of globalisation and liberalisation in India. The unit also explores various economic parameters for accessing the economic growth in India especially since the adoption of the economic reform policies. Attempt is also made to analyse the implications of this reform policies in the social and other sectors in the society. When we make an appraisal of the impact of the reform policies in the economic and social fronts it is obvious that though the growth in the economic front is phenomenal, the question of whether it has been transformed into the social sector remains doubtful.

21.12 Further Reading

Ghosh, J. 1998. "Liberalization Debates". In T.J Byres (ed.) *The Indian Economy: Major Debates Since Independence*. Oxford University Press: New Delhi

Nayyar, D. 1996. *Economic Liberalisation in India: Analytics, Experience and Lessons*. Orient Longman: Hyderabad

Unit 22 Globalisation, Privatisation and Indigenous knowledge

Contents

Learning Objectives

This unit will help you critically evaluate the various aspects of globalisation, Intellectual Property Rights (IPRs) and indigenous knowledge by introducing you to:

- globalisation and its relation to free trade;
- the role of WTO as a regulating body of world trade;
- the rules and agreements related to patents;
- the patent regimes and the implications for indigenous and traditional knowledge;
- the need for protection of traditional knowledge and community rights.

22.1 Introduction

Another important aspect of globalisation the indigenous knowledge system and the impact of global measures to protect the interests of patents on the indigenous knowledge will be discussed in this unit. WTO and the developed countries argue that the compulsory imposition of TRIPs is with the aim of checking piracy and to give protection to innovative inventions. But many a times this can go against the interests of indigenous/laypersons' common knowledge especially of the developing countries. Let us see how it can happen.

In May 1995 US patent office granted a patent to the University of Mississippi Medical Centre for "turmeric", for its wound healing capability. The implication of this is that if you are found using turmeric for wound healing without permission or payment you are liable for persecution. It is an absurd situation for millions of Indians who have been using turmeric for centuries to even to imagine that one has to pay royalty for use of turmeric or to imagine that it is a new invention.

The patent was challenged by a watchful Indian scientist, Dr. R. A. Mashelkar, who took up many issues related to Intellectual Property Rights (IPR), and brought awareness on little realised dangers in the IPR regimes and World Trade Organisation (WTO) practices. After nearly four months of contesting the patent, it was established that the use of turmeric was well known in India.

The patent was annulled but this was not the only traditional or indigenous knowledge and practice, which was nearly appropriated for commercial use and for profit. Mexican beans, South Asian basmati, Bolivian quinoa, Amazonian ayahuasca, West Africa's sweet genes, among many others, all have been subject to intellectual property claims that are predatory on the knowledge and genetic resources of indigenous peoples and farming communities.

Big multinational companies and pharmaceutical companies are constantly on the lookout to tap knowledge and products for commercial and profit making purposes. Patents, which are meant to protect the creative and innovative efforts, are being increasingly used to have exclusive rights on, what many times has been, a common knowledge of a community or a tradition. Brazil which has the world's richest bio-diversity has attracted many companies, and it is believed that more than half of the plant species in the rain forest of Brazil have been patented.

As you can see, to be not able to use *neem* or turmeric, because it has been patented by a private company for commercial purposes, is truly illogical for those of us who are familiar with the use of *neem* or turmeric in our everyday life. The discovery of the healing properties of these two plant species cannot be attributed to any one single person, such that the person can apply for a patent. It is a knowledge that has been passed down from generation to generation and nobody has exclusive rights over this knowledge. So, what has changed? Why has common property and knowledge become exclusive? In what way are traditional communities and indigenous populations affected by patent laws, which allow exclusive rights over knowledge or products? What has globalisation or WTO anything to do with it?

Let us see whether some of these questions can be answered in this unit. To understand some of these questions and many more, we need to see the issue of patents and indigenous knowledge within the backdrop of globalisation and the economic dimensions and implications of globalisation. So we will start the unit by trying to recapitulate some of the basic features of globalisation in terms of its free trade and liberalisation. We will subsequently look at the World bodies such as WTO, which regulate some of the functioning of free trade, through regimes such as TRIPS etc. Following this we will examine the patents regime and the implications it has for people who do not believe in private ownership or exclusive rights such as the indigenous people. We will also try and understand the alternatives available and strategies as well as the response of the poorer Third World countries and by the indigenous communities to the various aspects of patent laws and philosophy.

22.2 Globalisation, Liberalisation and Free Trade

There are several aspects to the process of globalisation process, which we have discussed in detail in unit 20. The unit which is on socio-economic and cultural dimensions of globalisation has also pointed out that while scholars may define globalisation in different ways they all do agree that the present process and phenomena points out to an increasing intensity of flows between goods, people, finances among many other things. The intensity of interaction is such that events in one place are affected by process taking place many miles away and vice-versa.

Globalisation brought about internationalisation of economic activities, especially with US and UK taking to greater interest in market coordination during 1980s. There was greater emphasis on private enterprise during Ronald Reagan and Margaret Thatcher's regime in US and UK respectively. During this period there was more export-oriented economies, due to the recommended path by the international funding bodies such as International Monetary Fund (IMF) and World Bank. Since then there has been a substantial growth in world trade, consequently international bodies such as World Bank, IMF and WTO have become very powerful who constantly recommended lesser government and state involvement and more free flow of goods and finances.

With increasing pressure from world monetary and trade organisations many states succumbed to the pressure to liberalise their economies. With the collapse of Soviet Russia an alternative model for free enterprise was found to be unviable and so more and more nations became integrated into a global network of free trade. Many governments took to shrinking public expenditure on capital and social sector such as on health, education, housing, public distribution system rural infrastructure development, etc. In that sense there has been globalisation of national policies and policy-making mechanisms of national governments.

India too took steps to liberalise its economy following a crisis in 1990's. The two central components of the neoliberal policies adopted by Indian government have been the liberalisation of India's private sector and a reform of the public sector (see unit 20 for more details). Thus, India took to liberalisation, which essentially meant that many of the activities, which the state performed were reduced whether it is centralised price control, monopoly over infrastructure and public services, to name some. The IMF and World Bank started insisting on the deregulation of national economies and liberalisation in trade and investment sectors as conditions for the grant of financial assistance or loans to countries world over. They advocated free trade, which in modern usage means trade or commerce carried on without such restrictions as import duties, export bounties, domestic production subsidies, trade quotas, or import licences. Not only did India adopt Structural Adjustment Programmes (SAP) on the behest of the IMF World Bank but also privatisation. Privatisation essentially involved the state selling out its assets to private ownership (refer unit 20 for more details on this).

Another aspect of globalisation has been the involvement of Foreign Direct Investment (FDI), which is money invested by foreign party that is rewarded with part ownership of production. This is done through different forms of collaborations. In 1990 there has been phenomenal growth in collaborations between companies across countries and FDIs grew substantially all over the world.

There is a general view that FDI flows help the economy in several ways one of them being transfer of technology. As you have already learnt with the increase in the rate of the transfer of technologies at the national and the international level the question of patent protection became significant. Though there were effective rules and regulations at individual countries, there was not an international policy accepted by all the countries. With the increased interaction and technology transfer during the heightened pace of globalisation made it important to have an international policy agreed by most of the nations around the globe on the issue of patent protection. This is what WTO tried to impose through the implementation of Trade Related Intellectual Property Rights (TRIPs). TRIPS came into effect in 1995. It imposes minimum standards in seven areas of intellectual property i.e. patents, copyright, trademarks, geographical indication, industrial design, and undisclosed information (trade secrets) and covers diverse areas as computer programming and circuit design, pharmaceuticals and transgenic crops. TRIPs was devised based on standards of the North and conflicts with the national interests and needs of the Third World countries. For instance most Third World countries previously exempted medicines, agriculture and other products from national patent laws but with TRIPs almost all knowledge-based production is subject to tight intellectual property protection. Third World nations have to adjust their laws to conform to TRIPS by 2000 while the least developed countries by 2016. The latter will be confronted with severe financial and administrative constraints (*UNCTAD* 1996: 2-3).

Although the positive effects of TRIPS on the South have been touted by the North, in terms of technology transfer, foreign direct investment (FDI) and research and development (R&D) innovation, there is scant evidence of this taking place. In fact the strengthening and expansion of Intellectual Property

Rights (IPRs) will affect the access to and use of technologies and the Third World's prospect for industrial and technological development; stronger IPRs means higher costs in terms of royalties and other payments and reduce resources available for local R&D; scientific and technological protectionism is a growing problem as the increasing economic relevance of scientific research limits the free dissemination of research results and constrains the traditional openness of university laboratories where most basic research is conducted in the North — this will reduce the Third World's prospects of improving their social and economic conditions (Correa 2000: 33).

At this stage you must be wondering what are IPRs and TRIPS. To understand the various aspects of these regimes let us look at world bodies such as WTO, to start with and how some of the regulating mechanisms of trade have evolved over the years.

Reflection and Action 22.1

Locate a company, which qualifies as instance of Foreign Direct Investment. Try and assess what the benefits of this company have been for the Indian nation and its people. Write a small paper on it and share it with your fellow students and your coordinator.

22.3 World Trade Organisation (WTO)

As we already mentioned, the volume of trade increased substantially towards the end of 20th century and it was felt that there ought to be regulating body, which looks in to trade agreements between countries. After World War II there was an attempt to set up an International Trade Organisation (ITO), which never materialised but in 1947 there was body, which came in to existence called the GATT-General Agreement on Tariffs and Trade. It did not take long for the General Agreement to give birth to an unofficial, *de facto* international organisation, also known informally as GATT. Over the years GATT evolved through several rounds of negotiations. The last and largest GATT round was the Uruguay Round, which lasted from 1986 to 1994 and led to the WTO's creation (you already learned about the genesis and functioning of WTO in Unit 20 and you will learn more about this in Unit 23 also). Whereas GATT had mainly dealt with trade in goods, the WTO and its agreements now cover trade in services, and in traded inventions, creations and designs (intellectual property).

The organisation describes itself as thus:

> There are a number of ways of looking at the WTO. It's an organisation for liberalising trade. It's a forum for governments to negotiate trade agreements. It's a place for them to settle trade disputes. It operates a system of trade rules. At its heart are the WTO agreements, negotiated and signed by the bulk of the world's trading nations. These documents provide the legal ground-rules for international commerce. They are essentially contracts, binding governments to keep their trade policies within agreed limits. Although negotiated and signed by governments, the goal is to help producers of goods and services, exporters, and importers conduct their business…. (source: www.wto.org)

Some of the basic principles that WTO involves are trade without discrimination, free trade through lowering trade barriers, general agreement on trade and services, trade related intellectual property rights etc. Since this unit deals mainly with the implications of patent regimes on indigenous and traditional knowledge let us look into the features of TRIPs which is a major area of WTO regime (you will learn about the other principles of WTO in detail in unit 23).

Let us examine, in the following section, each of the areas, which come under the TRIPs agreement to further understand what these entail.

22.4 Trade Related Intellectual Property Rights (TRIPs)

Ideas and knowledge are now considered as an important part of trade relations. Patents, copyrights are awarded to people and organisation to protect their creative and innovative inputs into product or process.

> "Creators can be given the right to prevent others from using their inventions, designs or other creations and to use that right to negotiate payment in return for others using them. These are 'intellectual property rights'. They take a number of forms. For example books, paintings and films come under copyright; inventions can be patented; brand-names and product logos can be registered as trademarks; and so on. Governments and parliaments have given creators these rights as an incentive to produce ideas that will benefit society as a whole. The extent of protection and enforcement of these rights varied widely around the world; and as intellectual property became more important in trade, these differences became a source of tension in international economic relations" (Source: www.wto.org).

As we already mentioned IPRs are meant to protect the creative and innovate efforts of organisations, companies or people and they cover a range of products and process.

The following areas are covered under the TRIPs agreement:

- Copy right and related rights
- Trademarks, including service marks
- Geographical indications
- Industrial Designs
- Patents
- Lay-out Designs of integrated circuits

a) **Copyright and Related Rights:** Under this category, the rights of authors and artist of literary works such as, books and other writings, musical compositions, paintings, sculpture, computer programs and films, are protected by copyright, for a minimum period of 50 years after the death of the author. Also protected through copyright and related rights are the rights of performers (e.g. actors, singers and musicians), producers of phonograms (sound recordings) and broadcasting organisations. The TRIPs agreement ensures that computer programs will be protected as literary works under the Berne Convention and outlines how databases should be protected. It also expands international copyright rules to cover rental rights. Authors of computer programs and producers of sound recordings must have the right to prohibit the commercial rental of their works to the public. A similar exclusive right applies to films where commercial rental has led to widespread copying, affecting copyright-owners' potential earnings from their films.

b) **Trade marks**: The agreement defines what types of signs must be eligible for protection as trademarks, and what the minimum rights conferred on their owners must be. It says that service marks must be protected in the same way as trademarks used for goods. Marks that have become well known in a particular country enjoy additional protection.

c) **Geographical Indications**: A place name is sometimes used to identify a product. This "geographical indication" does not only say where the product was made. More importantly, it identifies the product's special characteristics, which are the result of the product's origins. Well-known examples include "Champagne", "Scotch", "Tequila", and "Roquefort" cheese. Wine and spirits makers are particularly concerned about the use of place-names to identify products, and the TRIPs Agreement contains special provisions for these products. But the issue is also important for other types of goods. Using the place name when the product was made elsewhere or when it does not have the usual characteristics can mislead consumers, and it can lead to unfair competition. The TRIPs Agreement says countries have to prevent this misuse of place names.

d) **Industrial Design**: Under the TRIPs Agreement, industrial designs must be protected for at least 10 years. Owners of protected designs must be able to prevent the manufacture, sale or importation of articles bearing or embodying a design, which is a copy of the protected design.

e) **Patents**: The agreement says patent protection for inventions must be available for at least 20 years. Patent protection is available for both products and processes. Governments can refuse to issue a patent for an invention if its commercial exploitation is prohibited for reasons of public order or morality. They can also exclude diagnostic, therapeutic and surgical methods, plants and animals (other than micro-organisms), and biological processes for the production of plants or animals (other than microbiological processes). Plant varieties, however, must be protectable by patents or by a special system (such as the breeder's rights provided in the conventions of UPOV — the International Union for the Protection of New Varieties of Plants. If a patent is issued for a production process, then the rights must extend to the product directly obtained from the process. Under certain conditions alleged infringers may be ordered by a court to prove that they have not used the patented process. In the recent Doha meeting (of WTO) it agreed that the TRIPs Agreement does not and should not prevent members from taking measures to protect public health. They underscored countries' ability to use the flexibilities that are built into the TRIPs Agreement. And they agreed to extend exemptions on pharmaceutical patent protection for least-developed countries until 2016. On one remaining question, they assigned further work to the TRIPS Council — to sort out how to provide extra flexibility, so that countries unable to produce pharmaceuticals domestically can import patented drugs made under compulsory licensing. A waiver providing this flexibility was agreed on 30 August 2003.

f) **Integrated Circuit Design**: This particular item and area was adopted in 1989 but it is yet to come in to force. The protection for this is available for 10 years.

g) **Undisclosed Information Including Trade Secrets**: Trade secrets and other types of "undisclosed information" which have commercial value must be protected against breach of confidence and other acts contrary to honest commercial practices. But reasonable steps must have been taken to keep the information secret. Test data submitted to governments in order to obtain marketing approval for new pharmaceutical or agricultural chemicals must also be protected against unfair commercial use (Source: www.wto.org).

On the face of it seems perfectly valid that there should be uniform laws that can be applied equally for all trading partners but the TRIPs agreement has come from severe criticism from developing and least developed countries. They feel that the gradual erosion of the developed countries' supremacy in manufacturing and technology, due to the rise of the Asian countries as competitors has prompted industries and companies from the North to become pressure groups, which have been behind the agreements. "The industrial lobbies convinced developed-country governments on the need to link trade with IPRs, in order to prevent imitation and to increase returns on research and development. Monopoly rights granted by IPRs were regarded as crucial to prevent the developing countries from further undergoing the 'catching-up' process towards industrialisation based on imitating and copying technologies, as the developed countries themselves had done. In other words, IPR protection was a tool to guarantee the comparative advantage that had so far ensured the developed countries' technological supremacy" (Cecilia Oh, Third World Network, 2000).

> **Reflection and Action 22.2**
>
> It takes a lot of investment of both money and creative energies to make software, a music album, a film etc. Don't you think therefore that piracy of such items should be punished severely? What are your views on this?

22.5 Domination of the Developed North in WTO

As we already mentioned the WTO agreements are largely devised on the standards thought out and set by the developed nations of the North. Many in the South believe that it was devised in such a way that the interest of the big industries and companies, who do not want to lose their monopoly over technology or products.

When one considers the working of WTO itself, it has been found that the negotiations are invariably between the richer groups of countries the decisions that they are reach are then imposed on the poorer nations without their participation. The Protest against Seattle WTO meeting was precisely the complaint that Third World had against the North. Let us read this report from the Guardian newspaper (see Box 23.2), which captures the frustrations of the poorer countries and the manipulative tactics of the developed world.

> **Box 22.1: WTO Seattle Talks**
>
> So what happened in the real Battle for Seattle? Firstly, the poor countries were sidelined from the start in the desperation of the Americans to get a deal. The working groups which had convened to reach consensus between interested countries in different areas were regarded as a sham. The chairs were reporting consensus when none existed.
>
> Secondly, the 'green room discussions', the next level of debate, this time mostly between the rich countries, were excluding the poor. At least one African delegate was physically barred from attending.
>
> The third issue concerned the style and manner of the US chief negotiator Charlene Barshefsky who was judged personally offensive, patronising and insulting. She was booed in one plenary meeting.
>
> And in addition to this the poor countries were appalled by the speed at which the negotiations were being rushed through, and by the lack of debate. Not only had many of the world's poorest countries neither the capacity nor the means to implement even the previous round of talks which finished five years ago, let alone take aboard a whole new round of negotiations, but many had barely the means to have a permanent representative in Geneva where the rolling talks are held.
>
> The Third World was also concerned that genuine concerns about the effects of another round of liberalisation on trade on the environment, jobs, cultural and social issues were being seen to be constantly suborned to pure economic interests. Time after time, agreements that had taken years to make in other international forums were dismissed or discarded. The WTO does not recognise the 'precautionary principle', and overrules all other international agreements. This, together with the perceived agenda setting of the talks by big business, is what mostly concerned the environmentalists and labour groups protesting at Seattle.
>
> 'The democratic system is not working,' said Martin Khor of Third World Network. 'It's bust. It needs more than WTO reform.'
>
> While the media concentrated on Seattle's riots, the tear gas and the looting, the demands on the streets of Seattle were not for an end to world trade but for a fairer and more democratic system. 'They are worried about a few windows being smashed', said one Filipino leader. 'They should come and see the violence being done to our communities in the name of liberalisation of trade.'
>
> **Source:** Guardian, December 9, 1999

As we already mentioned there are many aspects of trade that tilt against the poorer south, we did mention for instance how some of the trade relations are essentially suited to the monopolistic tendencies of the big corporations. One particular area which has come under severe criticism from the South is introduction of TRIPs agreement in the Uruguay round, which gives a handle to WTO and the big companies which lobby, to twist the arms of poorer nations in the name of patents. TRIPs ignores the profound differences in economic and technological capabilities between the North and the South, and is an instrument of 'technological protectionism' aimed at consolidating an international division of labour where the North generates the innovations and the South will be the market for the resulting products and services. It is a move by US corporate interests to establish global rules to counter their declining competitive market edge in world markets (Correa 2000:5).

22.6 Implications of TRIPs for the Third World Countries

TRIPs will affect the poorer countries that do not have the knowledge by increasing the gap; and by shifting bargaining power towards the producers of knowledge most of whom are in the industrialised North. Not only that, national governments which used to exempt certain areas and items such as medicine, agriculture etc. from patent laws now have to comply with WTO regimes. This will be most strongly felt in the area of patents and its effects on the prices of medicines. Equally endangered would be knowledge which has never been patented and which was in public domain of traditional and indigenous communities. This knowledge is being either cleverly siphoned off or stolen — also known as "bio piracy".

The North's dominance of intellectual property can be seen from the following data: 97 percent of all patents worldwide is concentrated in a handful of countries; in 1993, ten countries accounted for 84 percent of global R&D; 95 percent of patents granted in the US over the past two decades were conferred on applications from ten countries which captured more than 90 percent of cross-border royalties and licensing fees; 70 percent of global royalty and licensing fee payments were between parent and affiliate in TNCs; and more than 80 percent of the patents that have been granted in the Third World countries belong to residents of industrial nations (UNDP 1999: 68).

The fact that knowledge can be patented has serious implications for access to health, agricultural practices, and related fields such as bioengineering. Let us se how it affects access to health for instance.

TRIPs and Health: A pharmaceutical company can get a patent for both the process and product for 20 years under the TRIPs agreement. Product patents provide for absolute protection of the product, whereas process patents provide protection in respect of the technology and method of manufacture. A process patent system promotes a more competitive environment and a check on prices, as compared to the monopoly system created through product patents. With the TRIPs requirement for both product and process patents, it will therefore be possible to apply for patent rights over a product for 20 years, and thereafter, further periods of protection could be applied for the processes by which the product is produced. Earlier the Third World countries produce some medicines themselves, for example India, China, Brazil and Egypt allow patents on pharmaceutical processes but not the final products. That means they can produce the drug legally using a different process from the original used. This supported the development of national domestic industries to produce generic drugs, which were cheaper than the branded originals. But now they have to comply with TRIPs agreement as members of WTO and have their patent laws amended and in place.

However, under TRIPs "countries can still gain access to drugs and protect public health under 'compulsory drugs licensing'. Article 31 of TRIPs states that member states 'may use the subject of a patent without the authorisation of a right-holder including use by the government' in the public interest. It also says that 'the right-holders shall be paid adequate remuneration taking into account the economic value of the authorisation'. Thus governments can grant a license to make copies of patented drugs without the approval of the patent owner and pay a royalty to the latter. 'Compulsory licensing' is part of the patent law of many countries. This option has been used by countries to restrict the monopoly rights of companies (the patent holders) in the interest of the public good" (Evelyne Hong, 2000, Source: http://www.phmovement.org).

The US has applied for compulsory license domestically in hundreds of cases. But many developing and underdeveloped nations hesitate to opt for compulsory licensing because of trade sanctions against them. It happened with Thailand, when it tried to produce generic drugs for its increasing AIDS patients under compulsory licensing scheme. It was forced to drop the plan when US threatened to increase tariff on wood products and jewelry from Thailand. Similar threats were deployed on South Africa and was stopped with the accusation that South Africa was violating patent laws by opting to produce a generic drug for its 4 million AIDS patients. The pharmaceutical companies, backed by TNCs and US governments filed a petition. Thanks to intense pressure by AIDS activist and others that US retreated from its position and reached negotiations.

Free from competition, the company will be able to keep the price of the drug high during the protection period. By virtue of TRIPS protection, no generic equivalent can come into the market until expiry of the 20 years, denying patients cheaper alternatives.

Patents on Life Forms Biological Material: Article 27.3 (b) of TRIPs allows patenting of life forms in the sense that micro-organism and micro-biological processes have to patented and accord protection to plant varieties by patents or some legal means. These enable the biotechnology lobby and Northern governments to exert private monopolistic rights over terrestrial biological resources.

These measures will legitimise the private appropriation of community-based resources and knowledge and undermine indigenous and local communities. It gives the North legal right to plunder the biological heritage of the Third World. For instance, it will further the patentability of traditional medicines and crops which in the Third World have been in the public domain for millennia. The Third World is the source of some 90 percent of the world's store of biological resources. Bio-prospectors have for many years stolen the plant knowledge of local people for profitable uses. For example the rosy periwinkle found in Madagascar contains anti-cancer properties, Eli Lilly developed a drug from it making $100 million in annual sales but nothing for Madagascar (*UNDP* 1999).

The value of the trade in medicinal plants is currently estimated at US$43 billion a year; whilst the value of crops varieties improved and developed by traditional farmers to the seed industry amounts to US$15 billion. Other natural products so derived like sweeteners, perfumes, bio-pesticides, fabrics and cosmetics indicate the immense contribution and value of biological resources from the Third World (Gray 1993 and Brush 1999). In terms of the contribution to pharmacology, some three quarters of the plants that provide active ingredients for prescription drugs drew the attention of researchers because of their use in traditional medicine; of the 120 active compounds currently isolated from the higher plants and widely used in modern medicine, 75 percent show a positive correlation between their modern therapeutic use and the traditional use of the plant from which they were derived (Farnsworth *et al* 1985). Landmark discoveries were made of an important class of antihypertensive agents - ACE inhibitors from plant extracts collected from Malaysia, Ghana and Costa Rica (Howson, Fineburg and Bloom 1998, Source: http://www.phmovement.org/pubs/issuepapers).

Reflection and Action 22.3

Assess the impact of TRIPs regime on the pharmaceutical sector in India.

22.7 Indigenous Knowledge and Biopiracy

As can be seen from our previous section, the contribution of traditional or indigenous knowledge practices to modern pharmaceutical industry and big corporations is immense. Most of these life forms and knowledge as we already mentioned are located in the Third World countries.

Box 22.2: Biopiracy

Bio piracy refers to use of biological resources by corporations. Particular activities usually covered by the term are:

- unauthorised use of biological resources such as plants, animals, micro-organisms and genes
- unauthorised use of traditional communities' knowledge on biological resources
- unequal share of benefits between a patent holder and the indigenous community whose resource or knowledge has been used
- patenting biological resource with no respect to patentable criteria (novelty, nonobviousness, usefulness)

More than 90 per cent of the earth's biological diversity is located in Africa, Asia and South America; indigenous communities which have developed and nurtured such diversity are not acknowledged — much less compensated - for the material and local knowledge that is taken from them. This inequity is exacerbated by the growing use of patents, which grant exclusive protection to Northern corporations and researchers for material or knowledge, which originated in the South.

And what is more, a majority of the populations of the South rely on indigenous knowledge for their survival. A report, which was prepared by the Rural Advancement Foundation International (RAFI) estimates that "80 per cent of the world's people continue to rely upon indigenous knowledge for their medical needs and possibly two-thirds of the world's people could not survive without the foods provided through indigenous knowledge of plants, animals, microbes and farming systems" (http://twm.co.nz/Biopiracy.html)

As Vandana Shiva points out "biopiracy and patenting of indigenous knowledge is a double theft because first it allows theft of creativity and innovation, and secondly, the exclusive rights established by patents on stolen knowledge steal economic options of everyday survival on the basis of our indigenous biodiversity and indigenous knowledge. Over time, the patents can be used to create monopolies and make everyday products highly priced" (source: http://www.globalissues.org). The justification given by big corporations for patent has been that they lose a lot of money which they spend in research development to Thrid World piracy. The estimates provided for royalties lost in agricultural chemicals are US$202 million and US$2,545 million for pharmaceuticals. However, as the Rural Advancement Foundation International (RAFI), in Canada has shown, if the contribution of Third World peasants and tribals is taken into account, the roles are dramatically reversed: the US owes US$302 million in royalties for agriculture and $5,097 million for pharmaceuticals to Third World countries. Besides the money involed the unequal trade, patenting of lifeforms and knowledge is big threat to the very food security of poorer rural communities and the indigenous people.

Many biotech companies claim that genetically engineered foods will help alleviate hunger and increase food security, their acts of patenting the knowledge and food that has been developed over centuries itself may be a threat to food securtiy.

Genetic diversity in agriculture has been the main stay of many indigenous communities and rural communities of the South, In fact the reason why there has been so much of bio-diversity in the South has been partly attributed to the sustainable agricultural practices of small farmers and communities. These communities have over the centuries acquired knowledge about plants, seeds and breeds which are best adapted to agro-climates, pests and so on. And this has contributed to the general availability of food even through climatic aberrations and changes. Farmers in Semi-arid regions of India at one time knew the particular variety of crops to be grown which are drought resistant. The same regions now see an increasing disaster of failed crop production and suicides by farmers. Read the Box 23.4 to understand some of the nuances, as articulated by Vandana Shiva, who is leading activist fighting for bio-diversity and rights of small communities.

Box 22.3: Food Security

"Last year I was in Warangal, Andhra Pradesh where farmers have also been committing suicide. Farmers who traditionally grew pulses and millets and paddy have been lured by seed companies to buy hybrid cotton seeds referred to by the seed merchants as "white gold", which were supposed to make them millionaires. Instead they became paupers.

Their native seeds have been displaced with new hybrids which cannot be saved and need to be purchased every year at high cost. Hybrids are also very vulnerable to pest attacks. Spending on pesticides in Warangal has shot up 2000 percent from $2.5 million in the 1980s to $50 million in 1997. Now farmers are consuming the same pesticides as a way of killing themselves so that they can escape permanently from unpayable debt.

The corporations are now trying to introduce genetically engineered seeds, which will further increase costs and ecological risks. That is why farmers like Malla Reddy of the Andhra Pradesh Farmers' Union had uprooted Monsanto's genetically engineered Bollgard cotton in Warangal.

The rich diversity and sustainable systems of food production are being destroyed in the name of increasing food production. However, with the destruction of diversity, rich sources of nutrition disappear. When measured in terms of nutrition per acre, and from the perspective biodiversity, the so called "high yields" of industrial agriculture or industrial fisheries do not imply more production of food and nutrition. Yield usually refers to production per unit area of a single crop. Output refers to the total production of diverse crops and products. Planting only one crop in the entire field as a monoculture will certainly increase its individual yield. Planting multiple crops in a mixture will have low yields of individual crops, but will have high total output of food. Yields have been defined in such a way as to make the food production on small farms by small farmers disappear.

The Mayan peasants in the Chiapas are characterised as unproductive because they produce only 2 tons of corn per acre. However, the overall food output is 20 tons per acre when the diversity of their beans and squashes, their vegetables and their fruit trees are taken into account.

In Java, small farmers cultivate 607 species in their home gardens. In sub-Saharan Africa, women cultivate 120 different plants. A single home garden in Thailand has 230 species, and African home gardens have more than 60 species of trees. Rural families in the Congo eat leaves from more than 50 species of their farm trees. A study in eastern Nigeria found that home gardens occupying only 2 per cent of a household's farmland accounted for half of the farm's total output. In Indonesia 20 percent of household income and 40 per cent of domestic food supplies come from the home gardens managed by women. Research done by FAO has shown that small bio-diverse farms can produce thousands of times more food than large, industrial monocultures. And diversity in addition to giving more food is the best strategy for preventing drought and desertification.

Source: http://news.bbc.co.uk/hi/english/static/events/reith_2000/lecture5.stm)

22.8 Protection of Indigenous and Traditional Knowledge

It is very clear from the preceding discussion that the implications IPRs for Third World countries, and the subsistence farming communities and indigenous population with these countries, is very severe. Not only is their knowledge stolen but their very survival is threatened without any compensation for their knowledge or survival.

Various protests, against the Seattle Talks in particular and in general to variety of agreements, have pointed out to the Northern and big corporation bias in these agreements. Besides, the IPR regimes are structured to suit the logic developed by the North, which is based on Individual rights and this alien to the community ownership of indigenous and traditional communities. Some of the characteristics of indigenous knowledge are:

- Collective rights and interest
- Closely integrated with their ecology and environment, sometimes taking on a sacred quality
- Many times this knowledge is respectful of the diversity in nature
- Not always well documented; but orally transmitted.

These aspects of indigenous knowledge and their way of life have been their vulnerable point for exploitation. For instance the Convention on Biological Diversity (CBD), argued that one factor in the loss of biodiversity is the "lack of clear property rights governing ownership and access to biodiversity". And therefore it recommends that there should be clearer specifications and laws regarding sustainable management of the resources in the control of the indigenous community. The existing IPR regimes do not recognise the collective rights that indigenous people hold in knowledge and practices. There is also a fixed period for protection under patent laws, usually up to 20 years, which again does not provide for indigenous knowledge that is often the result of millennia of innovation and transmission.

Various organisations have looked to different international conventions and summits to look for guidance of the rights of indigenous communities to work out modalities for the protection of their rights and knowledge. Let us briefly summarise some of these articulations.

International efforts to protect of indigenous rights and knowledge: The *Draft Declaration on the Rights of Indigenous Peoples* provides, at Article 24, for Indigenous peoples' rights to "their traditional medicines and health practices, including the right to the protection of vital medicinal plants, animals and minerals". Article 29 provides that Indigenous peoples are "entitled to the recognition of the full ownership, control and protection of their cultural and intellectual property". These peoples, the Article says:

> ...have the right to special measures to control, develop and protect their sciences, technologies and cultural manifestations, including human and other genetic resources, seeds, medicines, knowledge of the properties of fauna and flora, oral traditions, literatures, designs and visual and performing arts.

International Labour Organisation Convention 169 ('ILO 169') also contains various provisions (e.g. Articles 4, 5, 8, 13 and 23) relevant to the protection of Indigenous peoples' cultures, environments, and religious and political systems.

One international development that provides specific opportunities for introducing measures to protect Indigenous knowledge is the *Convention on Biological Diversity (CBD)*, mentioned above. Article 8(j) of this Convention encourages countries "subject to national legislation" to:

> ...respect, preserve and maintain knowledge, innovations and practices of indigenous and local communities embodying traditional lifestyles relevant for the conservation and sustainable use of biological diversity and promote their wider application with the approval and involvement of the holders of such knowledge, innovations and practices and encourage the equitable sharing of the benefits arising from the utilisation of such knowledge, innovations and practices (Source: http://www.aph.gov.au)

These are as far as the international directives and conventions which provide broad outlines but when it draws closer to implementing a lot of nuances come in the way which makes the protection of knowledge a communities very difficult.

Perspectives on protection of traditional knowledge: For instance the CBD urges national laws or policies to be made which protect bio-diversity and indigenous community rights. If we take the example of India, for instance, can we say that our national policies and laws have been protective of our small communities or indigenous communities such as the *Adivasis.* The Indian herbal industry has been accused of using traditional community knowledge and not shared the benefits of the profits it made.

There are several perspectives to the issue of the protection of traditional knowledge and benefit sharing. Ujjwal Kumar from Gene campaign, an NGO working towards this issue writes in an article that the perspectives can put as: i) commercial interest minus of communities, ii) commercial interest inclusive of communities and iii) community interest that do not conform with commercial interest.

As for the first perspective, it seems a lot of what the domestic herbal industry or pharmaceutical industry doing is reaping the traditional knowledge for commercial interest without providing for the communities.

The second one on the other hand seems a good via - media, for the IPR regimes, it seems is increasingly difficult to debunk so there should be protection of not only the knowledge but also commercialisation where benefits are shared by the relevant community(s). The efforts made by National Innovation Foundation and to some extent People's Biodiversity Registers, can be sited as examples in this category.

The proponents of the third viewpoint feel that communities and traditions are inseparable and they should not be diluted by laws and commercial interests, as it would upset the very foundation and philosophy of indigenous communities' relationship with environment. Their basic objective is to regain control of decreasing access to biological resources by indigenous communities and not concentrate on the by-products of what remains of their knowledge or practice.

All these perspectives have their respective advantages and disadvantages if one were to examine them carefully. In the meanwhile the poorer countries of the world especially a combined front of Brazil, India, Venezuela, Malaysia, among others, have been resisting global pressures and agreements at various level and have created fairly formidable resistance to Northern domination.

However, issues relating to protecting, recognising and rewarding of traditional knowledge associated with biological resources are very complex. The modalities for protecting traditional knowledge are still emerging and evolving. The nature of entitlements and share in benefits is also a grey area. Even at the international level, clarity has as yet not emerged and countries are grappling to understand the issue.

22.9 Conclusion

In this unit we have tried to understand the process of globalisation and its main features and how in many ways it paves the way for increasing privatisation and liberlisation. We examined the features of international trade regulating body, the WTO, especially with relation to Trade Related Intellectual Property Rights. There was also a discussion and found that the concerns expressed by poorer countries about the domination of the North are reasonable valid. They domination of the North is expressed in many ways; we tried to examine some of these aspects. One particular aspect, which is of importance to our unit, is the agreement on TRIPs, which has several consequences for IPRs. Couched as they are in legal language, some of the agreements and laws have proved to be very slippery but with increasing involvement and alertness on the part of Third World countries a lot biopiracy has come under watch. As to how these regimes will evolve will depend on the continuing debates on various issues that concern indigenous people's rights and the protection of their knowledge and biodiversity.

22.10 Further Reading

Stiglitz, E. Joseph 2003. *Globalisation and its Discontents.* Norton and Company: New York

Correa, Carlos M. 2000. *Intellectual Property Rights, the WTO and Developing Countries: The TRIPs Agreement and Policy Options*. Third World Network: Penang

Unit 23
WTO, GATT, GATS: Capital and Human Flows

Contents

Learning Objectives

After reading this unit you should be able to explain:

- the origin, scope and functions of the World Trade Organisation
- multiple facets of GATT, GATS and TRIPs;
- emerging concern of the developing countries on trade liberalisation;
- implications of trade liberalisation for social development, especially in the developing countries.

23.1 Introduction

In the previous units of this block we have discussed the issues of social, cultural and economic dimensions of globalisation and also the various facets of structural adjustment programmes and the impact of international trade regulations on traditional and indigenous knowledge. And we understood how the current pace of globalisation has affected the process of development across the globe. Trade, both national and international has become very important aspect of development. In the context of globalisation trade has taken a different shape and all aspects of human lives — goods, services, arts, music etc. – have emerged to be tradable objects. New mechanisms have emerged to facilitate trade globally. Some of the important international bodies/ mechanisms of these arrangements are those of WTO, GATT and GATS.

In this unit we shall be discussing the implication of all these arrangements for the developing world. To begin with we have discussed the interface between social development, globalisation and trade agreements. We have briefly discussed the historical origin, functions, principles and scope of WTO and GATT. The issues covered in GATT, GATS and TRIPs, and their scope and commitments are also discussed in this unit. We have discussed at length the emerging concern for trade liberalisation and the implication on social development.

23.2 Social Development, Globalisation and Trade Agreements

The modern world witnessed a series of interrelated socio-political processes and events in the late 1980s and early 1990s. The most important of these have been ever increased flobal interconnected, introduction of structural adjustment programmes, the phenomenal expansion of information and communication technologies (ICTs), increasing commercialisation, perspective change in the orientation of development (from economic growth to human development) and a quantum increase in human and capital flows from one part of the globe to another and so on. All these have impacted the processes of development. There have been concerted efforts, against the backdrop of the collapse of the socialist economy and the triumph of the market forces, to redirect the forces of development locally and globally through the Social Development Summit 1995, formation of the World Trade Orgnisation, the General Agreement on Trade and Tariff (GATT) and the General Agreement on Trade in Services (GATS). The *World Development Report* 1997 focused on attempts to bring stability for investment and development. One of the central themes of all these efforts has been to remove all the obstacles to the expansion of the market forces that would supposedly pave the way for social and human development across borders. Let us examine briefly how the Social Development Summit 1995 has built up the case for free trade.

The Social Development Summit 1995 took place in Copenhagen in the wake of globalisation and introduction of structural adjustment programmes and especially on the eve of 50^{th} anniversary of the United National Organisation. All heads of state pledged for social development and empowerment of the marginalised, ushering in the human face of development by ensuring peace and stability in society.

At this summit all the heads of state and government recognised that broad based and sustained economic growth is necessary to sustain social development and justice. It declares that "globalisation, which is a consequence of increased human mobility, enhanced communications, greatly increased trade and capital flows and technological developments; and opened new opportunities for sustained economic growth and development of the world economy, particularly in developing countries. Furthermore, the global transformations of the world economy are profoundly changing the parameters of social development in all countries. The challenge is how to manage these processes and threats so as to enhance their benefits and mitigate their negative effects upon people" (UN: 1995).

While identifying the principles and goals of social development and the framework of its action, this summit emphasised the need to "integrate economic, cultural and social policies so that they become mutually supportive, and acknowledge the interdependence of public and private spheres of activity". It also recognised that new information technologies and new approaches to the access to and use of technologies by people living in poverty could help in fulfilling social development goals; and therefore recognised the need to facilitate access to such technologies.

The summit made several commitments in order to meet the goal of social development. In its very first commitment it mentioned:

> at the national level all the states would commit to promote dynamic, open, free markets, while recognising the need to intervene in markets, to the extent necessary, to prevent or counteract market failure, promote stability and long-term investment, ensure fair competition and ethical conduct and harmonise economic and social development, including the development and implementation of appropriate programmes that would entitle and enable people living in poverty and disadvantage, especially women, to participate fully and productively in the economy and society (UN 1995).

At the time, these heads of the state also committed themselves to promote and implement policies to create a supportive external economic environment, through inter alia cooperation in the formulation and implementation of macroeconomic policies, trade liberalisation, mobilisation and/or provision of new and additional financial resources that are both adequate and predictable and mobilised in a way that maximises the availability of such resources for sustainable development, using all available funding sources and mechanisms, enhanced financial stability, and more equitable access of developing countries to global markets, productive investments and technologies and appropriate knowledge, with due consideration to the needs of countries with economies in transition (Ibid).

In another international commitment (commitment 3) they promised to "foster international cooperation in macroeconomic policies, liberalisation of trade and investment so as to promote sustained economic growth and the creation of employment, and exchange experiences on successful policies and programmes aimed at increasing employment and reducing unemployment (Ibid)."

This summit also committed (commitment 7) to "implement at the national level structural adjustment policies, which should include social development goals, and effective development strategies that establish a more favourable climate for trade and investment, give priority to human resource development and further promote the development of democratic institutions" (Ibid).

It is important that social development and human well-being have got the highest priority in the twenty-first century development discourse. Expansion of free market commodification of all vital aspects of life, and boundaryless expansion of trade have been envisaged to be the potential vehicles of social development and human well-being. The WTO, along with its several trade agreements and rounds of negotiations, has emerged to be the key agency under the auspices of the influential developed nations to monitor the expansion of free trade worldwide. Will the WTO, GATT and GATS be able to strike a balance between the diverse needs of the market on the one hand and that of the social commitment of the developing nations of the world? What are their limitations? Let us examine these issues in this unit.

Reflection and Action 23.1

What was the objective of the Social Development Summit, 1995? How have the issues of structural adjustment programme and free trade been associated with it?

23.3 World Trade Organisation (WTO): Origin

The World Trade Organisation (WTO) has taken concrete shape in 1995 after successful operation of the General Agreements in Tariffs and Trade (GATT) for around five decades. GATT again, had emerged out of some other experimentation on trade negotiations. Indeed GATT owes its origin to the pre-World War II American endeavour to secure mutual tariff reductions from 29 countries through bilateral means. The concept of a multilateral institution emerged after World War II especially with the initiative of America and Britain and formed the basis of the formation of GATT in 1947 as a transient arrangement. The original intention was to create the third institution to handle the trade side of international economic cooperation, joining the two Bretton Woods institutions, the World Bank and IMF. Over 50 countries participated in negotiations to create an International Trade Organisation (ITO) as a specialised agency of the United Nations. The draft ITO Charter extended beyond world trade disciplines to include rules on employment, commodity agreements, restrictive business practices, international investment and services. Even before the tasks concluded 23 of the 50 participants decided in 1946 to negotiate to reduce and bind customs tariffs. These 23 nationas ratified through negotiations a combined package of trade rules and tariff concessions which later known as General Agreements on Tariffs and Trade. It entered into force in January 1948, while ITO Charter still was being negotiated. The 23 became the founding GATT members. India was also a signatory.

Although the ITO Charter was finally agreed at a UN Conference on Trade and Employment in 1948, due to the opposition by some national legislatures, especially U.S. Congress which refused to ratify it apprehending ITO's interference in its sovereignty, ITO was effectively dead. So, GATT continued until January 1995 when the World Trade Organisation came into being after the Uruguay Round Final Act signed at Marrakesh on 15th April 1994. It has emerged as a super sovereign global agency for framing rules for international trade, investment, intellectual property rights, economic and social agenda for nations with adjudicating authority over member States. The Governments of all the sovereign national states have to comply with the provisions and pronouncements of WTO. India is a signatoryof WTO also. In this historical backdrop let us examine the functioning and scope of WTO.

23.4 World Trade Organisation: Functions, Principles and Scope

To put simply WTO is an organisation that deals with rules of trade between notions at a global or near global level. It has emerged out of negotiations among the member countries on trade issues. Indeed it is a place where the member states go to try enhance the trade prospects and to sort out the trade problems they face with each other. It functions for negotiating trade agreements among the member governments. Through negotiations, the WTO helps member countries to remove and lower trade barriers and liberalise trade. Let us see the function, preinciples and scope of WTO.

a) **Functions**: The WTO sets rules for trade among nations. The WTO agreements, which emerge out of several rounds of negotiations, provide the legal ground-rules for international commence.

   They are essentially contracts, binding governments to keep their trade policies within agreed limits. Although negotiated and signed by governments, the goal is to help producers of goods and services, exporters and importers conduct their business, while allowing governments to meet social and environmental objectives (WTO 2001).

   WTO also helps settle disputes related to trade. Most of the agreements, in the WTO system, often need interpretation. At times differences take place among the trading partners on the interpretation of the agreements. There are also conflicts in trade interests. "The most harmonious way to settle these differences is through some neutral procedure based on the agreed legal foundation." WTO aims to settle all disputes with laid down procedure.

b) **Principles of the Trading System:** As WTO sets the rules for trade; it has developed sets of agreed principles for this purpose. Indeed WTO agreements are based on certain fundamental principles. These may be described as follows:

   - Trade Without Discrimination. This principle has two aspects to it i) Most Favoured Nation-MNF: Under WTO agreements no country can normally discriminate among its trading partners. When some special fovours are given, e.g., the Most Favoured Nation (MFN) treatment, the same favour is normally to be thrown to all the other WTO members. Even though it sounds like a contradiction, in essence it implies that each member treats all the other members as Most Favoured trading partners. ii) National Treatment. This involves "imported and locally-produced goods should be treated equally — at least after the foreign goods have entered the market. The same should apply to foreign and domestic services and to foreign and local trademarks, copyrights and patents" (source: www.wto.org). To WTO, "opening markets can be beneficial, but it also requires adjustment. The WTO agreements allow countries to introduce changes gradually through progressive liberalisation. Developing countries are usually given a longer turn to fulfill their obligation". Significantly the WTO agreement also desires the member governments to ensure that the business environment is stable and predictable.

- Open Trade Policy and Fair Competition: WTO recognises that "all countries, including the poorest, have assets – human, industrial, natural, financial - which can be used for producing goods and services both for the domestic and overseas markets. It also recognises that bilateral trade policies, that allow the unrestricted flow of goods and services, sharpen competition, motivate innovation and breed success. They multiply the rewards that result from producing the best products with the best design at the best price" (WTO 2001). The WTO believes that lowering trade barriers such as import duties or tariff, restricting or removing quotas and removing bans on select imports goes a long way in encouraging free trade.
- Encouraging Economic Reforms: Trade liberalisation is an important agenda of WTO. Over three quarters of WTO members are developing countries and countries in transition to market economies. Here all members have committed themselves to market access within a specified timeframe (we shall discuss this timeframe later).
- General Agreement on Trade in Services (GATS) Earlier agreements tended to concentrate on goods but increasingly the areas expanded to services such as banking, telecommunications, postal services, tourism, transportation, waste disposal, oil and gas production and electricity. They also cover those services universally considered to be essential to human health and development, like healthcare, education and drinking water. GATS was established in 1994 as part of the Uruguay Round. It is known as a "bottom-up" agreement because it is based on countries listing the sectors they will open up for liberalisation. GATS negotiators and the WTO like to project GATS as a very flexible agreement from which countries may completely exclude certain sectors. "Unfortunately, in reality, the GATS text is very ambiguous in terms of what is covered by its rules and what is not (see unit 22 for more details). For instance, the first paragraph in the GATS states that only government services that are supplied neither on a commercial basis nor in competition with one or more service suppliers are excluded from GATS on the basis of being a government service. Most government services (like health care, education and energy) involve some public/private mix and might therefore be subjected to GATS rules. Such government services could be challenged for violating WTO rules"(source: www.citizen.org).

c) **Scope:** The WTO agreements cover goods, services and intellectual properly. The Uruguay Round of Multilateral Trade Agreement, that form the foundation of WTO, covers the following three broad areas of trade agreements:

The General Agreement on Tariffs and Trade (GATT)

GATT includes sectors or issues related to

- Agriculture
- Health regulations for farm products (SPS)
- Textile and clothing

- Product standards
- Investment measures
- Anti-dumping measures
- Custom violation methods
- Pre-shipment inspection
- Rules of origin
- Import licensing
- Subsidies and counter measures
- Safeguards

The General Agreement on Trade in Services (GATS)

GATS includes

- Movement of natural persons
- Air transport
- Financial services
- Shipping
- Telecommunications

The Trade Related Aspects of Intellectual Property Rights (TRPIs)

TRIPs covers

- Copyrights and related rights
- Trade marks
- Geographical indication
- Industrial designs
- Patents
- Layout Designs
- Undisclosed information including trade secrets

> **Box. 23.1: What happened to GATT?**
>
> WTO replaced GATT as an international organisation, but the General Agreement still exists as the WTO's umbrella treaty for trade in goods, updated as a result of the Uruguay Round negotiations. Trade lawyers distinguish between GATT 1994, the updated parts of GATT, and GATT 1947, the original agreement which is still the heart of GATT 1994 (WTO 2003)

23.5 General Agreements on Tariffs and Trade (GATT)

Let us briefly discuss some aspects of GATT

a) **Agriculture:** Agriculture as an item in GATT has been widely discussed and debated. Under this agreement countries are allowed to use some non-tariff measures such as "import quotas" and subsidies. According to WTO the objective of the agricultural agreement is "to reform trade in the sector and to make policies more market oriented" with a view to improving predictability and security for importing and exporting countries alike. Thus the agreement on agriculture relates to market access, domestic support and export subsidies. According to WTO "the agreement on agriculture does allow governments to support their rural economies but preferably through policies that cause less distortion to trade. It also allows some flexibility in way of commitments, which are to be implemented over a period of time. Developing countries do not have to cut their subsidies or lower their tariffs as much as developed countries and they are given extra time to complete their obligations. Least developed countries do not have to do this at all"(Ibid).

The arguments which are usually raised against domestic support prices or for subsidised productions are that these encourage over production, quizz out imports, lead to export subsidies and low price dumping on world markets. Hence the developed countries agreed to reduce the agricultural support price by 20% over six years starting in 1995, the developing countries by 13% over ten years. The developed countries again agreed to cut the value of export subsidies by 36% over the six years starting in 1995 and the developing countries by 24% over 10 years. The developed countries also agreed to reduce the qualities of subsidised exports by 21% over the six years and the developing countries by 14% over the 10 years.

b) **Health Standards and safety:** Another important aspect of GATT is the maintenance of standards and safety "in order to protect human, animal or plant life or health, provided they do not discriminate or use this as disguised protectionism". Here the member governments are to use international standards. However, WTO has allowed individual member countries to apply a scientifically justified higher standard; thus allowing them to use different standards.

c) **Textiles:** This is a contentious area of GATT. Until the end of the Uruguay Round, trading in textiles was governed by bilateral agreements or unilateral action in terms of established quotas. Under the quota system, countries could impose a limit on imports of textiles into the domestic market. However, under WTO's Agreement on Textiles and Clothing, this sector is to be fully integrated into GATT rules by January 2005 to bring to an end the quota system and to end the discrimination by the importing countries between exporters.

Reflection and Action 23.2

What are major aspects of trade covered under GATT? What are the guiding principles involved in this trade?

23.6 General Agreement on Trade in Services (GATS)

GATS was formulated in the Uruguay Round against the backdrop of the phenomenal expansion of the service economy all over the world. Let us explain some important aspects of GATS, especially its coverage, obligation and disciplines.

a) **Coverage:** The agreement covers all internally traded services – for example banking, telecommunications, tourism, professional services, etc. It has been defined in four ways (or "modes" of trading services):

- Service supplied from one country to another (e.g., international telephone calls), officially known as "cross-border supply" (in WTO jargon, "mode1")
- Consumers or firms making use of a service in another country (e.g. tourism), officially "consumption abroad" ("mode 2")
- A foreign company setting up subsidiaries or branches to provide services in another country (e.g., foreign banks setting up operations in a country), officially "commercial presence" ("mode 3").
- Individuals traveling from their own country to supply services in another (e.g., fashion models or consultants), officially "presence of natural persons" ("mode 4")

b) **Principle of GATS**

Trades in these services, according to GATS, are to be governed by the following obligations and disciplines:

i) Most Favoured Nation treatment (MFN) is the cornerstone of GATS, whereby equal opportunity is to be given to service providers from all WTO members. However, there was a temporary exception to honour for a period of 10 years (starting from January 1995) the already preferential agreements the member countries signed with trading partners.

ii) GATS binds commitment on market access and national treatment to all WTO members. According to WTO, "the commitments are virtually guaranteed conditions for foreign exporters and importers of services and investors in the sectors to do business".

It is important that government services, as those are not applied commercially, are not subject to GATS commitment.

Box 23.2: Technically the word Privatise is not available in GATS

There is nothing in GATS that forces governments to privatise services and industries. In fact the word privatise does not even appear in GATS. Nor does it out law government or even private monopolies (WTO 2001).

iii) It is obligatory on the part of the government to make all relevant laws and regulations governing services public. The governments also have to notify to WTO any changes in the regulations that apply to services.

iv) GATS stipulates that member governments should regulate services reasonably, objectively and impartially when they set standard, price, safety measures, etc.

v) Recognition of other countries' qualifications (the licensing or certification of service suppliers) must not be discriminatory.

vi) Progressive liberalisation of the services sector is a goal of GATS, which is to be achieved through negotiations. (WTO 2001)

Box 23.3: Mode of Supply of Education under GATS

Mode of Supply According to GATS	Explanation Education	Examples in Higher of market	Size/Potential
1. Cross Border Supply	-the provision of a service where the service crosses the border (does not require the physical movement of the consumer)	-distance education -e-learning -Virtual universities	-currently a relatively small market -seen to have great potential through the use of new ICTs and specially the internet
2. Consumption	-provision of the service involving the movement of the consumer to the country of the supplier	-students who go to another country to study	-currently represents abroadof the global market for education services
3. Commercial Presence	-the service provider establishes or has presence of commercial facilities in another country in order to render service	-local branch or satellite campuses -twinning partnerships -franchising arrangements with local institutions	-growing interest and strong potential for future growth -most controversial as it appears to set international rules on foreign investment
4. Presence of Natural Persons	-persons traveling to another country on a temporary basis to provide service	-professors, teachers, researchers working abroad	-potentially a strong market given the emphasis on mobility of professionals

Source: Night 2002

Box 23.4: Classification of education services under GATS

Category of education service	Education activities included in each category	Notes
Primary Education (CPC 921)	-pre-school and other primary education services -does not cover child-care services	
Secondary Education (CPC 922)	-general higher secondary -technical and vocational secondary -also covers technical and vocational services for the disabled	
Higher Education (CPC 923)	-post secondary technical and vocational education services -other higher education services leading to university degree or equivalent	-types of education (i.e., business, liberal arts, science) are not specified -assumes that all post secondary training and education programs are covered
Adult Education (CPC 924)	-covers education for adults outside the regular education system	-further delineation is needed
Other Education (CPC 929)	-covers all other education services not elsewhere classified -excludes education services related to recreation matters	-needs clarification re coverage and differentiation from other categories -for example- are education and language testing services, student recruitment services, quality assessment covered?

Source: Night 2002

23.7 Trade Related Aspects of Intellectual Property Rights (TRIPs)

Ideas and knowledge emerging out of research, innovation, invention, and application of advanced technology are important parts of trade. The WTO agreement on Trade Related Aspects of Intellectual Property Right (TRIPs) aims to grant the creators "the right to prevent others from using their inventions, designs or other creations and to use that right to negotiate payment in return for others using them." Disputes over intellectual property rights are settled based on certain basic principle. Some of them are mentioned below:

a) **National Treatment:** (trading one's own nationals and foreigners equally) and Most Favoured Nation (equal treatment for all nations) are the basic principles of TRIPS. It also stipulates that intellectual property protection should contribute to technical innovation and transfer of technology (Ibid)

b) **Intellectual Property Rights:** TRIPs has made elaborate arrangements to protect intellectual property. It protects the copyright of producers of intellectual property. Computer programme is protected as literary work. Similarly sound recording, films and the performers are given the rights to prevent the unauthorised use of one's production. While service marks will be protected as trade marks, well-known trade marks will envoy additional protection.

c) **Patent Protection:** According to the agreement, patent protection must be available for inventions for at least 20 years. "Patent protection is available both for products and processes in almost all fields of technology. Government however can refuse to issue a patent for an invention if its commercial exploitation affects public order or morality. Regarding plant, it is said that plant varieties must be protected and protectable by patents.

While the patent owners are given specific rights to enjoy and to prevent the possible abuse of those rights, the member governments are authorised to issue "compulsory licensees" allowing a competitor to produce the product or use the process under license by safeguarding the legitimate interests of the patent-holder".

Patent protection for pharmaceutical products at times prevents poor people of developing countries from having access to medicine. The Doha Ministerial Conference in November 2001 has agreed to grant exemptions on pharmaceutical patent protection for least developed countries until 2016.

Developing countries see technology transfer as a part of a bargain in which they have agreed to protect intellectual property right. The TRIPs agreement requires the developed countries to provide incentives for their companies to transfer technology to least developed countries (Ibid).

Box 23.5: Transition arrangements: 1, 5 or 11 years or more

When the WTO agreements took effect on 1 January 1995, developed countries were given one year to ensure that their laws and practices conform to the TRIPS agreement. Developing countries and (under certain conditions) transition economies were given five years, until 2000. Least-developed countries have 11 years, until 2006, which presently extended to 2016 for pharmaceutical patents.

If a developing country did not provide product patent protection in a particular area of technology when the TRIPS Agreement came into force (1 January 1995), it has up to 10 years to introduce the protection. But for pharmaceutical and agricultural chemical products, the country must accept the filing of patent applications from the beginning of the transitional period, though the patent need not be granted until the end of this period. If the government allows the relevant pharmaceutical or agricultural chemical to be marketed during the transition period, it must – subject to certain conditions – provide an exclusive marketing right for the product for five years, or until a product patent is granted, whichever is shorter (WTO 2001).

Box 23.6: Anti dumping, subsidies and safeguards

When a country exports a product at a price lower than it normally charges in its home market, it is said to be the "dumping of the product." Binding tariffs, and applying them equally to all trading partners, are key to the smooth flow of trade in goods. GATT allows countries to take action against dumping. The Anti-Dumping Agreement allows countries to act in a way not discriminating between trading partners. Typically, anti-dumping action means charging extra import duty on the particular product from the particular exporting country in order to bring its price closer to the "normal value" or to remove the injury to domestic industry in the importing country.

23.8 Trade Liberalisation: The Emerging Concerns for Developing Countries

In the following sections of this unit we shall be discussing the implications of WTO agreements on the developmental concerns of the developing countries. It has been assumed by a section of scholars that "trade liberalisation in service can result in increased competition, lower prices, more innovation, technology transfer, employment generation, and greater transparency and predictability in trade and investment flows" (Chanda 2002: 2). Significantly, trade liberalisation is also being seen as conducive to the realisation of social, developmental and equity issues. As indicated in the first section, the Social Development Summit, 1995 at Copenhagen categorically mentioned that social development could not be separated from the economic environment.

An important section of scholars are of the view that GATT and the GATS would make a balance between market forces and public policies pertaining to social and equity issues. However, questions are usually raised as to whether in the emerging environment of competitiveness the concern for equity, public distribution, human development of the marginalised, and the sovereignty of the states in fulfilling their national social objectives will get proper attention and treatment. It is usually pointed out that in the areas of health and education there are recognised market failures and the states are involved as provides of such services in many areas. The lack of commitments in social services by the market forces only widen the scope of such concerns (Ibid). Let us see some of them in little more detail.

a) WTO has emphasised uniformity of standards, rules and procedures, which are to be adhered to by all the member governments within a specified time frame. The developing and least developed countries are given more time than the developed ones to formulate the norms, rules and economic policies to match the requirement of global uniformity. The fact is that this harmonising tendency has emerged by undermining the diverse patterns of economy, localised needs and issues. At times the process of harmonisation has prevailed over economic autonomy and political sovereignty of developing and least developed countries. The GATS agreement is comprehensive and applicable to all levels of the governments - central, state, provincial, local and municipal. It is apprehended that the GATS principle would carve the sovereignty of the state, minimise the national interests and ignore universal service obligations. It is also said that the agreement for the development of discipline in the accountancy sector by the WTO's working party on professional services and its possible extension to other services like health and legal areas would undermine the government's authority to regulate consumer protection, ethical conduct and professional integrity (Ibid). It is alleged WTO has been formed under the protracted influence of the West to safeguard the interests of the multinational companies (MNC) of the developed nations especially those of North America. It is again said that the MNCs have a bigger say in the trade negotiations than sovereign states of the developing and least developed countries. Due to pressure from the lobbies in developed countries, GATS would force the developing and the least developed countries to open their services sector to trade leading to a "corporate take over" of the domestic service sector by the multinationals. Such a take over would undermine government's commitment to equity, universal service obligations and consumer protection (Ibid).

b) WTO has introduced market driven competition among unequal partners. The developing and least developed countries, who are yet to fully develop their markets, infrastructure, domestic capacity for investment, etc., will face added disadvantages while encountering the process of harmonisation. This process will reduce the possibility of the potential entry of these countries in competitive markets. Again, the increasing emphasis on labour and environmental standards has put serious trade restrictions on these countries. The problems of unemployment, poverty and illiteracy, which are endemic in these countries, are being undermined in the process of harmonisation. The GATS negotiation would serve the export interests of the developed countries. Under the given situation the developed, developing and least developed countries are unevenly placed so far as the supply capacity in service is concerned. "Critics note that the present asymmetry and the bias in the market access commitment towards capital mobility as opposed to labour mobility (mode 3 as opposed to mode 4) works in the interests of developed rather than developing countries. It reflects a basic imbalance in negotiating positions and lobbying power between the two sides."

It is pointed out that GATS would not take into consideration the export interests of the developing countries, especially the cross-border mobility of labour (mode 4). The commitments to mode 4 "are highly biased towards the higher levels of service providers such as executives, managers and corporate transferees," whose movements are usually linked to commercial presence…. There is considerable asymmetry in the current commitments on labour mobility compared to those on capital mobility, with a more liberal commitments being made ….on foreign equity participation. Such asymmetry in mode-wide commitments is one of the reasons why many countries do not see GATS as helping them to top their export potential in labour based services and why GATS has been perceived as only in the interest of the developed countries." (For details see Chand 2002)

c) The service sector of economy including both the traditional ventures like transport, physical and telecommunication, tourism and emerging areas like information and communication technologies (ICTs) and environmental and educational services has been undergoing a process of phenomenal expansion all over the globe in recent years. In the developed countries like the UK and the USA, it constitutes more than 72% and in the developing counties like India it is 52% of the GDP (World Bank 2005). This sector also provides a similar proportion of employment to the workforce of these countries. Again there has been considerable expansion in service sector trade and investment flaws. According to WTO Annual Report 1999-2001, the service sector accounts for 40% of the global annual stock of foreign direct investment (FDI) and for 50% of the World annual FDI flows (WTO 2001). It is a fact that developed countries has an exceptionally higher share in FDI in the service sector than the developing and least developed countries. Trade liberalisation in services as initiated through the Uruguay Round was largely due to pressure from the service sector lobby in the developed countries. It is also felt that since one of the modes of supply is commercial presence, "GATS would be a means for commercial interest in the developed countries to access developing country service markets in areas such as in service, banking and telecommunication through foreign direct investment."

   In the emerging global scenario, experts are of the view that in the service sector like construction and engineering, health and education services, the developing countries have considerable export potential due mainly to then availability of skilled and abundant labour. For example India has already emerged as the leading exporter of software services, and trained human resources too in ICTs.

d) There are some ambiguities in the scope and coverage of the range of services covered by GATS. At times it is said that services provided in the exercise of government authority are excluded from the agreement. Again it is said that services, which are not supplied on a commercial or competitive basis, are excluded from GATS. As there is co-existence of private and government suppliers in many of the crucial services, these are amenable to diverse interpretations.

e) GATS has imposed restrictions on the issues of subsidy, government procurement etc. policy. Such restrictions, it is alleged, would have adverse affects "on the cost, availability and equitable distribution of services (Ibid).

Reflection and Action 23.4

Write a critique of GATS in view of the socio-economic need of the marginalised groups of your society.

23.9 Implication for Health and Education

GATS has several implications on various aspects of social development, especially in the health and education sectors.

a) **Health:** The health sector has a high degree of government involvement in the developing countries, as it is an area of immediate social concern. Progressive liberalisation of this sector has both benefits and problems. For example when one looks at the prospect of cross-border exports of health services, it is pointed out that through telemedicine the health care provider can serve the need of the remote and unserved segments of population. However, it may address the need of selected segments only in view of the prevalent digital divide within the country itself. Following the "consumption abroad mode", the developing countries can generate foreign exchange by providing healthcare services to other countries. However, there may a contradiction. High quality service may be exported, while low quality is produced for local markets. Through "commercial presence", the developing countries can generate additional resources for health care service, generate employment opportunities, reverse the brain drain, reduce the burden on the government, etc. However, such a possibility would need large foreign direct investment in the health sector. As the dual system emerges, better-qualified doctors will flow from the public to the corporate sector. Under the "movement of natural persons" the source country can get more remittances, upgrade skills and standards, and promote exchange of knowledge among health professions as providers of service. The host country, on the other hand, can meet the shortage; improve quality by getting service from the providers.

   However, permanent outflows adversely affect the equity and quality of health services in the source countries. "Indeed the bulk of cross-border flows of health care professionals take the form of permanent migration. An estimated 10,000 health professionals emigrated from South Africa between 1989 and 1997. Again a dark side of this human flow from the source countries' point of view is that it imposes high cost, leads to shortage of trained manpower and loss of public resources. One study estimated that South Africa lost 67.8 billion Rand in human capital investment in health care sector in 1997 (calculated from the training cost of Rand 600,000 per physician), a loss only partly offset by the remittances arising from such outflows" (Chanda 2002: 21)

b) **Education:** In recent years the processes of commercialisation of higher education and foreign collaboration therein have increased. The GATS commitment to education services has both the positive and the negative sides. These sides are more or less similar to those of health services.

   GATS, according to Edsalt (2000), is a charter of rights for corporations who (a) restricts to the right of governments to regulate them, (b) guarantees the transnational education providers the right to both operate and receive government funding (Edsalt 2000).

   Critics also points out that the corporate world has found in WTO a forum to push their corporate agendas onto the unaware and unwilling countries and people without any democratic accountability. In this attack, they have discovered the possibility of manufacturing the thinking, the attitudes, and the purchasing choice of their corporations' consumers and workers (Frase and O'Sullivan 2003).

   Corporations have seen the prospects in the deregulated education sector. In 1996 the US provided export of education and training services that reached $8.2 billion with a trade surplus of some $7 billion.

Box 23.7: Goal for Corporate World: An Example

The Coalition of Service Industries (CSI) has outlined their principal goals for the Seattle Round of WTO:

- Ensure the right of US companies to establish operations in foreign markets, including the right to wholly own these investments;
- Ensure that US companies get "national treatment", so that foreign investors have the same rights as domestic companies in a given market;
- Promote pro-competitive regulatory reform focused on an adequacy of appropriate and consistent rules as well as transparency and impartiality of regulatory administration;
- Removal of barriers to greater cross-border trade;
- Remove obstacles to the free movement of people and business information.

Source: Frase and O'Sullivan 2003

With the phenomenal expansion of ICTs new models of commercialisation are added to education. There have emerged ruthless processes contributing to harmonisation of educational standards, decline in the uniqueness of educational institutions, elimination of cultural focus, thoughts and educational themes. With corporate controlled education, the security of an educational institution will disappear as it loses out to big merger deals and high-stakes investing. In fact the very ideal of education will change. No longer will truth be sought, but rather whatever suits the interests of the multinationals (Frase and O'Sullivan 2003).

Especially in developing countries education has a social concern. Governments subsidises education to meet the national goal. As subsidised education is a barrier to free trade, government controls are to be minimised on education through GATS. "Government may be forced to allow private companies to issue accredited diplomas, even if there is little control over what is being taught by these private institutions …. But perhaps more disturbing is the potential for education to increasingly serve only as a corporate training ground, rather than encouraging critical enquiry and other democratically agreed upon ends" (Ibid).

There is a strong feeling that GATS negotiation would serve the interests of the industrial lobby by imposing unequal bargaining power among the developed and the developing nations. Educational institutions and their services have been treated as national and social services. In fact, dissemination of knowledge, creation of knowledge and service to community are three tasks performed by educational institutions for nation building. The presence of foreign institutions would undermine this task by converting education into a commodity and by altering the content of education in terms of the market need (Gill 2003)

23.10 Conclusion

In this unit you must have seen the linkage between social development, globalisation and trade agreements. It is clear from the discussion in this unit that there are several issues, which are of great concern for the developing countries especially from the viewpoint of their sovereignty and cultural specificity. The concern has also been doubly compounded with the apprehension that WTO has been virtually taken over by the MNCs. The states in the developing countries are having several social and political commitments. One is not so sure that all these commitments and obligations would be fulfilled under the WTO regime. Perhaps we have to observe the functioning of WTO more vigilantly than ever to safeguard sovereignty.

23.11 Further Readings

Chanda, R. 2002. *GATS and Its Implications for Developing Countries: Key Issues Concerns.* Department of Economic and Social affairs. United Nations: New York

Gill, S.S. 2003 "Globalisation: Higher Education will suffer", in *The Tribune* July 20, 2003.

Night, J. 2002*. Trade in Higher Education Services: The Implications of GATS.* The Observatory on Borderless Higher Education: London