

The Impact of WTO on Kerala's Economy

K. Ramachandran Nair

Kerala one of the Southern States of India displays many unique features in its social, economic and political spheres. In respect of socio-economic indices the proud achievements of Kerala have outstripped rest of India and this state is often held up as a model not just for other Indian States to emulate but also for other developing nations. Sri Lanka and Kerala share many commonalities in areas such as the extent of land area, size of the population, literacy rate and the level of political awareness, apart from their socio-cultural relations that date back to early history of the South Asia. In this backdrop both Kerala and Sri Lanka are encountered with socio-economic issues that exhibit similar characteristics and called upon to respond to the onslaught of globalization and the resultant external pressures more or less in a similar way. Thus we hope that the reproduction of this article on the impact of WTO on the Kerala's Economy from the publication titled Kerala's Economic Development: Issues and Problems may serve as a useful reference to the Sri Lankan policy makers as well as our readers.

Introduction

Economic and trade regimes all over the world have been witnessing dramatic changes in recent times, particularly after the GATT treaty based on the Dunkel Draft Text was signed at Marrakesh in 1994. This led to the establishment of the World Trade Organisation (WTO) in 1995.

The WTO joins the Bretton-Woods twins - the IMF and the World Bank - to form a powerful trinity with powers to regulate, monitor and discipline

a structured global regime encompassing money, finance and trade. The WTO, the youngest of the trinity, was particularly aimed at the implementation of the Marrakesh Agreement of April 1994 for settling disputes between nations on various trade issues and for taking further steps to hasten the flow of trade in commodities and services. The WTO has brought into being a global patent regime and agreements on services, investment, agriculture, subsidies and other aspects of trade liberalisation.

From GATT to WTO

The transition from GATT to WTO was not smooth. Established in 1948 in the wake of the demise of the International Trade Organisation (ITO). GATT was essentially a multilateral trade agreement with the objective of achieving a free trade regime through the elimination of tariffs and quantitative restrictions (QRs) via regular multilateral trade negotiations (MTNs). GATT was based on the principles of non-discrimination and universalisation of trade relations by way of the Most Favoured Nation (MFN) concept. Simply defines, it meant that trade concessions agreed upon between two countries would be automatically extended to all other members of GATT.

Regional economic blocks like the European Union and the Andean Pact were however permitted to extend all concessions to intra-region members of their bodies which were denied to other members of GATT. It was never made clear how such concessions given to regional bodies were compatible with the MFN concept.

A close examination of the record of GATT shows that it functioned as a pro-rich forum and hence the poor coun-

tries belonging to the Third World or the South were denied justice. This was evident from the eight rounds of MTNs, including the one held in Punta del Este, Uruguay. It was at the end of the Uruguay Round that the treaty was signed to set up the WTO.

The transition from GATT to WTO witnessed tough bargaining between the Rich and Poor countries and finally the Poor were forced to yield to the accord, which obviously favoured the Rich. After the demise of the bipolar regime, consisting of the US and the Soviet block, it was a one-sided affair for the rich to force the agreement relating to the WTO on the Poor. The Poor could only demonstrate their inability to fight the superpowers, particularly the US, which was trying to re-establish its hegemony on the global economy. The discussions on the Dunkel Draft dragged on not only because of the Poor/LDCs, but also due to the disagreement between USA and Europe on agricultural subsidies given to farmers.

The LDCs did not have any significant role to play at the negotiating table and 'they greeted the proposal to set up the WTO with resignation, as a fait accompli and as being reflective of the distribution of global negotiating power and weakly signed on the dotted line' (Dasgupta, 1996: 148). In the GATT forum, the LDCs seldom functioned as a group. They did not have any strong back-up support of advisors and skilled negotiators and those present at the negotiating table lacked political commitment and support from home country governments. 'Whatever the skills of negotiation from the South, for the most part they are like extras on the GATT stage; the show can't go on without them, but nobody is remotely interested in what they have to day's (ibid: 147). This graphically describes the plight of the LDCs in the Uruguay Round. The severe erosion in the bargaining position of the LDCs became very evident after negotiations on the New International Economic Order (NIEO) were sidetracked and LDCs

had to confront the debt crisis, and were compelled to accept the policy of structural adjustment prescribed by the IMF-World Bank group. The breaking up of the G-77 and weakening of the non-aligned movement caused further loss of credibility to the LDCs. Even the attempt to revive the G-77 in the truncated form of G-15 did not revitalise the LDCs. All these got reflected in the emerging WTO.

Dunkel Draft Text

The Dunkel Draft Text contains several agreements, which are viewed by the LDCs as instruments of re-colonisation and re-imperialism. These agreements are - Agreement on Agriculture, Agreement on Sanitary and Phytosanitary Measures, Agreement on Agriculture, Agreement on Sanitary and Phytosanitary Measures, Agreement on Textiles and Clothing, Agreement on Technical Barriers to Trade, Agreement on Trade Related Investment Measures (TRIMS), Agreement on Pre-shipment Inspection, Agreement on Rules of Origin, Agreement on Import Licensing Procedures, Agreement on Subsidies and Countervailing Measures, Agreement on Safeguards, Agreement on Trade in Services (GATS), Agreement on Trade in Services (GATS), Agreement on Trade Related Intellectual Property Rights (TRIPS), Agreement on Dispute Settlement Rules, Agreement on Trade Policy Review Mechanism, Agreement on Trade in Civil Aircraft, Agreement on Government Procurement, Agreement on Dairy Arrangement, Agreement on Bovine Meat, etc. In short, the WTO, which is founded on the Dunkel Draft Text, will have to implement these agreements within a stipulated time frame. The WTO has thus regulatory control over a large number of issues that affect the life of the common people in all countries, both rich and poor. Our concern is whether the WTO will act impartially to protect the interests of all or act unilaterally as a pro-rich multilateral organisation. Fears have been expressed whether

the WTO would be the most powerful and lethal among the trinity of organisations, sidelining the other two (the IMF and the World Bank) which have been at the centre stage of global society since the 1950s.

The GATT Style

Before going into the implications of the WTO, one should discuss whether the WTO will follow the GATT style of functioning. As mentioned earlier, the erosion of power of the LDCs was clearly exploited by the Rich. The LDCs did not belong to a homogenous group. 'Many of them were treated and looked down upon as backwards and free riders who always sought concessions, but has nothing to give in return' (Dasgupta, 1996:149). The Rich even found ways to divide the LDCs among themselves by using fancy yardsticks to separate the privileged LDCs and the underprivileged. The major differences among LDCs on specific issues like agricultural subsidies helped the Rich to formulate complex strategies. Examples of these were there in plenty during the GATT era and they are expected to be carried over to the WTO era as well.

Following the agreements reached at the end of each round of MTNs under the GATT forum, the LDCs lowered their tariffs much more than their industrialised trading partners. The position of LDCs became more unfavourable as well as vulnerable when these industrialised trading partners adopted new forms of trade restrictions like safeguards, anti-dumping legislations, countervailing duties, Voluntary Export Controls (VEC) the Multi-Fibre Agreement (MFA), Super-301 and Voluntary Import Enhancement (VIE). In the emerging WTO regime, LDCs have the same fear about the Rich adopting trade restrictions of these types while asking the LDCs to cut their tariffs and open up their domestic markets to exports from the Rich countries.

The World Trade Organisation

As mentioned earlier, the World Trade Organisation was born at the conclusion of the Uruguay Round and the

Marakesh Agreement of 1994. The Uruguay Round was an exclusive Rich country affair. The Agreement is time bound and implementation is within a time period of 10 years, which is split into periods of three, three and four years. The Agreement specifies what a country is expected to achieve at the end of each period. It also specifies machinery for dispute settlement and for multilateral action against countries violating the Agreement. In the worldwide debate on the WTO and its implications, attention was focused mainly on issues relating to GATS, TRIMS, TRIPS, subsidies, labour standards, food security and mobility of labour vis-à-vis capital. Some of these issues are also closely inter-related.

Services, for instance, now account for about two-thirds of GDP and employment and so trade in services has assumed greater importance than trade in commodities and trade in capital. The Rich have an upper hand in the production and exchange of services and enjoy a favourable comparative advantage over the Poor. So, it is natural that the Rich showed keen interest in negotiating and concluding an Agreement on Trade in Services. In 1992, the world export of commercial services was valued at about US\$ 1 trillion, accounting for more than one-fifth of world export of goods and services. The GATS defines trade in services in terms of four modes of delivery: (i) cross border supply of services; (ii) movement of the consumer to the country of the supplier; (iii) movement of the supplier to the country of the consumer; and (iv) temporary movement of natural persons employed by the supplier to the country of the consumer. The definition of services and its distinction from goods has never been an easy exercise. A lot of confusion still prevails. Free flow of services may imply free flow of information/knowledge and free flow of men/labour. GATS, however, recognises a country's right to impose domestic regulations relating to qualification requirements and procedures, techni-

cal standards and licensing requirements. It also permits restrictions on international transfers and payments for balance of payments purposes, but only as a temporary measure to be phased out progressively.

The main implication of introducing services has been that it opens up the entire economy of a country to foreign economic agents. 'Services include practically everything that was not earlier included under industry or agriculture, from transport and communications, and computers to schools, hospitals and groceries' (Dasgupta, 1996: 166). The inclusion of 'movement of persons' in services implies changes in national immigration laws. The idea behind GATS was to provide the Rich greater market access in banking, insurance, telecommunications, information technology, civil aviation, consultancy, research and development, audio-visual entertainment including films, tourism, health care, hotels and restaurants, financial services, maritime services, education, etc. In short, with their stronger bargaining power, the Rich are expected to reap larger benefits in the field of trade in services and thus in overall economic transactions with others.

Implications: A Methodological Issue

Let us now take a look at the Kerala economy to ascertain the possible implications of the WTO on it. At the outset, it must be made clear that the Kerala economy is basically a regional economy - a sub-national entity - in the national economy of India. It is the Government of India that has signed the GATT treaty, which made India a member of the WTO. Being a member, India is committed to accepting all the provisions of the WTO. GATT has been transformed into the WTO and in the process a trade accord has turned into a membership organisation. The WTO does not permit 'grandfather rights' (relations to laws passed before 1947 that were originally exempted from the GATT discipline). Members, including India, are expected to deposit their

Schedules of Commitments within two years of joining the WTO. Due to utter lack of transparency, we do not know what commitments India has already deposited with the WTO. This makes the analysis of implications of the WTO on the Indian economy as well as the economy of a state difficult. Further, India's joining the WTO virtually coincided with its adoption of economic reforms which were essentially founded on the Structural Adjustment Programme (SAP) consisting of emergency crisis management measures, medium-term macro economic stabilisation and long-term structural adjustment. As a part of economic reforms, India has given several commitments and assurances to the SAP-sponsoring bodies - the IMF and the World Bank. Among these are included privatisation, liberalisation and globalisation. Specifically, it includes fiscal policy reforms, monetary and financial sector reforms, price policy reforms, industrial policy reforms and external sector reforms, price policy reforms, industrial policy reforms and external sector policy reforms. The character of these reform policies clearly shows organic links with the WTO commitments made by India. It strengthens the argument that to a very large extent the trinity of IMF-World Bank-WTO have a clear ideology and policy direction and they possess the needed leverage to impose their will on all member countries. India too has submitted to this and consequently the implications on its economy and people, including the states in the union and their people, flow directly and indirectly from all the three institutions/organisations which constitute the trinity.

Kerala's Outward Orientation

Kerala in contrast to other regions/states in the country has had a greater outward orientation from times immemorial. Kerala, consisting of the erstwhile Princely States of Travancore and Cochin and British controlled Malabar, has been a major international trading centre. Cardamom and cinnamon from the region are reported to have been

exchanged with ancient Babylonia (Sumer) as early as 3000 BC. Kerala soon became an important entrepot connecting Europe, the Middle East, South Asia and China. The coming of British colonialism stimulated the penetration of colonial capital into the plantation sector in the region.

The process of integration of the Travancore economy with the global commodity market in a subordinate colonial position, which commenced in the second half of the 19th century, created an enclave pattern of development. This process was accelerated by the channelisation of private foreign capital into plantations, which led to the hegemony of foreign capital over this vital sector of the economy. The industrial structure witnessed the dominance of export-oriented plantations and agro-processing industries. What expanded in this historical process was merchant capital and finance capital, which did not help the development of an industrial base in the region.

Foreign trade plays an important role in the economy of the State. Many of its traditional crops and industries are dependent upon overseas exports for their prosperity' (State Planning Board, 1998:90). This implies that anything that happens to Kerala's overseas exports will have its impact on the state's economy and prosperity. The implications of the WTO on Kerala's economy have to be analysed from this angle.

Kerala's Export Basket

The commodity composition of the export basket from Kerala is shown in Table 19.1

Among these products, the share of Kerala in India's exports of these items is very high - 97 per cent for pepper, 96 per cent for coir and coir products and 68 per cent for coffee. Marine products and cashew are the two commodities whose exports have proved to be the most buoyant

during the post-independence period. In the early 1950s, marine products accounted for a little above 1 per cent of Kerala's export earnings. Since the mid-1970s they have accounted for around one-fifth of the value of the state's foreign exports. The share of cashew kernel exports has also tended to rise, though less dramatically than the former till the mid-1970s. In contrast, the share of coir products has tended to decline sharply. The fortunes of spices have been fluctuating. Important spices exported from Kerala are pepper, cardamom, chillie, ginger and turmeric. Of these, Kerala has a near monopoly in the production and export of pepper.

Another major export item, which is not traditionally included in the category of exports from Kerala, is manpower. According to one estimate, there are now about 800,000 workers from Kerala working in the

merce and other services is also important. Besides, one has to note the impact on factor prices and factor markets, impact of inter-sectoral inequalities and impact at the household level. But these have not been adequately studied or assessed yet.

Being a regional economy in India, Kerala cannot have an independent economic policy relating to its exports and imports. Some policies being implemented by the Government of India have obvious fall-out effects on the state's economy and the state government has several times registered its protest without any positive results.

With the economic reforms and commitments to the WTO and the consequent opening up/globalisation of the Indian economy, Kerala has been hit hard. Kerala's traditional exports are now subjected to the wild volatility of global markets. The compliance to the WTO regime, pressures from the US Food and Drug Administration and application of non-economic issues such as social clauses and labour standards are going to weaken most of Kerala's exports and their production base. The impact on natural rubber, tea, coffee, cardamom, pepper, coconut oil, titanium dioxide, newsprint, etc., is far reaching.

According to one analyst: Some specific measures like import liberalisation, tariff reduction and removal of subsidies may lead to a process of de-industrialisation and the general principle of market forces in resource allocation has the distortionary effect of making backward state like Kerala weak in the bargain for the location of industrial ventures by big capital, national and foreign (Subramanian, 1994: 19-20).

In the year 1997-98, the economy of Kerala witnessed an aggravation of its sickness. Among the immediate contributing factors were:

1. Crash in the prices of land, gold, stocks and shares, coconut, rubber and cardamoms.

2. Fall in export earnings from marine products on account of restrictions imposed by the European Community and the US Food and Drug Administration, besides the application of phytosanitary standards and pre-shipment inspection under the WTO regime.
3. Decline in out-immigration flow of manpower and increase in the inflow of returnees from the Middle East.

Benefits and Losses

Those who support India's entry into the WTO highlight the potential benefits that will accrue to the country. We must examine whether these benefits will percolate to a state like Kerala. The benefits listed by this group are many, but they are illusory.

1. There will be positive income effects originating from expansion of world trade and a substantial share of this will be related to textiles and clothing, agriculture, forestry and fishery products and processed food and beverages. The Government of India has also argued that India has potential export competitiveness in these product groups and it is only logical that the country will obtain large gains in these sectors. But this view is contested by Muchkund Dubey (1996) who says that the GATT estimate of increase in world trade is of dubious value. Further, the increase in world trade depends not only on trade liberalisation as envisaged under the WTO, but on a number of inter-related factors like product quality, assured supply of exportables and superior technology, and India has obvious relative disadvantages in these. Indulging in export trade projections in a world of economic and political uncertainties is a risky game. As mentioned earlier, if Kerala's exports like marine products or spices are subjected to international quality standards and inspections, at least in the short and medium terms, Kerala's export earnings

Table 19.1

Export Basket from Kerala 1996-97

Item	Quantity (metric tonne)	Value (Rs crore)
Marine products	922.88	936.22
Pepper	46264.00	405.17
Cardamom	53.00	2.45
Curry powder	6.35	3.73
Ginger	4905.00	25.93
Turmeric	2832.00	10.63
Spices and oleoresins	1359.00	98.00
Cashew kernel	37183.00	727.70
Coffee	122455.00	728.50
Coir and coir products	44512.00	205.31

Source: State Planning Board, 1998

Middle East, bringing in about 45 per cent of India's earnings from inward remittances. Virtually the export of manpower is best described as movement of persons across national borders and many directly come under the rules of the WTO. The inward remittances have a macro-economic impact on consumption, savings, investment and growth. Its sectoral impact on growth rates of agriculture, industry, trade and transport, com-

from these may only decline. Of course, one cannot deny the fact that there is a potential for expanding trade in these lines, which gives Kerala a challenging opportunity.

2. India expects benefits related to improved prospects for agricultural products as a result of likely increases in the world prices of agricultural products due to reduction in domestic subsidies and barriers to trade by the Rich. In the WTO regime, three types of subsidies are mentioned: (a) *Prohibited ones*: those, which are, export promoting or favour domestic against imported goods. (b) *Non-actionable subsidies*: that are not prohibited but are actionable if they cause injury to the domestic industry of another. (c) *Neutral*: which are specific but are still tolerated.

The question of subsidies has been a matter of conflicting debate among members of the WTO. Countries with less than US\$ 1000 per capita GDP, including India and other South Asian countries, are exempted from the prohibition on subsidies that are contingent on export performance. However, it is feared that through various other interpretations, India's right to impose subsidies is being restricted by the WTO. The Government of India has given repeated assurances that the WTO stand on agricultural subsidies will not apply to India and even the operation of the public distribution system and the food security associated with it will not be affected as long as the total amount of subsidies given by India remains within the prescribed limits specified in the Agreement on Agriculture. However, it hopes that the reduction of subsidies given to agriculture in the US and the European Community will enable India to increase its earnings. It must be remembered that for many decades, agriculture has been under heavy protection in most developed countries and the agricultural lobby has been politically very strong.

Kerala has a virtual monopoly on natural rubber production in India.

But this has developed under heavy subsidies given to growers coupled with severe import restrictions. Due to increasing pressures from the IMF and World Bank and in recent times from the Rich country members of the WTO, India has been forced to liberalise imports of natural rubber, rubber products like tyres, and even used tyres. This has hit Kerala's rubber growers very badly. Being a perennial crop, they cannot, in the short run, switchover to another alternative crop to survive. If the rubber-producing sector of the Kerala economy is pushed to a stage of stagnation, life for the people in the entire high ranges and midland regions of Kerala will become miserable. 'Consequently, the stagnation will spread to the land market, banking and finance sectors, and the consumer goods market. There is also fear that under the commitments given to the WTO, the public distribution system in Kerala may have to be cut in order to restrict it to only the absolutely poor. This is viewed as a threat to food security, which used to be considered an important positive parameter of the Kerala Model of development. In fact, the WTO stands for food security through trade instead of food self-sufficiency.

It may be noted that in the Uruguay Round, the US did not propose complete elimination of producer subsidies. It only wanted that part of the subsidy which was tied to output increasing incentives to go, while subsidies given to farmers for reducing output through keeping land fallow could continue. This was obviously discriminatory in character. Further, UNCTAD has pointed out that in the US and Europe, even after agreed reductions, the actual subsidy given to their farmers would remain high, compared with those in the LDCs.

3. WTO would ensure quality standards and protect consumer interests. But behind this, Rich countries are allowed to use import controls. They may invoke sanitary and phytosanitary measures in order to 'protect human, animal or plant life or health' (Dasgupta, 1996: 174). It is left to the country concerned to work out

its own acceptable level of risk, but the controls are to be used on a non-discriminatory level of risk, but the controls are to be used on a non-discriminatory basis. For instance, the European Union ban on hormone-fed beef from USA was based on this provision. In recent times, marine products exported from Kerala were subjected to this test of 'acceptable level of risk' by the US and they prohibited entry of these products into their market. This affected shrimp and tuna exports too. Soon the principle of pre-shipment inspection was applied and teams of inspectors from the USA started visiting Kerala to make an on-the-spot study of sanitary conditions in prawn and fish processing factories. Similarly, sanitary standards were applied to Kerala's spices and certain orders were rejected in recent times. Hence, spices exporters are now concentrating on value addition processes and on exporting oleoresins instead of raw spices.

4. Protection of Intellectual Property Rights - patents, copyrights and trademarks - has been made more stringent. This was done to protect the interests of the Rich and the MNCs and TNCs. Once the global patent regime comes into full operation, countries like India will have to scrap its national patent law. The Government of India has argued that domestic inventors, scientists and producers can also take patents to protect their respective interests. However, one cannot ignore the dictum that a patent or trademark is basically an instrument to create and protect monopoly. As such, IPR protection is anti-competition and anti-liberalisation, and goes against the spirit of opening up the world economy and global integration. Thus IPR protection in any form has to be viewed as a barrier to trade.

Granting IPR protection in areas like food, seeds, chemicals, technology, drugs and pharmaceuticals, agriculture, horticulture and biotechnological processes including life forms like plants and animals has dangerous im-

plications. It is feared that drug prices in India and Kerala may go up, and particularly in Kerala it may cut at the very root of the public health care system which is again considered an important parameter of the Kerala Model of development. Kerala is proud of its system of indigenous medicine called Ayurveda with its unique collection of herbal chest. Entry of MNCs into the drug industry, buying up of traditional medicines and therapies and subjecting them to patenting would impose immeasurable losses on Kerala's economy.

The controversy on farmers' rights vs breeders' rights has not been adequately resolved. India has not yet passed a *sui generis* legislation to protect the interests of farmers and scientists. Unless this is taken up seriously, the research and development work going on in agricultural universities and research stations will not reach a commendable stage. Sine control of seed production implies control over food supply, the entire Indian food security system will be jeopardised and thrown out of gear. Suman Sahai (1994) has gone on record when she said that patenting of life forms will strike at the very root of indigenous manufacturing of drugs and we cannot allow the MNCs/TNCs to dominate the global economy at the expense of LDCs.

5. The Government of India has claimed that both TRIMS and GATS will benefit India considerably since they will increase the inflow of foreign capital and increase the export of services respectively. Giving national treatment to a foreign investor or company is a condition underlying TRIMS. Opening up the economy to foreign investors may come in different forms. The government may extend privileges to foreign companies to the same extent as it gives domestic companies. Under this, domestic companies will not get any favourable treatment over foreign companies. TRIMS will most likely have the effect of undermining any plan or strategy of self-reliant growth

based on technology and resources available locally. It could also drain our foreign exchange reserves. Already the impact of TRIMS is seen in the recent agreement reached in the area of power generation. Instances of Power purchase Agreement (PPA) reached with Independent Power Producers (IPP) like Enron can be cited. The entry of foreign companies in Kerala's power sector may have adverse implications, particularly since the sale of power will be the burden of the State Electricity Board which is already saddled with enormous losses. The Government of India has very recently taken a decision to open up railways, water, food and agriculture (including horticulture, floriculture and dairy farming) to foreign direct investment. This is to be synchronised with large-scale dis-investment of public sector equity. This policy of dis-investment, best describes as a major portion of the equity may have a substantial say in the management of the company. Modern Foods, which runs a large unit in Kerala, is being subjected to this exercise of strategic sale. Once it is completed, Modern Bread and other related products may be sold at prices unaffordable to the masses.

6. It is claimed that India will have considerable comparative advantage in the field of trade in services, since the country possesses a large reservoir of human resources. But this is illusory because the thrust of GATS will be on services like banking, insurance (both life and non-life types), telecommunications and shipping, and these are exactly the areas in which developed countries have a strong presence. They are eagerly looking out for increased market access into these areas in LDCs. The size of the global market for services was US \$ 1,000 billion in 1993, of which the share of the Rich countries was as high as US\$ 950 billion or 95 per cent. USA, France, Japan and Netherlands account for about 60 per cent. In terms of GATS, India will be forced to open up its service sector to foreign companies and it is already being done in steady steps. The tragedy is that these companies will start selling their products and services by charging high prices

and repatriating their profits to their home country, thereby imposing a big drain on India's foreign exchange reserves. The problem will become adverse once India shifts to full convertibility of the Rupee under the capital account

In this connection, a ray of hope lies in the matter of movement of person across national borders. Some reference has already been made about varying definitions given to trade in services and it covers, among other things, temporary movement of natural persons employed by the supplier to the country of the consumer. Export of manpower - emigration - from Kerala will naturally come under this definition. How is the WTO and GATS going to affect the prospects of Keralites going to foreign country labour markets in search of employment?

While the Rich countries plead for free flow of capital across national borders, they are not willing to allow free flow of labour in a similar fashion. This is evident from the conditions laid down in GATS. While calling for a free flow of services, GATS recognises a country's right to impose domestic regulations relating to qualification requirements and procedures, technical standards and licensing requirements. GATS generally accepts the MFN principle and does not include national treatment obligations, excepting in those sectors that are listed in a country's Schedule of Commitments., Emergency safeguards also exist. Instances are cited from the USA where qualified doctors from South Asia, including India, are not allowed to start medical practice unless they acquire registration with the American Medical Association after fulfilling stringent tests and standards. It is a general policy of the US and other Rich countries to allow foreigners to enter their country only in such areas where they have critical shortage of service personnel. Further, the instruments of visas and work permits are also used to keep out the flow of unwanted service personnel,

even though they are cheaper than their domestic counterparts. On area in which both India and Kerala have some positive advantage is that of software exports and software service personnel. But extraneous consideration and pressures from domestic service industries are likely to force rich countries to impose non-economic conditions to restrict the free flow of such personnel. But extraneous considerations and pressures from domestic service industries are likely to force Rich countries to impose non-economic conditions to restrict the free flow of such personnel,

7. Environmental standards and labour standards are also used by the Rich to stall exports of commodities and services LDCs. Commercialisation and expanding export orientation have given rise to serious environmental problems in agriculture, particularly with reference to the shrimp farming industry. Kerala in recent times has given top priority to aquaculture, particularly in the coastal areas, thinking that this is an area of high growth potential with substantial foreign exchange earnings. The growth in shrimp farming has been induced by the high demand for seafood in the US and Japan. These countries turned their attention to South Asian countries and gave them full encouragement to bring about the so-called 'blue revolution' through attractive funding. This led to over-exploitation of fishing zones. Soon attention was shifted to shrimp pond farming, which became a major agricultural export activity in many LDCs. The need for huge capital investment in this activity attracted the entry of MNCs and large industrial houses like the Tatas in India. The companies provide growers with fish seed stock and several auxiliary services. The net outcome of expanding these activities was the transformation of multi-user public coastal lands into single purpose private property. In that process, traditional coastal residents have been evicted. The companies interfere with Coastal Zone Management (CZM) regulations and safeguards by bribing officials. Mangroves, which are

nature's creation and necessary for ecological balance, are wantonly destroyed. Privatisation of common property resources for shrimp farming led to denial of customary rights to their traditional users. The environmental impact of shrimp farming and aquaculture in coastal zones has been serious and it includes, among other things, high risk of pollution, alteration of wild fish and crustacean habitats, risk of floods in coastal areas, sedimentation of estuaries, spread of unknown diseases to human population, salinisation of fresh water sources, etc. Discharges of pond water also turn adjacent paddy lands into saline areas which make them permanently unsuitable to paddy cultivation. In short, the globalisation underlying the WTO has forced Kerala to go ahead with rapid commercialization of shrimp farming with its attendant environmental hazards. Considerations of profits from exports blind operators in this field to the long-term environmental costs to be borne by Kerala society and its people.

Reference has been made to GATS and the constraints on the free flow of service personnel. In this context, one should cite the imposition of labour standards by the Rich to restrict the entry of commodities and products produced by the LDCs into their domestic markets. The Rich always complain that cheap labour in the LDCs poses a serious threat to them as it offers a differential advantage to the latter. To rectify this, the Rich are 'proposing uniform and standardised labour market behaviour, including conformity in terms of wages paid and the conditions under which the workmen operate' (Dasgupta, 1996: 177-78). LDCs assert that given the state of their economies, they cannot afford to satisfy the high labour standards insisted upon by the Rich. They feel that the position taken by the Rich reflects a lesser concern for the plight of workers in LDCs and move for the competitiveness of the poor country's exports. The LDCs plead that benefit of capital and technology and management resources, they enjoy some advantages in terms of relative wages, and without which they would lose whatever small share of the world market they now enjoy.

To restrict the entry of workers of LDCs into their domestic labour markets, the Rich have tightened immigration laws. Alongside the demand for better labour standards in LDCs, the Rich have even demanded the dilution of labour laws covering minimum wages, job security against layoffs and closures, better working conditions, compensation in case of injuries while at work, provident funds and trade union rights. The argument of the Rich is that such legislations make the movement of wages rigid and do not allow the labour market to adjust to demand and supply forces. Further, such legislations discourage foreign investment. This is purely a market-oriented approach. Kerala is one region in India where labour laws are very progressive and trade union rights are well protected. There is a lurking fear in the minds of a few people that in the rush for privatisation, liberalisation and globalisation. India may be forced to roll back these progressive labour laws, and following that, Kerala may also be compelled to dilute them. But the existence of a strong Left movement in Kerala and strong working class consolidation may deter such attempts. However, the process of ancillarisation, information and shifting of production from the organised to the unorganised sector is evident in Kerala. This has been accompanied by casualisation and feminisation of labour too. We may say that all these emerging developments in the Kerala economy are associated directly and indirectly with India's economic reforms as well as the WTO commitment India has already made.

This article being extracted from the book, "Kerala Economic Development: issues and problems" edited by B A Prakash in 1994. The book contains a basic work on Kerala's economy, contained 20 essays and have attempted a detailed examination of the development growth and problems of the state's economy over the period 1956 to 1991. The context of this book can be broadly identified as the analysis of a rapid economic changes that has taken place in Kerala through 1990s. New eco-

conomic policies, changes in migration, urbanisation etc. could be identified as the major topics of the book.

The volume begins with an Introduction and a chapter on the economic reforms and economic performance of Kerala's economy. The second section contains essays on aging and social security, poverty and the public distribution system and educated unemployment. The next section deals with inter-regional migration of educated labour, economic impacts of Gulf migration and urbanisation in Kerala. The fourth section examines the performance of agriculture the natural rubber sector, emerging agrarian relations in Kuttanad and labour shortage in agriculture. The next section contains chapters on economic liberalisation and industrial development, software development, explanations for industrial stagnation, and the power crisis. The last two sections examine the financial crisis, poor management of state finance, and impact of WTO on Kerala's economy.

Since the book is addressed to a wide audience, it has provided a databased analytical account of the economic issues and problems. An extensive bibliography at the end of each chapter has also been included for those who wish to use the book as a starting point for further empirical research.

This volume is the outcome of the collaborative effort of 20 scholars who have made significant research contributions to Kerala's economic issues. This book will be useful to the academics specially who are engaged in similar studies on Sri Lanka economy as it provides valuable hints and guidance to follow. The editor B A Prakash is currently Professor in the Department of Economics, University of Kerala, Trivandrum. We thank him for giving an opportunity to do a review on this book in our journal Economic Review. We reproduce in the Economic Review this article on WTO implications as undoubtedly the facts given in it are applicable to Sri Lanka as both Kerala and Sri Lanka economies are alike in most of the ways.

contd. from Page 18

for the values of older, wiser, more contemplative civilizations than our own.

Never before has there been such a vogue for the "ethnic", the organic, the exotic. Just look at Ricky Martin, proudly singing in Spanish on his way to becoming not only Latin America's most successful pop star, but one of its top global exports of any kind. Look around us and we see World Music (currently the fastest-growing part of the big record labels' catalogues, and fast overtaking the hitherto unquestioned dominance of the big American popular entertainers): World Cinema (occasionally rivaling the success or Hoollywood blockbusters); World Cuisine (a Parisian family recently offered me sushi when I visited their home - a phenomenon that would have been literally unthinkable a few years ago!); the phenomenal surge of interest in alternative, Eastern, and pseudo-Eastern remedies (acupuncture, shiatsu massage, aromatherapy); and much more besides.

The Western consumer is attracted as never before by the cultures and the products of distant lands. Now, surely, is the time for the rightful owners of the truly exotic nation-brands to leverage the power they hold over the imagination of the world's richest consumers? Now is the time for them to start making back some of the money that they have paid rich countries for their products over the past century, to begin to reverse the relentless flow of wealth from poor to rich, and to redress some of the imbalance between the lucky and the unlucky nations of the earth.

The factors that make consumers buy products from certain brand names and not from others - whether these are country brands or corporate brands - many seem somewhat mysterious. The perception of a brand in the mind of the consumer is like that game where you join up a series of numbered dots to make a picture of an animal. But in branding, the dots have no numbers, and the brand-owner has little control

over how the consumer will join them up in his or her mind, and what kind of creature will be the result. But refined technique, long experience, and above all a profound understanding of cultural differences and consumer psychology can make the process far from random.

In reality, "brand extensions" - where a brand owner launches a new product line under an already familiar name - can, as we have seen, be very logical and very obvious, or they can appear totally random. For Kellogg to launch a new kind of breakfast cereal on the market is just as much to be expected, as is a new wine from France or a new fashion label from Italy. But when Caterpillar, a manufacturer of earth-moving equipment, recently launched a range of casual footwear, it was as surprising and exciting as a software giant emerging from India.

When a country does have the courage, insight, and creativity to move away from the classic paradigm of "national produce" and celebrate the fact that it produces brands that make you think again about the country that produces them, the results can be far more noticeable, and consequently far more profitable. Somewhere in the mysterious processes of consumer logic, Caterpillar boots made sense, and the resulting brand extension benefits both the company's core business and the new business: it really is a case of two and two making five. This is one kind of aid that emerging countries could find truly valuable: the international branding expertise that can create unexpected and inspiring connections between countries and consumers, and that will enable countries to launch their products onto the global marketplace with confidence, with a big noise, and above all, with pride in their origins.

Prepared by W G S Waidyanatha for "Economic Review" from an article written by Simon Anholt to Impact, Fall 1999 Vol. 3 No. 4 ■