

CHAPTER-IV

IMPACT OF GLOBALISATION

Our Terms of Reference

Our terms of reference require us to examine “the emerging economic environment involving rapid technology changes, requiring response in terms of change in methods, trade and services, globalisation of economy, liberalisation of trade and industry and emphasis on international competitiveness and the need for bringing the existing laws in tune with the future market needs.”

4.2 It is, therefore, necessary for us to examine changes that have taken place in recent years in the world, changes in our economy and in our economic policies and to study their impact on the economy in general, and industry and labour in particular. We propose to undertake this exercise in this chapter.

4.3 The terms of reference of our Commission do not ask us to undertake a detailed study of the compulsions that led to globalisation, the goals of globalisation and the

advantages we hope to derive from globalisation. Nor have we been asked to formulate any conclusions on how far the nation has advanced along the path that we had embarked upon, and how far the benefits we had hoped to achieve have accrued, or to attempt to formulate a social cost benefit balance sheet of the last ten years that have elapsed after liberalisation and globalisation. We have, however, been asked to study the scenario that has emerged after globalisation and the impact that it has witnessed, and the impact that is likely to be experienced in the field of industry, the “labour market”, employment, eligibility for employment, changing demands on skills for continued employment, industrial vocations and laws relating to employment and individual vocations. We therefore, propose to concentrate our attention on the impact, and the responses that are necessary to improve the competitiveness of our industry and economic activities, to ensure a regime of harmonious industrial relations, to ensure increasing opportunities of employment, to

ensure at least a minimum level of protection and welfare for workers in all sectors of the economy – organised as well as unorganised.

4.4 To begin with, we will look closely at the changes in policy that have come with liberalisation and globalisation. We will then look at some of the effects of these policies on industry, our enterprises, our workforce and industrial relations in the country. Our recommendations will be restricted to the areas of employment, skills and training necessary for acquiring and retaining employability and employment, healthy industrial relations and laws that can promote a harmonious industrial relations machinery for the speedy and just solution of disputes. For the rest, whatever we say in our review is only meant to outline the context and the factors that contribute to the dynamic nature of the context. We shall respect our terms of reference and refrain from drawing conclusions about the social desirability of these policies, and the extent of success that we have achieved.

Concept of Globalisation

4.5 Globalisation has become a dominant feature of the world economy over the last decade, as more and more nations are becoming integrated into the global economy through trade and capital flows.

4.6 The origin of globalisation can be traced all the way back to the period of colonisation in the 16th century. In fact some authors have said that if foreign trade and capital flows signify globalisation, the world we live in now has seen more globalisation between 1870-1914¹ than we are experiencing today. During those days, capital, trade and labour were all free to move from one country to another. Many have observed that in the globalisation that we see today, only capital is free; labour or human resources are not.

4.7 Similarly, Kevin O’Rourke and Jeffrey Williamson (1997)² say the evolution of 19th century Atlantic

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¹ Hirst and Thompson 1996

² Globalisation and History: Kevin O’Rourke and Jeffrey Williamson 1997

economy was marked by accelerated trade flows, capital movements and migration. They point out that after the First World War and during the inter war period, the world witnessed a dramatic reversal of this process. The authors have described this as de-globalisation that led to an increase in trade protectionism, a break down of international capital markets, and an end to easy migration.

A Brief History

4.8 If we want to trace the origin of the current wave of economic globalisation, one has to go back to the days of the Great Depression of the thirties. In order to avoid the recurrence of similar depressions, many American industrialists pleaded with the U.S. Government to ensure domestic American economy, has sufficient access to foreign markets and raw materials. U.S. Corporate leaders, with the help of the foreign affairs department of the U.S. Government, organised an independent body called the Council on Foreign Relations. This Council, with the help of the Rockefeller Foundation, produced about 682 confidential memoranda for the Government on various aspects of

foreign economic relations. This was before the Second World War.

4.9 Immediately after the Second World War, the U.S. gave massive Marshal Aid to Europe and procured most of the orders of post-war reconstruction for U.S. corporations. In 1954, a Bilderberg Group was formed in Europe at the initiative of U.S. multinationals. This group continued its dialogue with policy makers of different western countries on all economic issues. In 1973, at the initiative of David Rockefeller, a Trilateral Commission was formed in which were represented all the leading bankers in the world, top executives of multinationals, media barons, political leaders and policy makers. Japan was also invited to join this group. All these bodies – from the Council of Foreign Relations, to the Tri-lateral Commission, have undoubtedly influenced the thinking of policy makers in the world and have succeeded in putting across ideas of globalisation, liberalisation, privatisation, and the WTO.

4.10 During the Eighties, at the initiative of the U.S. Government, the Centre For International Private Enterprise (CIPE) and the

International Centre for Economic Growth (ICEG) were promoted to propagate ideas of privatisation and globalisation across the globe. They released a large number of publications and research studies, and seminars and discussions were held in different countries to promote these ideas. Multinationals needed new markets for their products, and they also needed access to new sources of raw materials. It will not perhaps, be wrong to say that these efforts paved the way for the globalisation, we see today. The World Bank and International Monetary Fund have also helped to speed up the process. In the name of stabilisation and structural adjustment programmes, these institutions forced many countries that were facing debt crises in 1980s to create conditions for liberalisation in the developing countries. Both these institutions continue to do even today. In the early 1990s, when most South Asian countries were heavily burdened by deficit and debt, they were forced to enter into agreements with the IMF and the World Bank to open up their economies to the world trading system. This process of outward orientation and free flow of capital and trade culminated in January 1995 when the World Trade Organisation (WTO) was established.

Definition of Globalisation

4.11 Different persons have defined the term "Globalisation" differently. Alan Rugman (2000) gives considerable importance to the role played by multinationals and therefore, he defines globalisation as "the world wide production and marketing of goods and services by multinational enterprises." Anthony Giddens and John Tomlinson argue that such a definition is too narrow. They believe that globalisation is multi-dimensional, best "understood in terms of simultaneous, complex related processes in the realms of economy, politics, culture, technology and so forth (1999). Anthony Giddens, Director of the London School of Economics (1999) feels that with globalisation, social relations are no longer local, but stretch across time and space. It is often said that a global capitalist culture is being promoted by the powerful multinational enterprises. This global culture is being further speeded up by global mass media and communication technologies.

4.12 There are many more definitions of globalisation. The Human Development Report of South Asia 2001 has defined globalisation as

“the free movement of goods, services, people and information across national boundaries. It creates and, in turn, is driven by an integrated global economy, which influences both economic as well as social relations within and across countries. The opening up of the economy increases competition internationally as well as externally, leads to structural changes in the economy, alters consumer preferences, life styles and demands of citizens.”

4.13 Thus, we can see that globalisation means different things to different people, and so, we have many definitions. We are basically concerned with economic globalisation which tries to integrate different economies of the world by removing barriers to trade and allowing free foreign investment across the national boundaries, free flow of private portfolio capital and international labour migration. It is in this context that we have to examine globalisation and its impact on the Indian economy.

In Favour of Globalisation

4.14 There is a vast literature advocating globalisation. Their main lines of arguments are: globalisation

promotes economic growth and prosperity to all nations. It promotes technology, creates more quality jobs for the community, the free foreign investment supplements domestic savings and encourages more investment in the community. The FDI – receiving countries are in a better position to benefit from international integration; increase in international trade is good for economic growth.

4.15 The main principles on which the entire theory of globalisation is based are as follows:

- 1 Sustained economic growth, as measured by gross national product is the path to human progress.
- 1 Free markets, without intervention from the Government, generally result in the most efficient and socially optimal allocation of resources.
- 1 Economic globalisation, achieved by removing barriers to the free flow of goods and money anywhere in the world, spins competition, increases economic efficiency, creates jobs, lowers consumer prices, increases consumers' choice,

increases economic growth and is generally beneficial to every one.

- 1 Privatisation, which moves functions and assets from government to the private sector, improves efficiency.
- 1 The primary responsibility of the Government is to provide the infrastructure necessary to advance commerce and enforce rule of law with respect to properly rights and contracts.³

4.16 Incessant propaganda on these lines has created an atmosphere in which anyone who doubts the benefits of globalisation, is looked upon as outdated.

Critics of Globalisation

4.17 While many Indian economists feel that the process of globalisation is irreversible and inescapable, many economists, scholars and thinkers in the western world do not feel so. They are highly critical of the process of globalisation and the inequalities that

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³ David C Korten: When Corporates Rules the World (1998)

it is likely to promote between the poor and developed nations of the world. A brief review of the comments made by some of the critics of globalisation is given below.

4.18 Alan Rugman (2000) feels that there is no globalisation; that it is a trial-based production in the United States, Japan and Europe. In major industries such as automobiles, consumer electronics, chemicals and petro-chemicals, pharmaceuticals, there is a very large amount of intra-industry, indeed intra-firm, trade and investment. According to him, business is not global. Michel Chossudovsky (1997) feels that globalisation and IMF and World Bank policies have ruined many countries and have only brought about the globalisation of poverty. David C Korten (1998) holds that in the name of globalisation it is the multinationals that rule the world today. Jerry Mander and Edward Goldsmith (1996) feel that the process of globalisation must be brought to a halt as soon as possible, and reversed. They have described free trade as a great destroyer. They feel that globalisation will destroy employment and local communities, that the third world is not likely to

benefit by this process, and that family community and democracy will have the last word. In a brilliant review of the international economic relations in the 20th century, Ian Clark (1997) argues how fragmentation of communities and countries are interlinked with globalisation. In their book, "Globalisation Unmasked" (2001) James Petras and Henry Veltmeyer have described globalisation as another form of imperialism and how American multinationals are benefiting through the process of globalisation.

4.19 Nobel laureate Mr. Joseph Stiglitz has described the present globalisation in the following words, "Needy nations are subject to (1) privatisation (2) free flow of capital (3) market-based price (4) free trade before extending financial loans by the World Bank. The U.S economy is fast collapsing; the entire world economic order is heading towards total bankruptcy; the world needs a complete review of economic order in terms of continental cooperation while preserving sovereignty of state nations."

4.20 The Human Development Report on South Asia 2001, released

by UNDP is perhaps the strongest critic of globalisation. This report is entirely devoted to the effect of globalisation in South Asian countries. The report comes to the conclusion that "during the globalisation phase about half a billion people in South Asia have experienced a decline in their incomes. The benefits of globalisation have remained limited to a small minority of educated urban population. As a result, income inequalities have increased." The report also concludes that South Asia, which is the home of the largest number of poor people in the world (515 million), did not make much progress towards poverty reduction as a result of globalisation. The balance sheet of gainers and losers in the globalisation process shows the uneven burden borne by the poor within and among the nations. The report comes to the conclusion that "the number of people in poverty have increased. The poor are being marginalized. The resource allocations to the poverty alleviation programmes are declining, reducing their effectiveness." The report also comments on the growth rates of countries in South Asia and says that in most countries growth rates are declining. All these make one wonder

whether globalisation has promoted growth and brought prosperity.

4.21 Dani Rodrik of the Harvard University in his book 'Has globalisation gone too far?' (1997) has argued that import liberalisation is not really essential for growth. He also feels that WTO is anti-democratic and that the world-trading regime has to shift from a market access to a development perspective. He suggests that globalisation is an outcome, not a pre-requisite of a successful growth strategy as evidenced from the experience of East Africa and China.

4.22 Mr. Kofi Annan, Secretary General of the United Nations is one of the critics of globalisation. Recently, after the meeting of the World Economic Forum in January 2002, he appealed to the rich countries to open their markets to labour intensive products from poor countries. He pleaded that developing countries be given a fair chance to export their products. At present, in the name of green box and blue box subsidies, agricultural products of developed countries are highly subsidised and such products enter the market of developing countries and compete with them. A recent article compares

the western cow with the Third World farmer. A farmer in a developing country has a small farm of not more than 2 acres and lives under a thatched or tin roof without electricity, without water and without sanitation. Normally, he does not receive any subsidy from the Government. On the other hand, in a typical American or European cattle farm, for each cow there is an area of 25 acres, and there are well-designed, well-lit cattle sheds with fans and showers. The European union gives an annual support of around 2735 million euros for milk and milk products and 4465 million euros for beef and veal, for an estimated 300 million dairy cattle. Such highly subsidised cattle products come to developing countries and compete with local products.

4.23 The collapse of the Energy giant Enron has exposed many of the weaknesses and the socially harmful effects of the global corporate system. We do not have to go into it in detail, but it has administered a severe shock, and created apprehensions about the potential for manipulation and deceitfulness demonstrated by mechanisms that were meant to assure accountability and keep vigil on behalf of the investor and

the public, the involvement of politicians who use power and access to cover up or connive at fraudulent practices etc. They have demonstrated total lack of transparency in corporate governance; a regime of greed and incompetence, fraudulent practices including the setting-up of subsidiary or auxiliary companies to siphon off mind-boggling sums of money, wilful violation of laws, connivance or cooperation of auditors in manipulating accounts, destroying documents to cover up trails, and so on. In mentioning these, we are only quoting from the comments of Western economists, analysts and investigators of the Government and the American Congress. These developments have therefore, had their impact on the credibility of global and American financial and industrial institutions, and the President of the U.S is currently engaged in a serious and massive exercise to restore credibility to the State, and the financial and industrial system and the system of corporate governance in the United States.

4.24 There are a number of instances where the developing countries are not given equitable treatment. WTO follows a policy of

green room consultancy, whereby only rich nations come together and take decisions. Developing countries have no option but only to follow these decisions. If a product from a developing country is competitive in the market, anti-dumping duties are levied or non-tariff barriers are used and access is denied to products of developing nations in the markets of developed countries.

4.25 We see that at the meetings of the WTO, the World Economic Forum and meetings of G7 nations, demonstrations and protests are organised against the policy of globalisation by NGOs from all over the world. At Seattle, Quebec, Geneva, Doha, such demonstrations were organised, and protests from developing countries were witnessed. In some places, the demonstrations were violent. At Genoa one demonstrator was killed in police firing.

4.26 These demonstrations, with the exception of Seattle, have not affected the working of international bodies and their meetings. In some countries, there is an occasional outburst of public ire against the multinationals. French farmers

attacked McDonald's shops in France and damaged them. But these stray incidents have not affected the process of globalisation.

Background of Economic Reforms in India

4.27 In this background let us see what have been the response of India to the winds of globalisation. Though other countries opened their economies in the 80s, and China in 1978, India continued with its protective policies till 1990. It was only in July 1991 that it embarked on the new economic policy and started making efforts to integrate the Indian economy with the world economy. Thus, the year 1991 has come to be regarded as a landmark.

4.28 Let us now examine, the nature of these reforms and their impact on the Indian economy.

4.29 During 1980s, India had a fairly good economic performance. But towards the last years of the decade, and particularly in 1990-91, Indian economy entered an unprecedented liquidity crisis. This was due to the combined effect of many factors. The economy of the Soviet Union and that

of most of the East European countries collapsed towards the end of the eighties. Some of them were India's major trading partners. The Gulf war in January 1991 resulted in rising oil prices and there was a virtual stoppage of remittances from Indian workers in the Gulf. As a result of these factors, India's credit rating in international markets fell considerably. In these markets, there was an erosion of confidence in the strength of India's economy. As a result, India found it difficult to raise funds in the international markets. What was more, there was an outflow of the deposits of Non-resident Indians from Indian banks. India was on the verge of default on external payment liabilities. It had to borrow from the IMF under the standby arrangements, and also borrow from the Bank of England by mortgaging the gold reserves of the country. Emergency measures had to be taken to restrict imports. Under these circumstances, it was felt that there was no alternative but to undertake drastic economic reforms.

4.30 This was the genesis of the economic reforms that started in 1991. Details of the package of economic reforms announced in 1991,

and subsequently from time to time, are given in the Appendix to this note. In the year 2001, we completed a decade of a policy of liberalisation and now the Government is seriously considering introducing a second generation of reforms.

Salient Features of Economic Reforms

4. 31 It may be useful to recount the broad features of the economic reforms:

- a) The Government opened major sectors of the economy which were so far reserved for the public sector to the private sector, e.g. telephone, power, infrastructure, defence, oil exploration, etc.
- b) Foreign investment was invited in all these sectors. Except agriculture and plantations, all sectors are today, open for foreign investments. The ceiling on foreign equity investment in corporate bodies at 40% was removed, foreign equity investment up to 51% to 75%, and in some cases, even 100% foreign equity investment was allowed. Even
- c) All restrictions on the entry of the private sector into the field of infrastructure and strategic industries were removed. Industrial licensing was done away with. There are only 9 industries now which need licenses. There is free pricing of shares, and there are no location restrictions.
- d) There is more freedom for financial institutions. They are free to charge any rate of interest depending upon the creditworthiness of a borrower, and they are also free to fix interest rates on fixed deposits. The concept of PLR (Prime Lending Rate) has been introduced in bank borrowing.
- e) By the cuts in CRR and SLR over a period of years, more funds have been made available by the RBI to the banks. Banks can also approach capital markets for raising funds.

- f) In order to provide adequate infrastructure, private capital and foreign investments have been allowed in such areas as construction of roads, ports, airports, telephone services etc.
- g) The Government wants to reduce its investment in the public sector enterprises, and efforts are therefore, being made for disinvestments in this sector. There is a separate Ministry of Disinvestments in the Union Cabinet.
- h) Import restrictions have been reduced. In fact, from April 2001, all quantity restrictions on imports have been removed. At the same time the rates of customs tariffs have been reduced over the last few years. India signed the WTO Agreement in 1994, and has accepted the commitment to liberalise its trade regime under this agreement.
- i) Subsidies are being cut, tax rates are being reduced and the entire fiscal system is being streamlined.
- j) The office of the Controller of Capital Issues stands abolished, there is a free pricing of shares, and more powers are given to the SEBI.

Impact of Reforms

4.32 It is sometimes said that ten years are not long enough to evaluate the impact of economic reforms that involve many structural changes in the economy. But it can also be said that 10 years is 20% of the period after Independence, and are long enough to warrant a steady assessment of the impact on different sectors of the economy and the progress that we are making towards our social and economic objectives. Let us, therefore, examine a few areas, where the new economic reforms have created an impact.

Growth in the National Product

4.33 The Table below shows the growth rate of India's GNP at factor cost at constant prices.

Table 4.1
Annual Growth Rate of Gross National Product at Factor Cost
 (New Series Base 1993-94)

S. No.	Year	At 1993-94 prices
1.	1980-81	7.3
2.	1981-82	5.8
3.	1982-83	2.6
4.	1983-84	7.5
5.	1984-85	3.9
6.	1985-86	4.9
7.	1986-87	4.1
8.	1987-88	3.6
9.	1988-89	10.1
10.	1989-90	6.7
11.	1990-91	5.5
12.	1991-92	1.1
13.	1992-93	5.1
14.	1993-94	5.9
15.	1994-95	7.2
16.	1995-96	7.5
17.	1996-97	8.2
18.	1997-98	4.8
19.	1998-99	6.5
20.	1999-2000	6.1
21.	2000-2001	4.0
22.	2001-2002 (estimated)	5.4

Source: Central Statistical Organisation, Government of India.

4.34 The average rate of growth in the GNP during the eighties i.e. from 1980-81 to 1989-90 was 5.6% per annum. Compared to this, the rate of growth in GNP for the post-reform decade (excluding 1991-92 as on year of exceptional crisis) comes to 6.3%. If we do not exclude the year 1991-92, the average growth rate for the decade comes to 5.8%. Thus, one can say that the post-reform growth has been at least marginally better than the average rate of growth achieved during the pre-reform period.

4.35 The growth rate of the Indian economy considerably decelerated in 1997-98 to 4.8% from 8.2% in the previous year. This might probably have been the result of the East Asian financial crisis.

4.36 According to the quick estimates of National Income for 2000-01 provided by the Central Statistical Organisation, the overall GDP growth decelerated from 6.1% in 1999-2000 to 4% in 2000-2001. This is because of the reduction in gross value added by both agriculture and industry in 2000-01.

4.37 What is significant is that unlike in the past decades when the growth rate of the GNP fluctuated widely from 7.5% in 1983-84 to 3.9% in 1984-85, then to 4.9% in 1985-86 and again to 3.6% in 1987-88, the growth rate of the GNP in the nineties has been far steadier. But, with reduction in GDP growth rate to 4% in 2000-01, and again increase of growth rate to 5.4% in 2001-02 (as per the advance estimates by CSO), probably, we are again entering the era of wide fluctuations.

4.38 Whether this stability in the GNP growth rate was the result of economic reforms may be a debatable issue, but the fact remains that the wide fluctuations in our national income growth have been curbed in the nineties.

Sectoral performance

4.39 The sectoral shares of GDP have been presented in Table 4.2

Table 4.2**Share of GDP at Factor Cost by Economic Activity**

(At 1993-94 prices)

(in percentage)

Economic Activity	1980-81	1990-91	1991-92	1994-95	1999-2000	2000-01	2001-02
Agriculture	41.82	34.95	34.17	32.94	25.20	25.25	25.54
Industry	21.58	24.49	23.97	24.15	27.91	25.72	23.92
(Manufacturing)	-	(16)	(16)	(17)	(17)	(17)	(16.84)
Services	36.60	40.56	41.86	42.91	46.89	49.03	50.54
	100	100	100	100	100	100	100

Source: Centrl Statistical Organisation, Government of India.

4.40 The share of agriculture in GDP fell by over 15.27 percentage points from 41.82% in 1980-81 to 25.54% in 2001-2002. This, however, has been the case all through the nineties. Between 1994-95 and 2000-2001, its share in GDP fell by 7.69 percentage points. It is only in 2001-02 this share has gone up from 25.25% to 25.54%.

4.41 The share of industry in the GDP has moved up marginally. From 1980-81, the share of the industry sector has moved up by 3.41% from 21.58% to 23.92% in 2001-02.

4.42 The service sector has gained at the expense of both industry and agriculture. This sector accounted for more than 50% of our GDP in 2001-2002. The share of the service sector has increased sharply from 36.60% in 1980-81 to 50.54% in 2001-02. The share of agriculture has gone down from 41.82% in 1980-81 to 25.54% in 2001-02. The share of industry has increased only marginally from 21.58% in 1980-81 to 24.99% in 2000-01. Industry includes mines and quarrying and electricity. If we consider only manufacturing, its share

appears to be more or less constant from 16% in 1991-92 to 16.84% in 2001-02.

4.43 The services sector has, in fact, gained at the expense of both. The sector accounted for more than 50% of our GDP in 2001-02. Thus the tertiary or the service sector has overtaken the industry sector. Its share has increased from 40.56% in 1990-91 to 51.54% in 2001-02 while that of the agriculture sector has declined from 34.95% in 1990-91 to 25.54% in 2001-02 and that of industry declined from 24.49% to 23.92%.

4.44 It is also interesting to look at the detailed break-up of various contributors to the services sector.

4.45 There are 3 broad components of the services sector: (a) Trade, hotels, transport and communications (b) Financial real estate and business services and (c) Community, social and personal services. These figures of real growth rates in GDP (at factor cost) are shown in Table 4.3.

TABLE 4.3**Sectoral real growth rates in GDP (at factor cost)**

ITEM	Percentage change over the previous year									
	1993-94	1994-95	1995-96	1996-97	1997-98	1998-99	1999-2000 (P)	2000-2001 (Q)	2001-2002 (A)	N F Y P *
I. Agriculture and allied	4.1	5.0	-0.9	9.6	-2.4	6.2	1.3	-0.2	5.7	2.1
II. Industry	5.2	10.2	11.6	7.1	4.3	3.7	4.9	6.3	3.3	4.5
1. Mining and Quarrying	1.4	9.3	5.9	0.5	9.8	2.8	2.0	3.3	1.4	3.9
2. Manufacturing	8.5	12.0	14.9	9.7	1.5	2.7	4.2	6.7	3.3	3.7
3. Electricity, gas and water supply	-0.8	9.4	6.8	5.4	7.9	7.0	6.1	6.2	5.2	6.5
4. Construction	0.6	5.5	6.2	2.1	10.2	6.2	8.1	6.8	2.9	6.8
III Services	7.7	7.1	10.5	7.2	9.8	8.3	9.5	4.8	6.5	7.8
5. Trade, hotels, transport and communications	7.1	10.4	13.3	7.8	7.7	7.7	7.7	5.3	6.3	6.9
6. Financial, real estate and business services	13.4	5.6	8.2	7.0	11.6	7.4	10.6	2.9	7.5	8.0
7. Community, social and personal services	3.5	3.2	7.9	6.3	11.7	10.4	11.6	6.0	6.0	9.1
IV. Total GDP	5.9	7.3	7.3	7.8	4.8	6.5	6.1	4.0	5.4	5.4

A: Advance estimates; Q: Quick estimates; P: Provisional;

*: NFYP: Ninth Five Year Plan (1997-2002) annual average growth.

Source: Central Statistical Organisation Government of India.

4.46 From the above table, it is clear that the growth in GDP, which had reached 7.8% in 1996-97, has now, in 2001-02, come down to 5.4%. Thus, there is a fall of 2.4% in the rate of growth of GDP. While growth in the period before 1996-97 was concentrated in industry (9%) and agriculture (9.6%), in the second period from 1996-97 to 2001-02, it was concentrated almost entirely in the services sector (9.1%). Here also, if we go into further details, we find that the growth in the services sector is mainly because of community, social and personal services. This sector has grown at the rate of 11.7% in 1997-98, 10.4% in 1998-99 and 11.6% in 1999-2000. The main cause of this rise in growth was 40% rise in salaries and pensions to 19 million civil servants in the Central and State Governments. According to the National Income accounting which India follows, any growth in money incomes in this sector is treated as growth of real product. As a result, during the three years, community and personal services grew by an average of 11%. This had inflated the GDP growth in 1998-99 and 1999-2000 by 0.7% and by 0.4% in 2000-01. Can it be called a real growth?

4.47 Higher growth in the services sector is regarded as an indication of a prosperous modern economy. In most of the developed economies, the contribution of the manufacturing sector to GDP is low, and the contribution of the services sector is higher. In USA, the contribution of the manufacturing sector to the GDP is 19%, in UK, it is 24%, and in France, it is 22%. In all these countries, the manufacturing base is very broad, highly sophisticated, and the MNCs headquartered in those countries operate all over the world and earn profits and bring earnings into their country. This is not the case in India.

Our Problem

4.48 Higher growth in services income may be an indication of a prosperous modern economy, but the problem is whether the growth in earnings from trade, hotels and restaurants or, for that matter, from financing, insurance, real estate and public administration would be sustained unless income from industry and agriculture grows proportionately to support their prosperity.

4.49 The fear is that if the manufacturing sector and the agricultural sector fail to grow at a reasonable rate, the service sector may not only suffer, but also drag down the GDP growth.

Manufacturing sector

4.50 The manufacturing sector is very important for economic growth because

- a. it generates jobs and promotes more employment either directly or indirectly,
- b. it promotes exports of manufactured goods by value addition,
- c. it contributes considerably to fiscal growth. Our tax revenues are heavily dependent on manufacturing as central excise and customs duties contribute substantially to the exchequer.

4.51 It has a multiplier effect on the

economic growth of any country and it is a key link in the cycle of growth, employment, fiscal sustainability and poverty alleviation.

4.52 Unfortunately, as we shall see later in this chapter, the industrial sector has been very badly affected during the last few years and the slow down and loss of production and employment in this sector has, in turn, led to lower demand for consumer goods which has resulted in a general levelling down of all productive activities. The implementation of the new economic policy has hit this sector hardest. We will look at some reasons.

Control of Inflation

4.53 Maintaining a reasonable degree of price stability while ensuring an adequate supply of credit has all along been the objective of the monetary policy of the Government of India. The concern of the Government with inflation emanates not only from the need to maintain micro-economic stability in the economy, but also from the

fact that inflation hits the poor hard since they do not have any effective inflation hedges. Consequently, maintaining low inflation is a necessary part of an effective anti-poverty strategy of the Government

4.54 Taking the wholesale price index as an indication of inflation, one must say that after the announcement of the new economic policy, the Government has been successful in controlling inflation. In 1990-91, when the new economic policy was announced, the rate of inflation was 12%. In 1991-92, it was 13.6%. In 1992-93, it was 10%. Thereafter, the prices have been more or less steady. As compared to the eighties, the prices are almost under control. All types of consumer goods, and food grains are available. Instead of shortages, in many consumer goods markets, there is a competition and in fact discounts and cuts are offered to attract customers. Prices of many essential commodities have come down like that of mustard oil, moong, onions, potatoes, jowar, wheat, atta etc.

4.55 The point-to-point inflation rate according to the Wholesale Price Index

(WPI) for the week ending January 19, 2002 was 1.3%, which was the lowest in the last two decades. The fifty-two week average inflation rate declined from 7.0% at the beginning of the year to 4.7% for the week ending January 19, 2002.

4.56 Prices for the primary products group, comprising of essential commodities for daily use, remained moderate for much of the year, and have risen by 3% by 19 January 2002. Manufactured products group registered negligible price rise, indicating subdued demand for them. Last year, the products in the energy group such as fuel, power, and lubricants etc., many of which are imported had registered sharp rise in prices. But during the current year i.e. 2001-02, they have been stable and the inflation in this group is only 3.2% as compared to 31% last year.

4.57 The inflation rate as estimated by the consumer price index for industrial workers remained below 4% till July 2001 and rose to 5.2% in December 2001. The liberalisation policy can certainly take

some credit for keeping prices under control.

4.58 The Reserve Bank of India, in its latest report on Currency and Finance (2000-01), has come to the conclusion that 5% inflation is best for growth and a fall from that level can push the economy into a recession. The question RBI has raised is - is the present recession due to low rate of inflation? Should the rate of inflation go up to enthuse more economic activities? There is no agreement on this issue amongst academicians and policy makers. Nevertheless, the fact remains that the new economic policy has contained inflation in the country.

External Sector Management

4.59 As has been said earlier, the policy of economic liberalisation was introduced because the country was on the verge of default on its external payments liability in early 1991, and it had to borrow funds from IMF and from the Bank of England by mortgaging gold. After ten years, this picture is completely changed.

It has been observed that the strength of India's external sector management has turned out to be among the most noteworthy successes of the structural reforms undertaken since 1991.

Foreign Exchange Reserves

4.60 The Government was interested in augmenting the country's foreign exchange reserves, so that such an eventuality should not occur in future. Therefore, the entire policy of foreign investment was modified: emphasis was given on exports and foreign exchange earnings. These changes have paid dividends. In 1990-91, India had foreign exchange reserves of only Rs.4388 crores, just to take care of imports for two months. Now the country has foreign exchange reserves of Rs.2, 31,807 crores or \$ 48.11 billion (2000-01) which can provide more than 8 months import cover. If we compare this with the state of other countries, we see that foreign exchange reserves provide only 5 months import cover to Malaysia and Indonesia, about 7 months to South Korea and Thailand,

and about 9 months to China and Taiwan. On 30th December 2001, these resources touched a figure of 48.11 billion dollars. By the week ending 1 March 2002, we find that the reserves jumped by as much as \$ 299 million, and they stood at \$ 50.74 billion. This is a significant achievement of the new economic policy.

External Debt Position

4.61 After the introduction of the liberalisation policy in 1991, India's external debt has reduced from 41% of GDP in 1991-92 to 21% of GDP at the end of September 2001. The ratio of debt servicing to GDP has come down from 35.3% in 1990-91 to 16.3% in 2000-01.

4.62 In the global context too, India's indebtedness position has improved over the years. In terms of absolute levels of debt, it ranked as the third largest debtor country after Mexico and Brazil in 1991. Now, it is the tenth largest debtor country. For

the first time the World Bank has classified India as a less indebted country.

4.63 As a result of rising foreign exchange reserves, in January 2002 the Government announced that it was planning to prepay between \$ 500 million to \$ 1 billion of external debt during the course of this year.

Stagnated Exports

4.64 Immediately after the introduction of economic reforms, exports went up. But during the last few years, they have stagnated, and the trade gap has been increasing. This can be seen from the following table:

Table 4.4
Export and Imports of India

(Rs. In crores)

Year	Exports (incl. Re-exports)	Imports	Trade Balance	Rate of change (%)	
				Export	Import
1990-91	32553	43198	-10645	17.7	22.3
1991-92	44041	47851	-3810	35.3	10.8
1992-93	53688	63375	-9687	21.9	32.4
1993-94	69751	73101	-3350	29.9	15.3
1994-95	82674	89971	-7297	18.5	23.1
1995-96	106353	122678	-16325	28.6	36.4
1996-97	118817	138919	-20102	11.7	13.2
1997-98	130101	154176	-24075	9.5	11.0
1998-99	139753	178332	-38580	7.4	15.7
1999-2000	159561	215236	-55675	14.2	20.7
2000-01	203571	230873	-27302	27.6	7.3
2001-02 (April-Dec.)	154445	181753	-27308	5.0	4.6

Source: Economic Survey 2001-02

4.65 During April-August 2001, exports registered a negative growth of 2.3% over the same period last year.

4.66 In 1991-92, 1993-94, 2000-01 and 2001-02, exports went up at a higher rate than the imports. But in all other years, the rate of growth of imports has been much more than exports. As a result, the trade gap has increased from Rs.3810 crores in 1991-92 to Rs.27308 crores in 2001-02. Even after 50 years, Indian export composition remains classically "colonial," with primary commodities like tea, tobacco, iron ores, etc. still making up the bulk. The recent import-export policy emphasises a five-fold increase in agricultural exports including cereals and non-food exports such as flowers, herbs, fruits, etc. We have not been able to increase exports of manufactured goods on a significant scale. If the imports continue to increase and exports are stagnant, or are not growing, very soon we may face a situation where the country would have frittered away its foreign exchange reserves, and will face a problem of foreign exchange crunch.

4.67 Indian exports have remained stagnant at around 5% of the GNP for almost a decade.

4.68 The share of newly industrialised countries like South Korea, Hong Kong, Singapore, Taiwan etc., in world exports increased spectacularly from about 2% in 1971 to 7.2% in 1998. India's share in the world exports actually shrank from almost 3% in 1938 to 2.2% in 1950 to 1.1% in 1960 to 0.7% in 1970 and now in 2002 to about 0.5%.

4.69 If exports remain stagnant, the overall economic growth of the country is likely to be affected.

Comparison with other countries

4.70 Table 4.5 shows the comparable growth of exports of many developing countries from 1979 to 1999. From this one can see that the other developing countries have achieved greater success in driving up their share in world manufacturing exports, while we have not been able to do so.

Table 4.5
Exports - US \$ (Billion)

Country	Total Exports				Mfg. Exports
	1979	1990	1999	CAGR %	89-90 %
China	15.0	62.1	195.2	14	17
Thailand	6.3	23.1	58.4	12	14
South Korea	19.1	65.0	144.7	11	9
Mexico	15.1	40.7	136.7	12	17
Malaysia	12.0	29.4	84.5	11	17
Philippines	5.7	8.1	36.7	10	20
Singapore	17.9	52.8	114.7	10	12
India	9.9	18.0	36.6	7	9
Chile	3.8	8.4	15.6	8	11
Argentina	9.2	12.4	23.3	5	17
Brazil	16.7	31.4	48.0	6	6
Indonesia	16.9	25.7	48.7	6	13
Egypt	5.4	2.6	3.6	-2	8
World	2035.0	3346.0	5442.0	5%	

Source: World Bank 2000

Composition of our Exports

4.71 We have already pointed out that primary products still dominate in the composition of our export trade. If we look into the exports of manufactured products from India, Gems and Jewellery (Gems &

jewellery undergo a process change. Rough diamonds are imported; they are cut, polished and exported. Hence they are included in this group.), textiles, ready made garments, chemicals and leather goods account for over 75% of manufacturing exports.

Table 4.6

Proportion of exports in manufactured products

Item	Percentage
Gems & Jewellery	22
Textiles	28
Ready made garments	17
Chemicals & Products	8
Leather & leather products	10
Transport equipment	15

Source: Economic Survey 2001-02

4.72 Thus, there is a concentration of our exports amongst a few industry segments despite a diversified manufacturing base in the country.

This diversified base can be seen from the composition of India's manufacturing GDP from Table 4.7

Table 4.7**Composition of India's Manufacturing GDP**

Sector	% of Mfg GDP
Metals and metal products	16
Chemicals	15
Food, beverage & tobacco	13
Textiles	12
Machinery	11
Rubber, petroleum etc.	7
Transport equipment	7
Other manufacturing	5
Non-metallic products	5
Paper & printing etc.	4
Wood, furniture etc.	3
Leather & fur products	1
Total Gross Manufacturing	100

Source: Centre for Monitoring Indian Economy

4.73 But this diversification and the broad base of Indian manufacture are not reflected in our exports. This means that only a few manufactured products enter the export market. This is one reason why our exports are not growing.

4.74 These recent results and the overall performance of our export sector during the last decade show that the new economic policy has not succeeded in promoting exports on a sustainable basis and improving our international competitiveness.

Depreciation of Rupee

4.75 After the liberalisation in 1991, the rupee is continuously depreciating in terms of value with Dollar, Pounds, Mark and Yen. This depreciation has done little to increase exports or decrease imports. This in a way reflects the precarious position of our balance of trade. The following table indicates the erosion in the value of rupee over the years.

Table 4.8

**Exchange Rate of Rupee vis-à-vis selected currencies of the World
(Rupee per unit of foreign currency)**

Year	US Dollar	Pound Sterling	Yen	D. Mark
1980-81	7.90	18.50	0.037	4.18
1985-86	12.23	16.84	0.056	4.55
1990-91	17.94	33.19	0.128	11.43
1991-92	24.47	42.51	0.185	14.62
1993-94	31.36	47.20	0.291	18.74
1995-96	33.45	52.35	0.348	23.39
1997-98	37.16	61.02	0.303	20.96
1999-2000	43.33	69.85	0.391	22.84
2000-01	45.68	67.55	0.414	21.19
2001-02 April	46.78	67.21	0.37	21.45
June	47.00	65.88	0.38	20.46
Sept.	47.64	69.69	0.40	22.16
Dec.	47.91	68.98	0.37	21.81
March 7, 2002	48.79	69.69	0.37	22.05

Source: Economic Survey 2001-02

4.76 The rupee has depreciated significantly even after its devaluation in 1991. In the last ten years, the rupee went down from Rs.18 to a dollar to Rs.47.91 now. Initially, this gave the Indian exporter the edge to compete in the world market, but now exports appear to have stagnated even though the rupee is being depreciated month after month. After the terrorist attack on America on 11th September 2001, the rupee plunged to a low level of Rs.48.43 a dollar. The RBI had to inject \$ 165-175 million to check further fall of the rupee.

Foreign Investments

4.77 Another area where important developments have taken place after the announcement of the new economic policy in 1991 is the area of foreign investments. Before 1991, India had not been able to attract foreign investments in a big way. One of the objectives of the new economic policy was to bring about a change in this situation, and attract a large volume of foreign investments. The necessity of attracting Direct Foreign Investment has also been cited as a

compelling reason for reforms in the labour laws in our country. It is, therefore, necessary to look at the result of these on the economy and Indian industry.

Condition of IMF

4.78 In 1991, when the IMF and the World Bank decided to support India to tide over the crisis, they attached a precondition. The IMF saw to it that India accepted Article VIII of the Articles of Agreement of the International Monetary Fund. The clause reads, "No member shall without the approval of the fund, impose restrictions on the making of payments and transfers for current international transactions." This implies that anyone, whether domestic importer or foreign exporter, should be able to exchange domestic money for foreign currency to settle any transactions involving the sale and purchase of goods and services from abroad. It was only after India signed this Article of the IMF, that foreign funds and investments started 'flowing' or trickling in. India had to amend the Foreign Exchange

Regulation Act, and the FERA Amendment Ordinance was issued in 1993. The rupee was made convertible on current account. The Tarapore Committee which was appointed in 1997, recommended that India should open its convertibility on capital account. Foreign equity participation was allowed even without import of technology, foreign companies were allowed to acquire any Indian company, to invest 51% in a wide range of industries, hold 74% and in certain cases, even 100% investments in certain industries, hold immovable property in India, repatriate profit without conditions and restrictions, and so on. A good number of industries were opened up for foreign investments, and this list is being expanded almost every month. Recently in Feb. 2002, foreign investments up to 49% were allowed in the banking sector, and real estate was also opened for foreign investments. More than 50 notifications have been issued so far, providing concessions, opening new areas for foreign investments and so on.

Acquisitions of Indian companies

4.79 Since the Government of India permitted 51% shareholding by foreign companies, many FERA companies increased their shareholding from 40% to 51% or 74% through preferential allotment of shares. Such companies were allowed to allot their shares at reduced rates or the face value of their shares, instead of market rates, but when Indian Industries made similar requests, they were not acceded to. By purchasing shares of such companies at a concessional rate, the foreign companies, it was estimated at that time, made a straight gain of Rs. 8000 crores. But the Government of India was keen to invite foreign investors, and this windfall gain at the cost of Indian investors was ignored. Thus Cummins India took over Kirloskar Cummins Ltd., Sharp (Japan) took over Kalyani Sharp Ltd., Sulzer Corporation took over Sulzer India Ltd., Swedish Match Co. Ltd. took over Wimco, Whirlpool took over Kelvinator Ltd., Honda Motor Co. Ltd. took over Shriram Honda Ltd., and so on. Foreign collaborators first increased their shares from 40% to 51%, and

then took over the entire management of the company.

4.80 Apart from increasing the percentage of their shareholding, some foreign companies acquired Indian companies by buying controlling interests. Thus Coca Cola bought Parle Drinks, Hindustan Lever took over Tata Oil Co. Ltd., Brooke Bond took over Kisan Products, Lafarge took over the cement plant of TISCO and Raymond and so on. In fact, most of the expansion by some foreign companies like Hindustan Lever was because of mergers and acquisitions. Over a period of years, Hindustan Lever took over Kwality Products (Ice Cream), Vashisthi Detergents, Brooke Bond and Lipton, Tata Oil Co., Stephen Chemicals, Ponds, Modern Foods and so on. It is now the biggest company in India engaged in fast-moving consumer goods, with an annual sales turnover of Rs.12000 crores and a market capitalisation of Rs. 48,197 crores.

4.81 During the last decade, a number of Indian owned companies have gone into the hands of foreign investors. To mention only a few cases, DCM Daewoo was set up in

1992 as a joint venture between the Delhi based DCM group and Daewoo of Korea. DCM had initially an equity stake of 34% and it was the single largest shareholder. With increase in business, more funds were required which DCM could not find. Daewoo purchased DCM's stake, and also increased its stake in the joint venture. Subsequently, the name of DCM was dropped, and now the company is called Daewoo Motors India. South African Breweries Ltd. (SAB), the fifth largest brewery company in the world, has acquired Mysore Breweries Ltd, Pal Distilleries Ltd., Narang Breweries Ltd., and very soon, it may become one of the largest breweries in India. Thomas Cook Co. has taken over Travel Corporation of India; SOTC was taken over by a Swiss Travel Co., and now is named as Kuoni Travels; Nestle SA has now 100% stake in Excelcia Foods, earlier owned by Dabur India. German trading major Thyssen has taken over the steel division of textile giant Raymond. Sweden's Skanska Europe AB has acquired 100% ownership of its subsidiary Kvaerner Cementation India Ltd. Caterpillar USA acquired the earth moving

equipment division of Hindustan Motors Ltd., US based Pepsi owned snack food company Frito - Lay acquired Uncle Chipps, an Indian company. This list of Indian companies acquired by foreign companies is by no means exhaustive. It is only indicative of the trend.m

4.82 The general policy of the foreign companies appeared to be to eliminate their local Indian partners as soon as they cease to contribute either financially or managerially. Indian partners were earlier on the Board, and had a say because foreign companies wanted an entry into the hitherto unknown Indian market, and the Government also restricted foreign capital participation in a company, to 40%. But once the permission to a foreign investor was given for 51% capital participation in a company, and in many cases 74% and even 100% capital participation was allowed, foreign companies no longer needed any help or participation from Indian entrepreneurs or investors. Therefore, gradually the management of the

majority of foreign collaborated companies went into the hands of foreign investors.

Trends in Mergers & Acquisitions

4.83 The data presented in Table 4.9 reveal that in recent years, there is a substantial amount of growth in Mergers & Acquisitions activities in India. The total number of Mergers & Acquisitions (M&A) deals in 1999-2000 was estimated at 765 which is 162% higher than those in the previous year. In each month of the year, the number of approvals is going up. The amount involved in Mergers & Acquisitions more than doubled in 1999-2000 as compared to the previous year.

Table 4.9**Mergers and Acquisitions in India**

Months	No. of Deals			Amount (Rs. Crore)		
	1998-99	1999-00	2000-01	1998-99	1999-00	2000-01
April	25	33	29	1477	775	4051
May	29	61	39	1585	2477	1423
June	34	48	21	485	2873	675
July	11	77	26	238	3040	868
August	17	56	32	445	1307	2246
Sept.	21	72	47	1187	5784	998
October	18	63	NA	199	1182	NA
Nov.	20	41	NA	1699	2498	NA
Dec.	20	100	NA	780	6694	NA
January	24	65	NA	651	1107	NA
February	12	73	NA	474	4469	NA
March	61	76	NA	6851	4757	NA
Total	292	765	194@	16070	36963	10261@

@: April-September NA: Not Available

Source: Centre for Monitoring Indian Economy Reserve Bank of India, occasional papers, Summer 2000

4.84 As can be seen from the table, the mergers and acquisitions have gone up in 1999-2000 than earlier years. For the year 2000-01, data for

the full year are not available. From the limited available data, it appears that mergers account for around one fourth of total Mergers and

Table 4.10

Share of Mergers in Total M&As in India

Months	1998-99			1999-2000		
	Total No. of M&As	Number of Mergers	% share of Mergers	Total of M&As	Number of Mergers	% share of Mergers
April	25	18	72.0	33	15	45.5
May	29	5	17.2	61	17	27.9
June	34	6	17.6	48	12	25.0
July	11	3	27.3	77	12	15.6
August	17	2	11.8	56	20	35.7
Sept.	21	4	19.0	72	15	20.8
October	18	2	11.1	63	14	22.2
Nov.	20	12	60.0	41	16	39.0
Dec.	20	4	20.0	100	24	24.0
January	24	13	54.2	65	11	16.9
February	12	2	16.7	73	16	21.9
March	61	9	14.8	76	21	27.6
Total:	292	80	27.4	765	193	25.2

Note: Data are provisional

Source: Centre for Monitoring India Economy: Reserve Bank of India, Occasional Papers, Summer, 2000

Acquisitions deals in India. It implies that takeovers or acquisitions are the dominant feature of Mergers & Acquisitions activity in India. It appears that foreign companies are not interested in mergers because mergers generally take place between equals while acquisitions involve buying existing firms. They are, therefore, interested in acquiring Indian companies and eliminating the Indian management. This can be seen from Table 4.10

4.85 Another method of takeover that foreign companies are employing is to convert their joint ventures in India with a local Indian partner into Wholly Owned Subsidiaries (WOS). During the last decade this trend has been very much in evidence. The Government has been giving permissions for such conversion. This enables foreign companies to continue operations without adequate transparency. This also helps foreign companies to guard information even from financial institutions. The presence of an Indian promoter or

partner makes such operations impossible, and hence he has to be kept out.

4.86 The list of companies that have been given such permissions during the last decade is very long. To illustrate, we give below permissions given in July - September 2001, in Table 4.11

Table 4.11
Companies which converted joint ventures into fully
owned subsidiaries in July-Sept. 2001

Company Name	Earlier holding (%)	Additional investment (in Rs. Crores)
Otis Elevator	68.90	109.24
CLP PowerGen India	88.00	87.36
Organon Participations	50.43	85.83
Kvaerner Cementation India	64.38	24.78
Sara Lee Corporation	51.00	20.00
ITW Signode India	51.00	11.20
Miranda Amsaw	50.00	8.15
Scotia Finance Pvt Ltd.	75.00	7.46
Smiths Group	50.00	4.70
MSAS Global Logistics	90.00	3.50
Onesh Flora Pvt Ltd.	70.00	0.09
Altair Engineering India	70.00	1.04
Itochu Corp (I&D Logistics)	74.00	1.82
True Pack	80.00	0.48
Oriflame India	85.00	2.79
Meso Metal Ware	80.00	0.12
Schenectady India	97.59	0.40
Dirk India	75.00	0.00
Icelerate Technologies	90.00	0.38
Radiant Infosystems	51.00	0.24
Gladrema India	74.00	0.22
E-Gurkha	55.00	0.85
I dex Corporation	60.00	0.00
EDR Technology Resources	74.00	0.26
Cooperation India	80.00	0.04
Emery Worldwide India	80.00	2.27
USF Asia Group	51.00	0.10
Tech Enterprises	99.91	0.04
Astral Holding	90.00	0.10
AVL Medical Instruments	39.98	0.03

Source: Business Line, October 3, 2001

4.87 Apart from Mergers & Acquisitions and conversions into subsidiaries, in many cases the MNCs floated their subsidiary companies with 100% ownership to which most of their business was transferred with a total disregard for Indian shareholders. Some companies, like Honda, have undertaken manufacture of their products in competition with their erstwhile collaborator firms.

4.88 Thus the post-reform period has seen a flurry of activities on the mergers and acquisitions front. We quote from the report of the Centre for Monitoring Indian Economy in this respect:

4.89 "MNCs are on M&A rampage. Almost all the major sectors of the economy have witnessed the entry of MNCs. Instead of setting up fresh greenfield capacities, they have preferred to either acquire existing companies or existing capacities.

4.90 An increasing number of Indian corporates unable to withstand the fiercely competitive environment, have

found an easy and lucrative way out by selling their assets to MNCs. Ten years since the reforms had set in, we see the sell out to the MNCs as the fastest and most significant "globalisation" of the Indian business houses."

4.91 Whether the phenomenon of mergers and acquisitions is likely to provide the necessary dynamism to industrial investment and growth is a moot question that only the future will answer. But in the absence of a generalised improvement of economic activity and the growing competition from cheap imported goods and goods produced locally by MNCs in India, the Indian entrepreneurship has, as a consequence, gone into a state of stupor and indecisiveness. More and more Indian entrepreneurs seem to be feeling that it is difficult to survive against the multinationals whose resources cannot be matched. This has affected Indian entrepreneurs more than anything else. Not many Indian entrepreneurs now talk of expansion, diversion, and new projects. They talk more of downsizing, and if an opportunity comes selling the companies at the

earliest and getting out of the business. It appears that the self-confidence of Indian entrepreneur has been rudely shaken.

4.92 Most Indian companies seem to be selling their interests to their foreign principals. In some cases, it seems they were forced by circumstances, and in most cases, it seems they have done so willingly. There have been only a few exceptions such as Kinetic Honda, when Mr. Arun Firodiya, its Chairman, bought 51% interest of the Honda company of Japan; the RPG group refused to sell its 51% share to EMI in the Gramophone company of India Ltd.; Bajaj Electricals Ltd., have taken over the entire equity of Black and Decker Company. Tata Tea, acquired quite a few Tea plantation concerns and through acquisitions and mergers, has become a premier tea company in the world.

4.93 But these are exceptions. In most cases, Indian companies were taken over by foreign companies and the Indian management lost all control over these companies.

4.94 Now, after a decade, we learn that Mergers & Acquisitions activities in India by global companies will come under the scrutiny of the proposed competition law.

The Takeover Code

4.95 SEBI drafted a takeover code for mergers and acquisitions. This takeover code does not seem to have protected Indian companies from "corporate raiders."

4.96 According to this takeover code, the acquirer has to make a public offer for a minimum of 20% of the capital as soon as 10% ownership has been acquired. One can see how vulnerable the large Indian companies are. They are easy targets for foreign corporations looking for takeover. The following table shows the market capitalisation of some Indian companies in the period July 15-31, 2001 average, and the 20% amount required to make a public offer by another company who wants to takeover.

Name of the Company	Market capitalisation (July 15-31 average)	Amount required to take over (Rs.Crores.)
Tata Iron & Steel Co.	3463	692
Bajaj Auto Ltd.	2431	486
TELCO	1828	365
Mahindra & Mahindra	855	171
Shipping Corporation of India	901	180
India Cements Ltd.	480	96

4.97 As a result, the effort of many Indian managements has been to increase their share of equity and try to achieve majority control of the company. Suddenly, everyone has become vulnerable.

4.98 These minimum amounts required for takeover mean nothing to a foreign investor. A large MNC can perhaps acquire most of our large Indian companies.

Funds for mergers and acquisitions make up much of FDI inflows now

4.99 What is important is that the transnational companies seem to be more interested in consolidating their stakes in existing joint ventures in

India rather than investing in fresh greenfield projects.

4.100 The Mergers & Acquisitions (M&As), not new projects accounted for 35-40% of FDI inflows in 1998-99. Today, they may account for 50% of the total FDI that is coming into the country. This trend is seen the entire world over.

4.101 The ratio of the value of the cross border M&As to World FDI flows reached over 80% in 1999. M&As are particularly significant as a mode of entry in developed countries.

Concern of Mergers & Acquisitions

4.102 This brings us to the question of mergers and acquisitions vis-à-vis green field investments. The host

countries are apprehensive about foreign companies taking over local companies.

4.103 In a number of host countries, concern is expressed in political discussions and the media that FDI entry through the takeover of domestic firms is less beneficial, if not positively harmful, for economic development than entry by setting up new facilities. At the heart of these is the concern that foreign acquisitions do not add to productive capacity but simply transfer ownership and control from domestic to foreign hands. This transfer is often accompanied by layoffs of employees or the closing of some production or functional activities (e.g. R&D capacities). It also entails servicing the new owner in foreign exchange.

4.104 If the acquirers are global oligopolists, they may well come to dominate the local market. Cross-border M&As can, moreover, be used deliberately to reduce competition in domestic markets. They can lead to strategic firms or even entire industries (including key ones like banking) falling under foreign control, threatening local entrepreneurial and technological capacity building.

4.105 Concerns over the impact of cross-border M&As on host-country development arise even when M&As go well from a corporate viewpoint. But there can also be additional concerns related to the possibility that M&As may not, in fact, go well. Half of all M&As do not live up to the performance expectations of parent firms, typically when measured in terms of shareholder value. Moreover, even in M&As that do go well, efficient implementation from an investor's point of view does not necessarily mean a favourable impact on host-country development. This applies to FDI through M&As as well as to greenfield FDI. The main reason is that the commercial objectives of TNCs and the development objectives of host economies do not necessarily coincide.

4.106 The areas of concern transcend the economic and reach into the social, political and cultural realms. In industries like media and entertainment, for example, M&As may seem to threaten national culture or identity. More broadly, the transfer of ownership of important enterprises from domestic to foreign hands may be seen as eroding national sovereignty and amounting to

recolonization. When the acquisitions involve "fire sales" - sales of companies in distress, often at low prices considered abnormally low - such concerns are intensified."

One cannot brush aside this analysis made by the UNCTAD. Nor can we ignore what the Prime Minister of Malaysia said,

"... Mergers and acquisitions are making big corporations even bigger. Now many of these corporations are financially more powerful than medium sized countries. While we welcome their collaboration with our local companies, we fear that if they are allowed into our countries unconditionally they may swallow up all our businesses"⁴. (Mahathir, 2000, p.6).

4.107 The basis of concern is that M&As represent a change of ownership from domestic to foreign hands, while greenfield FDI represents lead to an addition to the capital stock. This leads to such worries as the extent to which M&As (when

compared to greenfield FDI) bring resources to host countries that are needed for development; the de-nationalisation of domestic firms; employment reduction; loss of technological assets; crowding out of domestic firms, increased market concentration and its implications for competition.

4.108 Two of our leading financial institutions, HDFC and ICICI, have large foreign holdings. Foreign investors now hold close to 63% of the equity in Housing Development Finance Corporation (HDFC). We are told that this is likely to go up to 70%. Foreign shareholding in ICICI has already neared the 49% ceiling. This is the maximum allowable overseas holding. With the permission of the RBI, this holding can ofcourse be increased as was done in the case of HDFC. Thus, HDFC and ICICI have turned more foreign than Hindustan Lever Ltd. Last year, Citibank had approached the Government seeking permission to acquire some banks in the country. Some have asked whether if the trend persists, even the State Bank of India, financial institutions like IDBI, HDFC, ICICI could be owned and controlled by American or Japanese corporates or

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⁴ (Mahathir, 2000,p.6) World Investment Report 2001 UNCTAD

entrepreneurs. This fear is unfortunately proving well founded. FII stake in SBI has reached 20% and on 5 March 2002, RBI has stopped fresh buying in order to avoid foreign controlling interest in the SBI. International capital travels across the globe, scouting for and in quest of profitable avenues of investments. Sentiments and emotional links are alien, and irrelevant in their scheme of things. Many foreign investment companies have huge resources. The market capitalisation of Bombay Stock Exchange is around Rs.4, 68,000 crores (\$120 billion). Only one FII, Fidelity Investment in United States has investible resources of more than \$300 billion. We do not wish to speculate on what can happen if such resources are given uncontrolled freedom of access and operation but the fallout may be dangerous.

4.109 The current stock market situation is ideal for acquisitions. Since the share prices are at the rock bottom, FIIs can acquire many Indian companies at throwaway prices. The FIIs will have enough scope to acquire controlling interests.

4.110 These overseas investors can manipulate and also create problems

for the Indian economy. Recently, the SEBI inquiry found out that the Overseas Corporate Bodies (OCB) had flouted RBI guidelines while investing in the country's bourses. Their limit of holding was exceeded, many deals were not routed through recognised stock exchanges and they were able, as reported, to siphon off Rs. 3500 crores in collusion with the broker Ketan Parekh. SEBI has now recommended a total ban on OCB investments.

4.111 With more Indian companies listed on foreign stock exchanges, including NYSE, Nasdaq, London Stock Exchange and Luxemburg Stock Exchange, acquisition of such companies by foreign companies through ADR/GDR swap route may be on the increase. The current low valuation of listed companies also makes it an opportune time for acquisitions through share swaps.

Impact of Foreign enterprises on Indian consumer markets

4.112 In the opening years after liberalisation, it was hoped that foreign investment would come in the infrastructure sector, and bring new technologies and hi-tech industries.

These hopes have been belied. Quite a few investors came to take over existing companies. Even for achieving the takeover, little funds have been brought from abroad. Limited Companies were floated in India, and after bringing in margin money, much of the necessary funds were raised from financial institutions in India. For instance, the entire takeover operations of cement companies by the French Company Lafarge was financed by the ICICI.

4.113 Secondly, foreign investment came in consumer goods and especially in the marketing of such consumer and luxury goods. ("India is first a market, then an investment destination" was a statement that one heard very often.) In many consumer goods industries, foreign companies organised their marketing in competition with Indian manufacturers. Coca Cola, Pepsi, Peter England, McDonalds', TCL, AG Electronics, Pizza Hut, Dominos' Pizza, are a few examples. As a result, many Indian companies had to pull down their shutters or were taken over. Indian companies did not have the financial strength to undertake aggressive marketing and make extensive use of electronic media. It is

a well-known fact that Parle was sold to Coca Cola because the annual turnover of Parle was Rs. 250 crores, while the media and publicity budget alone of Coca Cola in India was something of the order of Rs. 400 crores. It was obvious that it was beyond the competence of Parle to compete.

4.114 Many areas in which foreign companies have entered are areas of low technology. For example, Coca Cola, Pepsi, Nestle, Hindustan Lever, have all entered the business of manufacture and distribution of mineral water. In fact Hindustan Lever is considering bottled water business as a possible future growth engine. Britannia is looking for buying of Indian companies in lassi, cold coffee, and fast food segments. In the process some smaller Indian companies are being eliminated. There will be no gains to the country in technology. While some Indian companies like Amul, Nirma, Nirulas' are growing in spite of the foreign competition, many are badly affected.

4.115 Thus, the new economic policy seems to result in the closure or disappearance of many Indian companies, especially those engaged

in consumer goods industry. Some may say this is survival of the fittest, and consumers now get a better product. But in the process, India seems to be losing the indigenous breed of entrepreneurs and innovators who once played an important role in developing Indian industry.

100% Foreign Equity Projects

4.116 It appears that the days of importing technology and collaborating with a foreign company are over. Since a foreign company can export its goods freely to India, manufacturing in India is probably a second consideration for such a company. Nearness to the market and volume of sales are important considerations, and on that count, if a foreign company decides to undertake manufacturing in India, the company prefers to go it alone with 100% foreign equity without joining hands with any Indian manufacturer.

4.117 According to a recent survey conducted by the CII, the extent of 100% foreign ownership was the highest in cases where the FDI amount was Rs.500 crore and above.

Delisting by MNCs

4.118 During the last few years multinational companies have started acquiring the entire equity of their Indian subsidiaries through open offers and then delisting from the stock exchanges. A company normally seeks listing for raising capital, while none of these MNCs need Indian capital. Historically low prices of shares over the last one-year or so makes buying back very attractive. MNCs want total control of their subsidiary so that they are comfortable while using their proprietary technology or while introducing new brands or incurring more R&D expenses in their Indian operations. Facilitating the delisting process are government policies which now allow wholly owned subsidiaries to operate in India as well as the SEBI guidelines which allow an open offer and an easy exit.

4.119 About 24 companies have already been delisted and according to one estimate, 90 more such cases may follow suit.

4.120 Among the major companies which have exercised the share buyback option are Cadbury (Rs. 875

crore), Philips (Rs.115 crore), Carrier Aircon (Rs.115 crore), Otis Elevator (Rs.109 crore), Industrial Oxygen (Rs.104 crore), ITW Signode (Rs.90 crore), Wartsila Diesel (Rs.71 crore), Rossel Industries (Rs.61 crore), Sandvik Asia (Rs.42 crore), Infar (Rs.42 crore).

4.121 Though we boast of nearly 10,000 listed companies on our stock exchanges, only a couple of hundred of these are traded regularly. Among them, the shares of MNCs are regarded as blue chips. With their exit, the markets will be poorer. The Indian shareholders will no longer be able to participate in the prosperity of these MNCs. We are told that many countries do not allow foreign investors to exit in this fashion.

Inflow of Foreign Investment

4.122 While the tiger economies have got over the Asian currency crisis and have moved ahead, India seems to be back to where it was in 1994. During 1994, India's share of the \$ 104.920 billion FDI flow into developing countries was 0.9% - \$ 0.973 billion. Five years later, in 1999, India's share remained at 1% - \$ 2,168 billion out of the \$ 207.619

billion FDI flowing into developing countries. From 1997, India's share is declining and has come down from 2% in 1997 to 1% in 1999.

4.123 The most quoted example of FDI windfall is China, which has now moved to a level where there is no comparison with India. From 1996 to 2000, China has been attracting FDI of \$ 40 billion every year.

4.124 The total FDI inflow into India during the entire 1990s does not match what China attracted in any one of these four years. (Some reasons have been mentioned elsewhere)

Cost of foreign capital

4.125 One must look at the cost of foreign capital to the country. One should also weigh the advantages of foreign equity versus foreign borrowings.

4.126 The outflow by way of profits and dividends on the one hand, and interest on the other, reflect the burden that they impose on the balance of payments. Equity is not designed in foreign exchange and as such profits and dividends are not

subject to exchange fluctuations. Further, some dividends are reinvested and not all of it may get remitted abroad. On the other hand, the full interest on commercial borrowings has to be remitted subject to the change in the exchange rate. It is worthwhile to undertake a study of foreign investments coming to India and draw a balance sheet of net gain or loss.

The China Scenario

4.127 Quite a few of the representatives of employers' organisations that appeared before the Commission, and some other witnesses from the same milieu extolled the progress that China is reported to have achieved in attracting foreign direct investment, in increasing the volume and variety of production, in competing successfully in the world market because of the low prices of its products, the low cost of production and the total co-operation that foreign owned enterprises or joint ventures received from the Government in China. Many of them gave the impression that the State did not come into the picture at all, that it imposed no restrictions, that its role and interest were only promotional, that it only performed the function of a

facilitator for industry, particularly entrepreneurs and management of industry; that it was therefore, easy for any entrepreneur to go to China and set up enterprises, and benefit from the conducive atmosphere. Some of them told us that China could attract such high FDI (200 billion \$ compared to 20 billion \$ of India) in the last decade because China had liberal labour laws, and not rigid labour laws as in India. They therefore, argued that India could attract FDI or improve the performance of its industries only if Indian labour laws were 'liberalised' as China had done. Some of them asserted that in China, any entrepreneur, including a foreign entrepreneur had the freedom to start or close down an enterprise; to hire or fire an employee, and the state did not come in the way. Some also told us that the Special Economic Zones were exempt from Labour laws, and these zones were exempted from the jurisdiction of the Central Labour Laws of the People's Republic of China. They therefore, argued that India too should exempt Special Economic Zones from the jurisdiction of our Labour Laws. The fact that so many representatives of employer's organisations made such statements

or demands, gave us the impression that this reflected the understanding that prevailed in the minds of many big and small entrepreneurs in the country. We therefore, felt it necessary to acquaint ourselves more fully and authentically, with the situation of state of relevant labour and Industrial Relations Laws in China. We therefore, visited China to undertake a study. We are very grateful to the Government of the Peoples Republic of China, particularly, H. E Mr. Zhang Zuoji, the Minister for Labour and Social Security and H.E. Mr. Li Qiyuan, Vice Minister for Labour and Social Security for inviting us to China to study these questions. The Ministry was kind enough to arrange our visits and give us opportunities to meet and discuss with the Hon. Vice Minister H.E. Mr. Li Qiyuan (since the Hon. Minister Zhang Zuojai was visiting India at that time), the Vice-Chairman of Finance & Economy Committee of NPC, Mr. Yao Zhenyan and Acting Director General, Department of International Cooperation, Mr. Liu Xu. A representative from the Chinese Ministry of Labour and Social Security acted as our interpreter throughout these discussions. At some of the discussions, a senior member of our Diplomatic Mission was also present.

Misconceptions about Chinese Laws

4.128 What we could do was of course affected by the shortness of the duration of our visit, and the programme that was organised by our hosts, taking into consideration the duration of our visit, the vastness of China and other factors. We could not therefore, get an opportunity to visit individual factories or enterprises in the rural areas or talk to individual workers or agricultural workers or artisans or craftsmen, or those engaged in such undertakings. We do not therefore, propose to make any observations on the conditions in these areas. We will confine our observations to what we could understand from authoritative and authentic sources about labour laws and laws that relate to industrial relations, and that too, to the extent that is necessary for our Report.

4.129 First of all, we must state categorically that we were told by all the authorities whom we met that the Central Labour Law were applicable to the whole territory of the People Republic of China, that there were no areas or zones or industries or enterprises that were exempted from

these laws – or where any relaxation was permitted in these laws.

4.130 We raised this question with the Ministry, the ACFTU, and the Chamber. and the authorities in Provinces and Special Zones we visited (Shenzhen). All of them gave us the same answer, in reply to our repeated questions. Provinces and local bodies have the right to issue Regulations but all these Regulations wherever they are promulgated have to be in conformity with the National Law. All regulations, etc. have validity only within the four corners of the National Law we were therefore told that there were no special laws or relaxations for the Special Economic Zones, or the 'foreign invested ventures' or joint ventures.

4.131 Someone can say that our national experience and observation of what happens even in regimes that believe in strict enforcement of laws tell us that laws can be circumvented through connivance or corruption or connivance induced by corruption. We can make no comment on whether there are cases of laws being circumvented in this fashion in China.

4.132 Secondly, we should scotch

the idea, if anyone is naïve enough to entertain it, that any entrepreneur can go to China and establish or close an enterprise without the knowledge or approval of the Government. It is naïve because everyone knows that there are restrictions that every sovereign state imposes on the entry of foreign nationals within its territories (it seeks to know the reasons before issuing the necessary visa) and the activities of foreign nationals within its territories.

4.133 Thirdly, there are detailed "Regulations" laid down to regulate employment plans, recruitment, the signing of labour contracts with individual employees, the signing of collective contracts with Trade Unions in the enterprise, conditions for "firing," for retrenchment, responsibility to provide basic living allowance, etc., to the laid off and retrenched etc. For instance, we can refer to the Shanghai Municipal Regulations of Labour and Personnel Management in Foreign Invested Enterprises.

4.134 Article 1 says that "This Regulation is formulated in accordance with the Labour Law of the PRC and with other relevant laws and legal regulations, and taking into account

the practical conditions and situations of Shanghai, for the purpose of strengthening labour and personnel management in foreign invested enterprises in Shanghai and promoting development of the foreign invested enterprises.”

4.135 Article 2 says that “This regulation is applied to all the foreign invested establishments in the Shanghai Municipality and their staff and workers.

4.136 Foreign invested enterprises, this regulations points out, are joint ventures using Chinese and foreign investment, Chinese and foreign Cooperative enterprises, and exclusively foreign invested enterprises.

4.137 Article 3 makes it clear that “The foreign invested enterprise must set up and institutionalise relevant regulations according to the law in order to secure labour rights for and labour responsibilities of its staff or workers.”

4.138 Article 4 provides that “the foreign invested enterprise can determines on its own organisation structure and personnel system in accordance with the need of

production and business operation. The employment plan which the foreign invested enterprise has adopted is to be filed with the relevant labour and personnel departments and to be implemented under the guidance of departments.”

4.139 Article 5 talks of methods or procedures for recruitment of staff. It says that “technicians, managing personnel and skilled workers whom the foreign invested enterprise demands may be recruited from those who are recommended by the Chinese partner or by the relevant authoritative departments in charge of the enterprise from their own sectors, or be recruited from graduating students of universities and colleges, polytechnic colleges and technical schools, or be recruited from the public within the Shanghai Municipality. The selection may be done through qualification tests by the foreign invested enterprise.

4.140 Those who are to be employed by the foreign invested enterprise shall be permanent residents of the Shanghai Municipality. Recruiting personnel from provinces other than Shanghai may be handled

according to relevant regulations by the Shanghai Municipality. And recruiting personnel from abroad or from Taiwan, Hong Kong and Macao must be handled according to relevant regulations by the State. Under no circumstance, should the foreign investor recruit students or those who are prohibited from being employed by the law.

4.141 Where the foreign invested enterprise is to employ through public staff and workers presently employed by the local enterprise, the latter should give full support to those staff and workers to permit them to transfer. In the event of a dispute, the case should be coordinated and arbitrated by the relevant labour department and personnel administration respectively.”

4.142 Article 8 talks of the age of employees. According to this article, “the staff and workers recruited by the foreign invested enterprise must be 16 years old and beyond. Those working under harmful circumstance or heavy labour conditions must be 18 years old and beyond.”

Chinese Labour Contract System

4.143 Article 11 says that A Labour contract system shall be implemented

to the employees recruited by the foreign invested enterprise. The foreign invested enterprise must conclude the labour contract with its recruited employees according to the law, and on the basis of equality, self-willingness, coordination and consistency. The labour contract must be in accordance with relevant laws and regulations of the PRC and its contents shall include:

1. Quantity and quality of the assigned work, or the working task that should be accomplished;
2. The labour contract duration;
3. Payment, insurance and other welfare;
4. Working conditions and protection;
5. Working disciplines, reward and punishment, terms of dismissal and resignation;
6. The circumstance under which the labour contract be terminated;
7. Liabilities for those who break the labour contract;
8. Other terms both parties think it necessary to put in the contract.

4.144 The labour contract shall be written in the Chinese language, and it may also be in foreign languages. But when the contents of the Chinese version are not consistent with that of the foreign version, the former shall be regarded as the criterion.

4.145 The labour contract, when concluded, is a legal document and binding upon both parties in strict compliance with it. If either party demands a revision of the contract, it must secure the consent of the other party through consultation prior to the revision. When the contract expires, it may be renewed on the basis of mutual agreement.

4.146 The standard text of the labour contract shall be filed with the relevant labour department, personnel administration and Shanghai Confederation of Trade Unions, while these departments may supervise and examine the implementation of the contract.

4.147 The trade union in the foreign invested enterprise may represent staff and workers in the negotiation with the enterprise on terms of payments, working time, off-days and holidays, insurance and welfare,

working protection, etc., and conclude the collective contract according to the laws. Prior to establishment of the trade union, it is representatives chosen by staff and workers.

4.148 Article 13 & 14 & 18 lay down conditions under which an employee can be terminated. According to Article 13, "the foreign invested enterprise may dissolve the labour contract and fire its employees upon one of the following circumstances:

1. When the employee is proved unqualified during the probation period;
2. When the employee, due to sickness or non-working related injury, is unable either to continue the work or to take other posts reassigned by the enterprise after a designated medical care period;
3. When the employee is in serious violation of labour disciplines or of relevant regulations of the enterprise;
4. When the employee seriously neglects his/her duty or is engaged in malpractice for self-ends, thus causing huge losses of the enterprise's interests;

5. When the employee is incompetent for doing the job and after training or change of the post, is yet incompetent for doing it;
6. When the particular circumstances under which the labour contract is concluded undergoes great changes so that the labour contract can no longer be implemented, and the concerned parties cannot reach an agreement to change the contents of the labour contract;
7. When there are other particular terms defined in the labour contract."

4.149 Article 14 says that "the labour contract is automatically dissolved upon one of the following circumstances:

1. When the employee is charged with a criminal suit, enforced to labour reform or sentenced to prison;
2. When the foreign invested enterprise is dissolved or terminated."

4.150 Article 18 says that "the Chinese employee, when dismissed by the foreign invested enterprise

according to Items 2, 5, 6, 7, of Article 13, or automatically dissolve the labour contract according to Items 2 of Article 14, or resign according to Items 2, 3, of Article 16, shall get economic compensation from the enterprise in the light of the employee's service length in the enterprise. Those whose service length is less than one year shall get economic compensation equivalent to their half a month's actual salary; those whose service length is more than one year shall get economic compensation equivalent to their one month's actual salary for each working year, but the maximum shall not exceed twelve months' actual salary.

4.151 If the Chinese employee as defined in the above two clauses of this article is directly resettled by the Chinese partner or the authoritative sector in charge of the enterprise, the economic and medical compensations shall not be given to the employee, but directly transferred from the foreign invested enterprise to the employing unit that accepts the employee."

4.152 Article 15 talks of codes under which the Labour contract cannot be dissolved. "The foreign invested

enterprise shall neither terminate nor dissolve the labour contract nor dismiss its employees upon one of the following circumstances:

1. When the employee suffers from sickness or non-working related injury but is yet in the designated medical care period, except those as defined in the Items 1, 3, 4, of Article 13 of these Regulations;
2. When the employee suffers from occupational disease or work related injury and is in medical care and recuperation period;
3. When the female employee is in pregnancy, maternity and breast feeding period, but excluding those as defined in the Items 1, 3, 4, of Article 13 of this Regulation;
4. When the labour contract has not expired and the circumstance under which to dismiss the employee does not conform to Article 13 of this Regulation.

Conditions imposed on Foreign enterprises

4.153 Due to work related injury or occupational diseases, the employees

of the foreign invested enterprise, after the medical care period, are identified by the Labour Assessment Commission as losing working capacity to different extent. The termination and dissolution of their labour contract must be implemented according to the following terms:

1. The foreign invested enterprise must not terminate or dissolve the labour contract of those who have completely lost working capacity;
2. The foreign invested enterprise must not terminate or dissolve the labour contract of those who have greatly lost working capacity, but the foreign invested enterprise may terminate the labour contract upon an agreement with the employee;
3. The foreign invested enterprise must not dissolve the labour contract of those who have partially lost working capacity.

The foreign invested enterprise must implement the relevant regulations by the State and the Shanghai Municipality to make economic compensation for those employees whose labour contract is terminated

according to the Items 2, 3, of the second clause of Article 15 of this Regulation.”

4.154 Other Articles talk of compensation on retrenchment or lay off, medical allowances, residential facilities, payment of wages, insurance, welfare and the like. There are provisions that make it obligatory to pay overtime wages for extra working hours. Article 17 says that “any party that asks to dissolve the labour contract must seek the opinion of the trade union of the enterprise and inform the other party in the written form thirty days prior to the dissolution. But in the case the dissolution of the labour contract proceeds according to Items 1, 3, 4 of Article 13, and Items 1, 2, 3, of Article 16 of this Regulations, the procedure of prior information to the other party may be considered unnecessary.

4.155 Any party that violates the labour contract shall bear the responsibilities of violation of the contract and of economic compensation.”

Resolution of Labour Disputes

4.156 According to Article 37, “Labour disputes between the foreign invested enterprise and its employees

may be settled through consultations between the concerned parties; should the consultation fail, the concerned parties may apply to the labour dispute mediation committee of the enterprise for mediation; should mediation fail, the concerned parties may apply to the labour dispute arbitration committee for arbitration; either party that is not satisfied with the adjudication of arbitration may bring the case to the people’s court of the district or county where the enterprise is located within 15 days upon the reception of the adjudication.”

4.157 It must be added here that according to the National Labour Law, the Chairman of the Mediation Committee in an enterprise is a representative of the Trade Union. The Arbitrator is a representative official of the Government.

4.158 We were informed that in general, 10% of the disputes fail to get resolved at the levels of the Mediation Committee and Arbitration, and go to the People’s Court.

4.159 The Regulations also lay down that they shall be implemented under the supervision of the Shanghai Labor Bureau or Shanghai Personnel Bureau.

4.160 From these Regulations, it can be seen that enterprises of any kind have to fulfill certain stipulated conditions before firing or laying off or retrenching. The compensation for lay off generally, is one months' wage per year of service. Besides this, a general system of compensation and support facilities are, we were told, available to those who are laid off: right to continue to occupy the residential quarters of the enterprises for 2-3 years; a basic living allowance and medical facilities.

4.161 The period of 2-3 years is treated as a transitional period during which efforts are made to find alternative employment for the laid off, in the same enterprise in different jobs or elsewhere. Thus, the laid off are usually sent to Rehabilitation Centre. At these Centres, they are also given re-training in new skills, vocational training, counselling and guidance. There are 4000 Employment Centres and 10,000 Job Training Centres in China to retrain these workers in other skills.

4.162 The enterprise that lays off, or retrenches, bears the responsibility to pay the Basic living allowance, medical allowance etc. during the period (2-3 years) that the laid off spends at the Rehabilitation Centre.

4.163 It is thus, clear that the law does not contemplate or permit "hire and fire." There is no instant and one-sided termination of responsibility to a worker who has been engaged on a written contract.

4.164 In fact, we were told that the number of industrial disputes had increased by leaps and bounds in the last few years. One of the reasons given was the emergence of many kinds of enterprises other than State Owned Enterprises (SOEs), and the situations of lay off etc. that had developed after the decision to give up the planned state economy and transform the economy into a Socialist Market economy. New kinds of industrial or labour relations had come into being. Appropriate laws and processes and systems for dispute settlement and social security are being evolved. New Laws too may be enacted by the NPC.

Unemployment in China

4.165 With the transition to the Socialist Market economy, the concept of jobs have changed. In the system of planning, the State had the responsibility to generate and provide

jobs, to fix wages, to pay wages and other allowances, to arrange for medical assistance and social security. Now, with the transition to the Socialist Market economy, it is the function of enterprises to generate jobs. Jobs will be on the basis of "Contracts." So, they will be for specified periods. These contracts can be terminated during specific periods of duration only for grave offences or proved inefficiency or failure to fulfill objectives under the contract, and such terminations will be open to review, on complaint, by bodies specified in law. The basic changes that come about where jobs are strictly contractual, and the lay-off and retrenchments have resulted in increase in disputes. All the authorities we talked to were aware of the social effects of increasing unemployment. The new system was responsible vastly in increasing unemployment. Now, there are 6.5 million workers who have been laid off. The unemployed are paid a basic living allowance - which varies from province to province, but is roughly 300-450 yuans per month in urban areas, and 95 or thereabout in rural areas. The provisions of unemployed or Basic Living Allowance in rural areas are still available only in pilot areas. We were

told that the Government, the TUs and all authorities are deeply concerned about increasing social unrest and its likely effects.

4.166 In answer to our questions, we were told that the Trade Union Law in China makes no mention of strikes. It neither mentions them as a legal instrument in the hands of the workers, nor prohibits them. The law makes no mention either way. The other methods available to the workers have already been referred to: mutual talks, approach to the Mediation Centre (Every enterprise is to have a statutory mediation centre, of which a representative of the Trade Union in the enterprise is the Chairman): Arbitration (a representative official of the Government is the Arbitrator): and finally, the Peoples' Court.

4.167 We were told that there is only one Trade Union in China, the ACFTU. When we referred to the freedom to Trade Unions and the multiplicity of Trade Unions in India, we were told that the ACFTU is the "peoples choice", and came into being as a part of the struggle of the working class.

4.168 Globalisation, and the consequent downsizing of its enterprises have also affected Chinese economy. The official statistics shows that atleast 6.5 million workers have been laid off in their state owned enterprises, and these workers are dependent on some sort of unemployment allowance. In addition, there are about 50 million to 150 million agricultural workers who are either unemployed or under-employed. These agricultural workers cannot migrate to urban areas because of the strict work permit system.

4.169 As can be seen from the statistics, the official unemployment rate is expected to be 4% this year, and is to increase to 4.5% next year. In addition, some 8 million new workers are added on to the job market each year. Thus, the burden of creating additional jobs and also providing a wider social security net for those without jobs becomes increasingly important for China, especially in the context of economic and social stability.

4.170 **Various Social Security Schemes:**

1) Old Age Pension Scheme: It covers 100 million workers and

also 32 million retired workers. The individual worker contributes 5-7% of wages and the employer contributes 20% of wages to the insurance scheme. The Government does not contribute.

2) Medical Insurance: the contribution rate is 2% from employees and 6% from employers.

3) Workers Injury Scheme: This is the liability of employers.

4) Maternity Benefits: This is also the liability of the employer. But the benefits are provided only for the first child since China is following a policy of one child norm per couple.

5) Unemployment Insurance: This scheme was started in 1980s. The Employer pays 2% while the employee pays 1% of the wages. The Government does not contribute but tries to make good the deficit. Unemployment benefit is lower than the minimum wages, but higher than the poverty line.

4.171 Now, we come to the suggestion that India should have labour laws of the kind that China

has. Perhaps those who advised us to recommend labour laws similar to what China has, may have to undergo a second thoughts after seeing the provisions in the Chinese laws that we have quoted because the kind of freedom that they thought the entrepreneur had in China is not found in the laws as they exist.

4.172 There is a second reason that makes it difficult for us to recommend that we adopt the laws that have been promulgated in the People's Republic of China.

The basis of our State is different. The nature of our state is different. The perception of freedom and fundamental rights that we have in India, in our Constitution and our society, is different from what prevails in China. In the exercise of fundamental rights, we have many political parties; we have many Trade Unions and Central Trade Unions; we have our Judiciary which is modelled on different principles; we have our own Public Interest Litigation and judicial reviews; we have our commitment to the independence of the three organs of the state – the Legislature, the Executive and the Judiciary. Our Fourth Estate is different from the Fourth Estate in China. We

can go on citing specifics and characteristics that are unique for each sovereign state. In the circumstances, though we have the highest respect for the People and the Government of China and the tremendous advance China is making on many fronts, we do not feel that the laws in China can be adopted by our system. We can, and should improve our system. We can learn from other countries like China. But we cannot import patterns to solve the problems that have to be solved in the light of our heritage, our perceptions and our environment. The relation that exists in China between the State and the Government, the Government and the Party, and the Party and the Trade Union does not exist in India, and cannot be created in India within the Constitution that we have. The possibilities and potential that arise from that relationship cannot therefore, be replicated in India.

4.173 It is clear that the transition to a socialist market economy is not proving an easy process in China. What with the closing down or transformation of SOEs, and the practices of lay off and employment patterns adopted by foreign invested

enterprises, joint ventures and other private enterprises, unemployment has increased. It looks as though it is likely to increase further. The highest dignitaries of the Republic have themselves warned that unemployment is likely to increase appreciably in the next decade or so. The premier, Mr. Zhu Rongji, speaking at the Parliament session of the National People's Congress warned "over the next five years, eighty million people will lose their jobs, half of them in the cities and half in the countryside." The word 'alarming' is not used, but the consciousness of the colossal nature of the problem and the potential for "social unrest" (as it is referred to) is very much accepted. The need of sound, fool-proof and universal social security is also accepted, and it is realized that there are problems of resources and organisation in setting up such a system and making it operational, making the benefits available to those who are out of employment and devoid of other means of income except the basic living allowance where it is available.

4.174 A large number of workers in the urban industrial sector have been laid off in recent years as a result of the restructuring of State Owned

Enterprises. While some of them have been provided with alternate jobs, official statistics show that at least 6.5 million laid off workers are dependent on some sort of unemployment allowance or basic living allowance. In addition, there are estimates that 50 million to 150 million agricultural workers are either unemployed or underemployed. These workers cannot easily leave the rural areas and migrate to urban areas because of the household registration system, the strict work permit system and the legal need to obtain travel permits. Without work and wages, they will have to depend on some kind of social security or unemployment allowance. Though a figure of 90 to 95 Yuan is mentioned as the basic living allowance in rural areas, we have understood that such a system has only been introduced as a pilot project in certain areas, and is not operational all through China.

Problems akin to India

4.175 With the entry into the WTO, and the increase in competition that it is likely to bring, there is increasing realization of the likelihood of even higher increase in unemployment and the crucial need for a foolproof and comprehensive social security system that covers rural and urban areas.

4.176 The official rate of current unemployment is 4%, and the official estimate is that this may go up to 4.5% in the coming year.

4.177 Reports that appear in the Beijing English newspaper 'China Daily' show how the problems that workers and the government experience in China are similar to the problems that we face in India in many respects. A report filed by Wu Yan in the China Daily of August 30, 2001 said: "Top priorities have been given to the protection of workers' rights, as the nation's top legislative body began revising its Trade Union Law this week."

4.178 "The function of trade unions to represent workers and safeguard their rights should be brought into full play", said Zhang Chunsheng, deputy director of the Legislative Affairs Commission under the National People's Congress (NPC) Standing Committee.

4.179 "Lawmakers attending the ongoing 23rd Session of the Ninth NPC Standing Committee yesterday made a preliminary reading of a draft amendment to the Trade Union Law, submitted by Zhang's Commission on Monday.

4.180 "Conflicts between employers and employees have become increasingly complicated and prominent these days, with the country's major transitions in economy, the strategic reform of State owned enterprises and the burgeoning development of non-public sectors.

4.181 The trade unions are, therefore, facing more formidable tasks in protecting the rights of workers.

4.182 Some places have seen a rampant violation of the Labour Law by preventing workers from joining trade unions, illegally hiring workers without signing contracts, forcing workers to work extra hours and skimping on salaries.

4.183 Some enterprises have refused to buy their workers' insurances for unemployment, industrial accidents and endowments. Some have failed to offer working protection facilities to their workers, according to federation sources.

4.184 The latest testimony to such infraction is the case of frisking 56 women workers at a factory in Shenzhen last month, which ignited widespread outrage.

4.185 The draft amendment has highlighted the role trade unions should play in protecting workers.

4.186 Zhang said "trade unions also need to expand, so they can represent and protect more workers."

4.187 The Chinese trade union system is composed of the All-China Federation of Trade Unions, 31 provincial-level trade unions, 16 industrial trade unions and more than 900,000 grass root trade unions.

4.188 A total of 103 million workers belonged to the trade union by the end of last year, federation figures indicate.

4.189 However, they are facing a tough challenge in expansion, particularly as over 100 million workers are outside trade unions.

4.190 The draft amendments make it mandatory for enterprises and other organisations with 25 employees to set up a trade union of their own, or Cooperate with another company to establish one."

4.191 Similarly, a report filed by Jim Baichung in the China Daily of 24

August 2001 says, "The Ministry of Labour and Social Security is working to rectify labour market operation to provide better protection to job-seekers".

4.192 "Since 1999, more than 2,000 intermediary employment agencies have been closed by local labour and social security authorities across the country because of illegal practices that have impaired job-seekers' interest.

4.193 "Another 7,000 have been ordered to make changes, according to Xin Changxing, Director of the Training and Employment, Department of the ministry in 1999".

4.194 "According to the ministry, the demand for labour in the second quarter of 2001 rose sharply compared with that in the first quarter".

4.195 "This summer, a total of 1.53 million labourers were needed in 62 major cities, while in spring only 856,000 were needed".

4.196 "This was mainly caused by seasonal changes. Normally, the

demand for labour varies greatly from season to season”.

4.197 “Statistics also indicate that the tertiary, or service, sector offers the greatest number of job openings”.

4.198 “Of the 1.53 million labourers that were needed, up to 73% were for the service sector, 25% for secondary industry – the industrial sector, and only 2% were for primary industry – the agricultural sector”.

4.199 “Private and joint stock enterprises needed most labourers. The first accounted for 28.9% of the total demand, and joint-stock enterprises, 25.8%”.

4.200 “Statistics also indicate that 47% of the job-seekers were unemployed people, 11% already had jobs, 9% were laid off workers, and 1% were retired workers.”

4.201 We do not want to multiply such quotations. But we think that the report filed by Mr. Jiang Zhuqing in the China Daily of 14 January 2002 also throws much light on the problems of workers as highlighted by Mr. Wei Jianxing, President of the All

China Federation of Trade Unions at the fourth session of the 13th Executive Committee of the Federation, Mr. Wei who is also a member of the Standing Committee of the Politburo of the Central Committee of the Communist Party of China, said “the union should enlarge employment opportunity and supervise the implementation of policies and measures adopted by the CPC Central Committee on social security.”

4.202 Firstly, the unions should co-operate with government departments to help the layoffs find new jobs or receive unemployment insurance. This year, development of the nation’s social security system at township level will be speeded up; thus, trade unions at all levels have vowed to bring the minimum living allowance to all impoverished workers.

4.203 The unions must shore up efforts taken by local governments to develop labour sources for tertiary industries and help non-state and small and medium-sized enterprises attract more employees.

4.204 On the other hand, the unions should also supervise economic

compensation by enterprises and help them deal with debt issues, including the payment of delayed wages and medical fees owed to their workers.

4.205 Trade unions at all levels should work hard to enlarge their membership rolls to 130 millions workers this year, up from the 120 million union members at present," according to Wei.

4.206 Another issue is the frequent occurrence of serious accidents in some workplaces, which causes great loss of life and property. The President emphasized that the federation will accelerate the drafting of three regulations on labour protection to help improve the effectiveness of the health and safety supervision system.

4.207 In addition, supervision and guarantee mechanisms should be established to effectively balance management-management relations, help resolve management disputes and curb the incidence of serious accidents.

4.208 Thus, it can be said that the leaders of the Trade Unions have themselves identified the main problems that they are encountering as:

- 1) Conflicts have increased and become increasingly complicated because of "the strategic reform of state owned enterprises and the burgeoning development of non-public sectors."
- 2) "Rampant violation of the Labour Law by preventing workers from joining Trade Unions"
- 3) Illegally hiring workers without signing contracts,
- 4) Forcing workers to work extreme hours
- 5) "Skimping on salaries"
- 6) Non-payment of wages on dates stipulated by law
- 7) Refusal by some enterprises to buy their workers insurances for unemployment, industrial accidents and endowments
- 8) Failure by enterprises to offer working protection facilities
- 9) Frisking of women workers at factories

- 10) Inadequate immunization
- 11) It is obvious that such transgressions or failures to enforce the laws may be more in non-state owned enterprises i.e. enterprises – foreign owned, joint, etc. in the “private sector.”

4.209 All these have been excerpted from the report of discussions at the 23rd Session of the Ninth NPC Standing Committee, as reported in the Beijing China Daily of 30 of August 2001. They have been listed, not to provide a gist for denigration or cynicism, but to explore similarity in problems and learn from solutions or correctives tried in China. Our country has also had the experience of a “Mixed Economy” which in fact is a situation in which Public Sector enterprises (equivalent of SOEs in China) and private sector enterprises co-exist.

4.210 However, while reiterating that it is not true to say that the employer in China is completely free to set up and close enterprises or to hire and fire at will, and also that it will be erroneous to think that ‘flexible’ labour laws are the main reason for China’s progress, we would also like to place on record the arguments and observations that have been put

forward to explain why China has made spectacular progress in globalisation and the post-globalisation scenario, as compared to the tardy progress that India has made. We feel it will be useful to list the reasons and causes that were brought to our attention. We state them without going into pros and cons. We are only recording them for reflection and assesment.

- a) China followed a policy of market economy since 1978. India introduced the new economic policy only in July 1991.
- b) China did not follow the standard policy prescriptions laid down by the World Bank and IMF for developing economies blindly. Before launching market economy, it sent a good number of delegations to western countries and countries in South East Asia, studied their economic policies and adopted policies which were estimated to be most suitable to China. As some authors have put it, China said “yes” to learning from others but “No” to Bretton Woods institutions.

- c) China followed a policy of competition rather than ownership for higher productivity. China did not hurry up in privatising its public sector enterprises. The large public sector companies were split according to product lines and competition was encouraged amongst them.
- d) China did not give too much importance to balanced regional development. In view of the limited resources, it developed the southern and eastern coastal regions and provided excellent infrastructures of international standards. It did not spread its limited resources over a vast area.
- e) Thus, China gave lot of importance to providing excellent infrastructure in Shanghai, Shenzhen and Guangdong provinces and attracted foreign enterprises there. Now, after the success of this development, it is planning to develop other interior areas.
- f) Overseas Chinese have played a very important role in attracting foreign investments. Initially, only exporting units were encouraged to be set up in EPZ areas. Even now, about 40% of Chinese exports are from foreign enterprises located in these areas. Some of the foreign enterprises are not allowed to sell their products inside the country. As a result, there is no competition of their products with those of local companies. Since foreign companies are exporting, these exports result in trade surpluses and the surpluses are invested in U.S. securities. This is how China has built huge foreign reserves of over \$ 180 billion. On the contrary, in a recent study on exports and multinational corporations in India, the World Trade Centre, Mumbai has shown that MNCs do not significantly contribute for the exports efforts of India. This also partially accounts for the stagnation of our exports.
- g) China followed a proper sequence of reforms. Most countries which liberalised so far adopted trade liberalisation before allowing local industries to mature and before setting up anti-dumping measures. They

liberalised the financial sector before establishing regulatory frame-works, and restructured the industry sector before establishing a safety net. In all such cases, the results have been disastrous. But China, instead of initiating reforms with foreign trade and exchange rate liberalisation, started with agriculture, which employed a large majority of workers and had potential for expansion. In the first seven years of reforms, China laid emphasis on agriculture. Collectivisation of agriculture was replaced with privatisation and it resulted in nearly 7% annual growth. Then, China introduced export orientation for Township and Village enterprises. This helped to generate demand for the products of rural industries. Then, special economic zones were opened which offered foreign investors excellent infrastructure, special fiscal and financial incentives and flexible labour relations governed by an innovative contract system. India has followed a policy of trade liberalisation and opening most of its industries to foreign investments. As a result local industries are facing competition

from foreign companies, and they are being eliminated from the market.

- h) Most of the reforms were not introduced abruptly. A new policy was first tried in a small region, and after gaining experience of the policy and the difficulties encountered, it was introduced with modifications in a wider area. This has enabled China to gain experience and a smooth transition from traditional to a modern industrial society.
- i) The administration in China is somewhat decentralised. Local municipal corporations can also take decisions regarding foreign investment up to a limit. The laws are simple. In China, the entire land belongs to the Government, and as a result giving land use rights to a company is a simple and quick affair. Foreign investors appreciate all these factors. In India, an entrepreneur is completely exhausted by following various rules, regulations, obtaining permissions, following procedures and so on, which sometimes take any number of years.

j) China allowed its companies to grow. Chinese companies are much bigger in size than Indian companies. China has allowed them to grow so that they can equitably face global competition. In the Fortune 500 list, India has only one company i.e. Indian Oil Corporation. Now, after the merger, probably Reliance Industries may have found a place. As against this, China has in this Fortune 500 List, 11 companies like Sinopec, State Power, China National Petroleum, China Telecommunications, Bank of China, Sinochem, China Mobile Communications, China Construction Bank, COFCO, Agricultural Bank of China and Jardine Matheson. Most of them are in the public sector. In a recent report, Merrill Lynch points out that China's largest mobile telephone company, China Mobile, is valued at a massive \$ 60 billion. In contrast, for the BPL-Birla-Tata-AT&T combine valuation has been pegged at \$ 2.5 billion, Bharati is valued at \$ 3.5 billion, while Hutchison-Essar has been valued at \$ 2.2 billion. India's estimated

subscriber base of over 5.2 million, pales into insignificance with the Chinese subscriber base of 130 million. Size does matter in international competition and, because of their size, Chinese companies can effectively compete globally. In India, because of our different ideas on monopolies, industrial licensing, etc., Indian companies were never allowed to grow in the licence permit regime and even the largest companies in India are pygmies as compared to global players. As a result, they find it difficult to compete.

4.211 The reasons given above - are not exhaustive. But it give an idea on the areas in which the Chinese have scored over India. It is not merely the flexible labour laws, but because of all these factors that foreign investment is attracted to China and China has been able to achieve phenomenal progress.

4.212 We are aware that there are difficulties in dealing with statistics that emanate from China. There are some scholars and analysts who are sceptical, and who cite the statistics

that emanated from China about the giant leaps in the production of steel from backyard furnaces and the like. Some of them put the current unemployment rate at 8.5% as against the official figures of 3.6% or 4.5%, the growth rate as 3% as against the official figure of 7.3% and so on. We have no means of verifying either set of figures.

4.213 There are also reports that the unrest that leaders of Trade Unions, party leaders and leaders of the Government feared, is already visible in protest action on the streets and in factories in the North East.

4.214 We have no special insight into the conditions in these areas. But our conversation with the leaders whom we met left us with the impression that they were aware of these possibilities. In fact all of them said so.

Poor Performance of Manufacturing Sector

4.215 During the first few years of economic reform, there was a general growth in all sectors of the economy. But since 1996-97, industrial growth has slowed down, and that has

affected almost all sectors of industries. During the last two years and especially in 2001-02, the growth rate has been very badly affected. For instance in December 2001, the industry sector registered a growth rate of only 1.6% compared to 3.6% in the corresponding month of last year. In October 2001, industrial growth fell to 1.9% compared to 6.8% growth registered in the same month during the last year. If we compare the aggregate growth rates of index of industrial production for the first nine months of 2001-2002, it works out to 2.3% compared to 5.8% in the same period in 2000-01.

4.216 The sector-wise growth rates for the last seven years from 1994-95 to 2001-02 have been presented in Table 4.12. From this, one will find that the growth rates during April-December 2001-02 have been lower for all categories of industrial goods i.e. basic goods, capital goods, intermediate goods and consumer goods compared to the earlier year. In fact, the growth in capital goods production has been negative i.e. - 4.8% in April-December 2001-02.

TABLE 4.12

**Growth rates of industrial production by use-based classification
(Base: 1993-94 = 100)**

(%)

Sector	Weight	1994-95	1995-96	1996-97	1997-98	1998-99	1999-2000	2000-2001	April - Dec.	
									2000-2001	2001-2002
Basic Goods	35.5	9.6	10.8	3.0	6.9	1.6	5.5	3.9	5.1	2.2
Capital Goods	9.3	9.2	5.3	11.5	5.8	12.6	6.9	1.8	3.0	-4.8
Intermediate Goods	26.5	5.3	19.4	8.1	8.0	6.1	8.8	4.7	4.8	2.0
Consumer Good of which	28.7	12.1	12.8	6.2	5.5	2.2	5.7	8.0	8.2	5.0
(Consumer Durables)	(5.4)	(16.2)	(25.8)	(4.6)	(7.8)	(5.6)	(14.1)	(14.5)	(17.8)	(12.5)
(Consumer Non-Durables)	(23.3)	(11.2)	(9.8)	(6.6)	(4.8)	(1.2)	(3.2)	(5.8)	(5.3)	(2.3)
IIP (Index of Industrial Production)	100.0	9.1	13.0	6.1	6.7	4.1	6.7	5.0	5.8	2.3

Source: Economic Survey, Government of India 2001-02.

4.217 There are some factors that cause concern. While there are some signs of recovery in the intermediate and consumer durable goods industry, the performance of the capital goods sector has been disappointing. This is all the more significant since machinery imports registered a negative rate of growth of 11.22% during the year. This means no new investment is taking place and therefore there is no demand for capital goods either imported or produced indigenously.

4.218 Secondly, non-oil imports have registered an extremely low rate of growth of just 1.36% during 1999-2000. This points to stagnation of imports necessary to service domestic industrial production.

4.219 The index of infrastructure industries has reported only 3.4% growth in November 2001 compared to a growth of 7.4% during November 2000. This comprises of six industries e.g. crude petrol cum petroleum products, coal, cement, electricity, and finished steel. These are basic industries which affect growth of all other industries.

4.220 There is a sign of the slackening of demand in many industries such as automobiles, textiles, cement, consumer durables, etc. which is also affecting the growth in industrial production.

4.221 All these have a multiplier effect probably resulting in a general industrial recession.

4.222 If we look to the annual rate of growth of industrial production, except 1995-96 when we reached a double-digit growth, it appears that during the last five years, the rate is going down. From 14.1% in 1995-96 it has now reached 5% in 2000-01 and is around 2.3% in April-December 2001-02 (See Table 4.13).