International Metalworkers' Federation

Indian Metalworkers' Unions at the Crossroads

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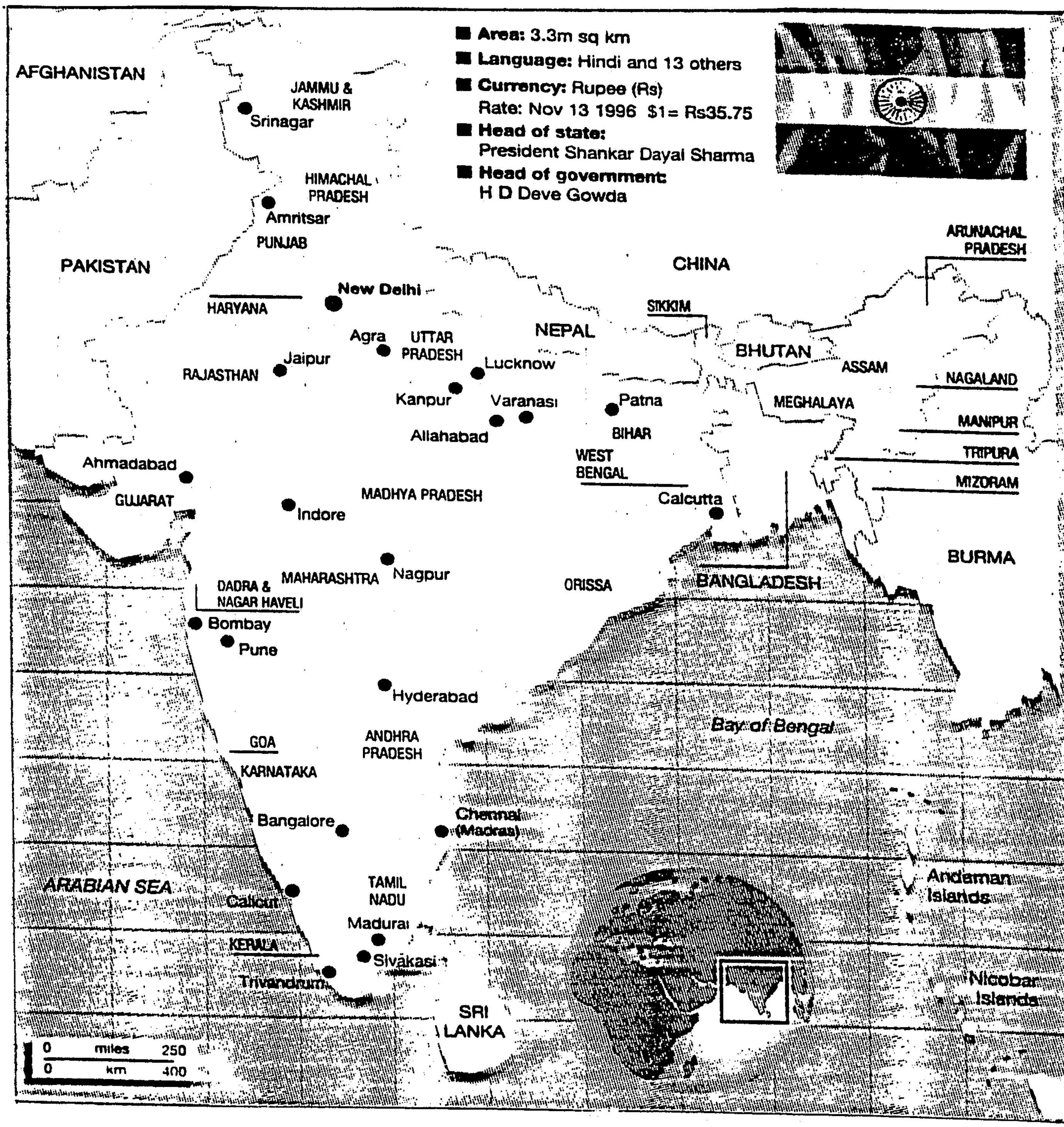
INDIA


■ Area: 3.3m sq km
■ Language: Hindi and 13 others
■ Currency: Rupee (Rs)
Rate: Nov 13 1996 $1= Rs35.75
■ Head of state:
President Shankar Dayal Sharma
■ Head of government:
H D Deve Gowda
AFGHANISTAN
JAMMU & KASHMIR
Srinagar
HIMACHAL PRADESH
Amritsar
PUNJAB
PAKISTAN
CHINA
ARUNACHAL PRADESH
New Delhi
HARYANA
SIKKIM
NEPAL
Agra
UTTAR PRADESH
BHUTAN
Jaipur
RAJASTHAN
Lucknow
ASSAM
NAGALAND
Kanpur
Varanasi
Patna
MEGHALAYA
MANIPUR
Allahabad
BIHAR
TRIPURA
WEST BENGAL
MIZORAM
Ahmadabad
GUJARAT
MADHYA PRADESH
Indore
Calcutta
BURMA
Nagpur
MAHARASHTRA
DADRA & NAGAR HAVELI
ORISSA
BANGLADESH
Bombay
Pune
Hyderabad
Bay of Bengal
GOA
ANDHRA PRADESH
KARNATAKA
Bangalore
Chennai (Madras)
ARABIAN SEA
Calicut
TAMIL NADU
Andaman Islands
Madurai
KERALA
Sivakasi
Trivandrum
Nicobar Islands
SRI LANKA
0 miles 250
0 km 400

KEY CENSUS STATISTICS

		1991	1981	1971
Population	(Mn)	846	683	548
Density	(per km2)	273*	230*	177
Rural Population	(Mn)	629	524	439
Urban Population	(Mn)	218	159	109
Urban as % of Total	(%)	25.7	23.3	19.9
Workers*	(Mn)	306	242	181
Male	(Mn)	219	179	145
Female	(Mn)	87	63	36
Birth rate	(per 1,000)	32.5	37.2	41.2
Death rate	(per 1,000)	11.4	15.0	19.0
Literacy rate	(%)	52.2#	43.6†	34.5
Male	(%)	64.1#	56.4†	46.0
Female	(%)	39.3#	29.8†	22.0

* Excluding Assam and Jammu & Kashmir (J&K)
† Excluding Assam
# Excluding J&K

Currency Exchange	1 crore	=10 million
	Rs. 10 million (1 crore)	= 28,500 US$

Source: Statistical Outline of India, 1995-96

INTRODUCTION

Since 1991, the Indian Government has, to various degrees, liberalised industry, trade and finance. Deregulation of the labour market and the dismantling of public sector undertakings have been advocated to make the market more efficient. Underlying this new policy was the argument that an open trade regime and an economic environment friendly to foreign investors would boost growth and raise the income of the poor much faster than before. Foreign investment has not only been welcome but it has become a priority on the agenda of the Central government as well as of the State governments. After years of self-reliance and partial economic isolation, Indian industry is now exposed to the pressures of globalisation and international competition. So-called "sick" enterprises are closed down, others resort to labour cost saving strategies, thereby pushing an ever increasing segment of the labour force into informal low wage sectors.

While many unions recognise the need for reforms, they are much concerned with the lack of adequate social policy to help displaced or retrenched workers. They argue that the government has surrendered to the interests of global capital and international financial institutions and withdrawn from its social responsibilities. Assuming that the new economic policy is successful in attracting foreign capital and technology to India, the question is raised whether this will really generate additional jobs for the 8 million young Indians who enter the work force every year and those who are retrenched due to restructuring and privatisation. Today less than 10% of the people work in the "modern" or formal sector. The much larger and fast growing part of the work force is in the informal sector where there is little or no protection of labour laws and trade unions, and where wages and living conditions are miserable. Out of a total population of 900 million, it is estimated that about 400 million people are unemployed or under employed and without any social security benefits.

The IMF has about 800,000 members in India, of whom nearly half a million are members of the National Metalworkers' Federation and 200,000 in the Steel, Metal & Engineering Workers' Federation. The National Mineworkers' Federation represents 41,000 mineworkers. The remaining unions are independent and company-based in the engineering and electronics sectors in Pune and Madras. Considering that there are about 3 million metalworkers in the "modern" sector today with more coming tomorrow, there is enormous scope for organising the unorganised in this country which is bound to become a major player in Asia in the years to come.

This report is the outcome of a mission to India carried out in February 1997. Discussions were held with unions and employers' representatives as well as with research and labour institutes in New Delhi, Bombay, Pune, Bangalore, Madras and Hyderabad. Part I of the report focuses on the new economic environment in which unions operate and the impact of liberalisation and deregulation on the industrial fabric. Part II provides an overview of the Indian metal industry with investment projects in steel, auto and electronics. Part III analyses the development of the trade union movement and the challenges to be faced while Part IV deals in brief with India's place and role in the Asian context.

I ECONOMIC AND POLITICAL BACKGROUND

1 The Political Landscape

Since independence in 1947, politics in India have been mostly dominated by the Congress Party. Several groups which broke away from Congress have formed over the years and Congress itself has split on several occasions but this has not really threatened the authority of the officially recognised Congress Party. In recent years, however, the Hindu fundamentalist Bharatiya Janata Party (BJP) and communal and regional parties have gained influence, pointing to a shift in the balance of political power. In the general elections held in early 1996, the BJP emerged as the largest single party with 160 seats against 139 for the Congress Party but it was unable to win sufficient support to secure a parliamentary majority[1].

For the first time, the Union of India is now ruled by a coalition of 13 parties representing a wide range of interests and political shades. This enlarged group has named itself the United Front (UF) and brings together regional groups, parties rooted in lower castes, communist parties and "social justice" groups - all of which broadly draw support from the rural, agrarian poor, and whose stance on liberalisation goes from the minimalist position to unrestricted support for reforms. The coalition parties have strong roots in their respective states which therefore play a role in the decision-making process. With only 178 seats at its disposal, the United Front was short of the 270 seats needed for a simple majority but it had received the support of the defeated Congress Party[2]. At the time of writing this report, however, the political situation is very fragile and unstable. A new Prime Minister - the fourth one in 12 months - was nominated in April 1997 culminating a three-week political crisis. This leadership change has enabled the United Front to stay in power but not necessarily put an end to the power struggle within the parties concerned.

In terms of structure, India contains 25 self-governing States, some of which are bigger than many independent countries, and seven Union Territories. Executive power is vested in the Prime Minister who is answerable to the Parliament. Parliament consists of two Houses. The Lower House (Lok Sabha - House of the people) has 545 members of whom 543 are elected directly; unless dissolved under unusual circumstances, the term of the Lok Sabha is also five years. The Upper House (Rajya Sabha - Council of States) includes 245 members, 12 nominated by the president and the rest elected indirectly. The Rajya Sabha is not subject to dissolution, one third of its members retire after two terms, but are eligible for re-election. The administrative structure of the States is similar to that of the Union.

[1] The BJP's predecessor party, the Jana Sangh, ruled in coalition with other parties from 1977-79 and the BJP itself has held power in a number of state governments since 1989.

[2] With 142 seats out of 540 in the Lower House of Parliament, the Congress Party would need the support of at least 130 members of other parties to form a government.

Under the Constitution, Parliament has the power to make laws for the whole or any part of the territory of India. Both Parliament and the State Legislatures are empowered to legislate on items appearing in List III of the Constitution, known as the "Concurrent List", in which labour is included. As a result, both can legislate on the following matters directly relating to labour and industrial relations: Trade unions, industrial and labour disputes; social security and social insurance; employment and underemployment; welfare of labour including conditions of work, provident funds, employers' liability, workmen's compensation, invalidity, old age pension and maternity benefits.

2 A New Approach to Economic Development

From its Independence up to the end of the eighties, India has followed an inward-looking and interventionist economic policy. The country managed to protect its economy somewhat from the oil shocks of 1973 and 1979 and achieved growth rates hovering around 5%. This approach included the building up of a large, public-owned heavy industry sector while the production of consumer goods and agriculture was largely left to the private sector. India thus relied on a complex system of industrial licensing, high protection against imports and extensive government intervention in financial intermediation.

With the coming to power of the third minority government in 1991 under the leadership of Prime Minister Rao[3], a new era was ushered in although even before that date, the government had initiated a series of reforms to foster investment and liberalise the economy. The winds of change had been observed right through the eighties at a time when stagnation of the manufacturing sector and exports had started to become a major source of concern. There was a growing awareness of the inefficiencies linked to an inward-looking development model and a serious financial crisis in 1991 forced the government to address reforms[4]. Under pressure from the International Monetary Fund, Gandhi's concept of self reliance, decentralisation and encouragement of village and home based industries, was abandoned and market economy principles substituted for state intervention and

[3] The period 1989-91 was also marked by political instability with three minority governments succeeding each other between these two dates.

[4] This crisis has been interpretated in different ways. Some claim that it originates from a misplaced strategy of development since the mid-1950s. Others argue that it is a result of the "cavalier macro-management of the economy during the 1980s. Given the complexity of the Indian development experience over the past four decades, it would be idle to pretend that everything we did was right but it would be naive to suggest that everything we did was wrong. The reality was a mix of the good, the bad and the indifferent ... . The most important shortcomings, situated in a long-term perspective, were the neglect of human resources, agrarian reforms and exports. The declining productivity of investment and the lack of international competitiveness emerged as problems that required a reformulation of policies and a restructuring of the economy ... . It was the fiscal mess which began in the early 1980s and the debt crisis which surfaced in the early 1990s, that pushed the economy into an awkward corner ... . By early 1991, there was hardly any room to manoeuvre in living on borrowed money or borrowed time". Economic Liberalisation in India, Centre for Studies in Social Sciences, Calcutta, 1993.
Mention should also be made of the consequences of the conflict in the Gulf. In August 1990, as a result of the Gulf War, India's economy plunged into a severe liquidity crisis which forced the country to resort to severe import controls and other measures to avoid defaults on its debt service obligation.

control.[5] Drastic tariff reductions (from 300% in 1991 to 50% in 1995), cuts in public spending, opening up to foreign capital, abolition of quotas, privatisation and restructuring of loss-making enterprises in the public and private sectors - also called "exit policy" by the World Bank[6] - were among the measures taken by the former Finance Minister, Dr. Manmohan Singh. These measures were aimed at facilitating a greater role for the private sector in industrial development, the entry of multinational corporations, a higher emphasis on imported technology instead of labour along with skills upgrading and the closure of sick industrial undertakings. At enterprise level, skills development is more and more at the top of the agenda and multi-skilling clauses are integrated into letters of appointment as well as collective agreements.

Most quantitative restrictions have already been removed on imports of machinery and equipment as well as on intermediate goods. Earlier this year the International Monetary Fund put new pressure on India to abolish remaining import restrictions and scale back its tariffs[7]. This is certainly a very sensitive issue in India because many small and medium-sized businesses depend on exclusive rights to manufacture a high number of consumer items. While not blindly opposing reforms, unions strongly argued that time was needed for the domestic industry to adjust to foreign competition to ensure that workers did not have to pay for ill-considered economic reforms.

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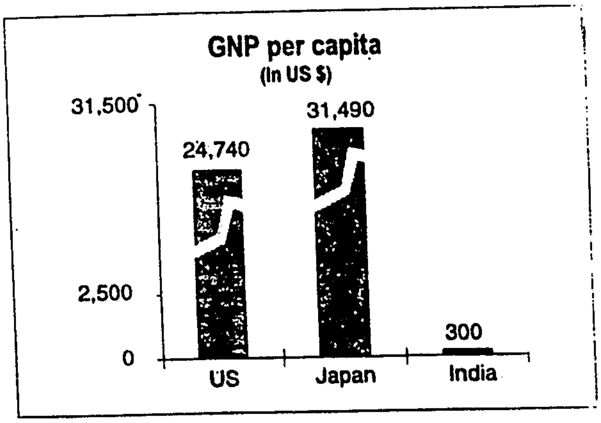
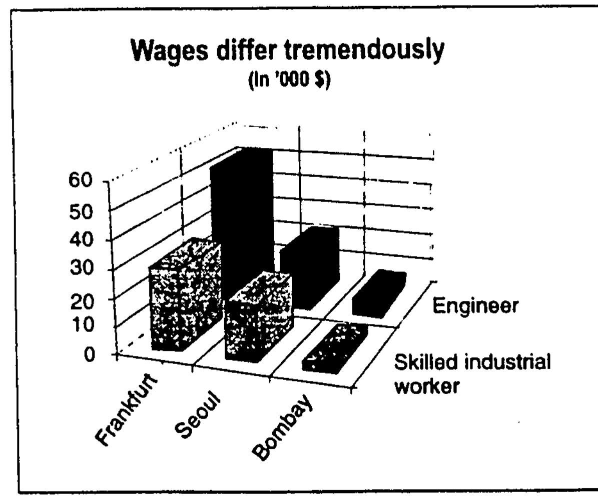
[5] From the very beginning, the Government of India has accepted the principle of "mixed economy", meaning thereby the presence of both public and private sectors. The emphasis on either of them may vary from time to time but at present, all the emphasis is on privatisation, private sector and market forces.

[6] Already in 1990, in a report on India, the World Bank had recommended the implementation of an "exit policy" for loss-making enterprises and stressed that restrictions on labour cutbacks and plant closures considerably hampered employment growth.

[7] In tune with the on-going liberalisation process and trade policy reforms in the framework of the WTO agreement, at the beginning of February 1997, the government allowed free import of 69 more items figuring in the special import licence (SIL) list. Another 92 items have been taken off the restricted list and shifted to the SIL list. This is the third round of import liberalisation effected by the United Front government. The previous ones were announced in August and September 1996.
Interestingly, the lifting of import curbs was followed by a decision to raise the price of the levy on sugar supplied through the public distribution system. This is likely to reduce the subsidy from Rs 1,200 to about Rs 300. Additional hikes in the prices of wheat and rice are expected as part of the on going exercise of the United Front government to curtail overall subsidies.



Source: Annual Report, Ministry of Steel, 1994-95



Source: World Development Report, 1995

IMF Research Bulletin, January-March, 1996. Published by the IMF South Asian Office, New Delhi

Major Economic Indicators

		1994	1995	1996	1997	1998
GDP	% change	7.2	7.1	8.8	7.0	7.0
GNP	% change	7.3	7.2	4.6	6.8	6.9
Gross domestic investment	% of GNP	24.4	26.7	28.8	29.5	29.9
Gross national saving	% of GNP	25.4	26.5	27.1	27.7	27.7
Inflation rate	% change in CPI	6.1	12.2	8.9	8.4	8.6
Exports	$ bn	26.9	32.5	36.7	43.7	52.6
Imports	$ bn	31.8	41.4	44.8	52.6	61.4
Outstand. external debt	$ bn	99.0	92.2	96.5	103.6	116.1
Debt service ratio	% of exports	27.5	25.7	27.1	28.1	28.5

Source: The Hindu Business Line, April 21, 1997.

Main Features of The New Economic Policy

- Opening up of more sectors to private investment. The sectors reserved exclusively for the public sector have been cut from 17 to 6 and are mainly defence-related;
- Encouragement of foreign direct investment with majority equity, except in a few consumer goods sectors. Portfolio investment is also welcome;
- De-licensing of most industries to encourage competition;
- Reduction in subsidies and of fiscal debt;
- Shift from import substitution to export promotion;
- Measures towards the liberalisation of trade policy, including the partial conversion of the Rupee (i.e. on current account);
- Liberalisation of capital markets with the entry of private mutual funds and foreign institutional investors.

In 1995, India's economy posted an annual growth rate of nearly 7%. Growth faltered somewhat in 1996 and there was a sharp fall in the output of automobiles and steel because of weak demand, yet the Centre for Monitoring the Indian Economy (CMIE) remains optimistic, stating that the slowdown has now bottomed out[8] and the manufacturing sector would "record robust growth during the last quarter (of the fiscal year 1996-97) and end the year with a growth rate of around 6.5%" compared to an earlier forecast of 7.5%[9]. The Reserve Bank of India (RBI) is more circumspect, pointing to the high interest rates - both nominal and real - and the decline in exports. Indebtedness is becoming greater, representing nearly 70% of GDP and interest payments absorb an important share of the national budget. With foreign debts at almost US$100 billion in 1996, India has become one of the most indebted country in the world. Internal debt also presents a grim picture. In 1996 the combined deficit of the Union government, the State governments and public sector corporations was about 10% of GDP.

Gross Domestic Product at Factor Cost (1980-81 prices)

	90-91	91-92	92-93	93-94	94-95*	95-96**
Primary sector	32.91	32.00	32.21	31.69	30.7	28.8
Secondary sector	28.03	27.34	27.15	26.96	28.0	29.2
Services sector	39.05	40.6	40.6	41.3	41.3	42.0

* provisional estimates; ** quick estimates
Source: The Hindu Business Line, 3 February 1997

[8] Some analysts argue that the Government projections are too optimistic and caution about the "illusion of growth". According to them there is very little cogent evidence to prove the "revival theory".

[9] Reliable statistics, particularly labour statistics are very difficult to obtain. No micro level data is available for India. Even though numerous surveys are conducted, including by the National Sample Survey Organisation, they do not publish such data. This makes it difficult to analyse the effects of government policies on issues like employment, poverty, labour market etc. Furthermore, the data is published only after a long lag, sometimes even two to three years. This is time enough for the economic conditions to have changed and the data to have become obsolete.

As the above table shows, there is a change taking place in the composition of aggregate GDP. The service sector is becoming prominent in the overall economic activity accounting for 42% as against 29.2% for the secondary sector which includes manufacturing and construction. Over the past 6 years, the share of the primary sector has dropped to 28.8% but more than 65% of the population is still economically active in agriculture and only a relatively small number of people in the services sector. A higher share of income from this latter sector could lead to serious imbalances in income distribution.

It is worth noting that India has a low profile in world trade. In 1993, India ranked 33rd in top exporting countries and 32nd in top importing countries. For several years exports and imports have been rising steadily but in 1994-95, India's share of world exports was still a mere 0.6%. In that year, the country imported Rs.887,050 billion of goods and exported Rs. 823,380 million, which resulted in a trade deficit of Rs. 6,210 million.

India's Foreign Trade (Rupees million)

Year	Exports	Variation %	Imports	Variation %	Balance of Trade
1990-91	325,530	+ 17.6	431,930	+ 22.0	-106,400
1991-92	440,420	+ 35.3	478,510	+ 10.7	- 38,090
1992-93	533,510	+ 21.1	629,230	+ 31.5	- 95,720
1993-94	695,470	+ 30.3	728,060	+ 15.7	- 32,590
1994-95	823,380	+ 18.4	887,050	+ 21.8	-63,670

Source: http://www.meadev.gov.in/economy/intl/f1

In the budget proposal for 1996-97 presented in July 1996, the new government indicated that there would not be any change regarding orientation and attitude towards economic reforms so, although the Congress Party lost power in the legislative elections, the new policy measures were not fundamentally put into question or reversed. The extent of liberalisation which has already taken place has created a momentum that makes a reversal of policy extremely difficult. At the IMF/World Bank Annual Meeting in 1996, the Finance Minister of India stressed that the government had "taken steps to deepen and widen the process of economic reforms" by, among other things, taking new initiatives to encourage foreign investment and measures for public sector reforms. The commitment was made to pursue the economic reforms and liberalisation process initiated in 1991-92 and to reduce public expenditure. This policy stance was reiterated at the World Economic Forum in Davos, Switzerland, in February 1997 where the message delivered by Indian officials was that the reform process would not be affected by the existence of a coalition government and that there was a broad political consensus on the need for liberalisation to continue[10].

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[10] In Davos, the Indian Prime Minister said that India's reform process was "predictable and irreversible. ... Our sights are set high. Our vision of India is that in the next two decades, India should figure among the world economic powers ... . This will call for hard political decisions, but I want to dispel all suspicions and concerns about the pace and direction of reforms around which there is a national consensus". The Indian Express, 2 February 1997.

On the occasion of the presentation of the new budget for fiscal year 1997-1998, the Finance Minister announced a package of reforms to reduce deficits and spur growth. Among these are a tax reduction of 10% for the highest incomes category, a decrease of taxes on domestic corporations from 40% to 35% and the abolition of taxes on dividends. It further includes a lowering of the maximum tax on custom duties and the possibility for foreign investors to buy stakes of up to 30% in Indian companies instead of 24%. On the other hand, it is planned to extend the tax net by imposing new levies on owners of cars and telephones which are considered as luxury goods. With such measures, the government expects to maintain GDP growth for the fiscal year starting April 1, 1997 at about 7% and keep inflation down to 6%-7% while reducing the fiscal deficit from 5% of GDP to 4.5%.

3 Union Response to the New Economic Policy

Although the new economic policy has brought some positive results, trade liberalisation and economic globalisation is not necessarily a popular theme and there are enough pointers to suggest that the future course of reform will be far from smooth. Nehru's India had managed to ensure food self-reliance through the "green revolution", price control and a state system of reserves and distribution, as well as significant subsidies. All these parameters are now being challenged by a more global and less regulated economy and the increasing pressure from international financial institutions[11] to move more aggressively to speed up privatisation and encourage public sector reforms through greater competition while further reforming labour legislation. However, deregulation and liberalisation of the economy have not given the promised impetus to employment growth or helped to keep prices in check. Neither have they improved the lot of the majority of the workers but, on the contrary, have led to a deterioration in the labour market.

It is clear that employment creation has lagged behind targets with manufacturing recording a low rate of growth both in the public and private sectors. In reality, the organised sector is shedding the regular labour force at a fast pace, channelling workers into the low paid and unprotected segment. Public sector enterprises are not providing employment. On the contrary, more than 80,000 workers have been retrenched under the Voluntary Retirement Schemes (VRS) and nearly 350,000 jobs in some 60 loss-making central public sector undertakings (CPSU) are threatened with closure and privatisation in times ahead. In the private sector, employers have been pruning regular labour through lock-outs, subcontracting, retirement schemes,

[11] One should note that in the Indian Federal Structure, no State is supposed to obtain loans directly from the World Bank. As a rule, the World Bank gives the loans to the Central government which then channels them to the States. It now seems that the Bank is shifting its policy down to the state level and instructing the governments concerned (obviously reform-minded ones) to tailor their budgets according to the Bank's prescription. Other multilateral lenders are also moving towards specific state-level lending packages in India. In his budget speech for 1997-98, the Finance Minister of the State of Andhra Pradesh, for instance, referred 17 times to the World Bank from which the State expects a credit line of Rs. 8,000 crores (US$400 million). The constant reference to this international financial institution clearly shows the pressure exerted by the Bank on the state government to roll back subsidies and cut welfare programmes. As put by a commentator, this is indicative of a shift from "planned development by the state to a situation where loans/aid is setting the agenda, priorities and conditionalities". The Economic Times, Hyderabad, 15 February 1997.
The expected loan to Andhra Pradesh would follow the Bank's US$350 million loan to the State of Orissa and that of the Asian Development Bank to the State of Gujarat.

industrial closures, mergers, etc. In fact, this sector has consistently demanded and secured various fiscal and monetary concessions from the federal and state governments, but the effect on employment creation is very low. Moreover, the process of modernisation and automation which has been introduced through government support, has reduced the number of jobs significantly[12]. The metal industry has not been spared these developments.

To face competition from within the country and from MNCs, both the public and private sectors are actually cutting costs thereby hampering new job creation. The 9th Plan Working Group on Labour Policy notes." It is well known that the globalisation of the economy and the ongoing reforms in International Trade Policy have created serious imbalances. Jobs, skills, assets and incomes are becoming increasingly unevenly distributed in the country. Successive studies undertaken in the wake of liberalisation show that, while the small scale sector has experienced a very high rate of growth there is shrinkage of jobs in the organised sector leading to greater casualisation, contractualisation and informatisation of the economy"[13]

In fact, downsizing has become a major feature in management thinking which now opts for smaller, more manageable units with a focus on core competence[14]. In 1992, the number of unemployed or under employed was estimated at 23 million by the Planning Commission and is expected to go up to 35 million in 1997. Every year, 8-9 million people enter the labour force which amounted to about 340 million in 1995. Roughly three-fifths of these are self-employed, nearly 30% are casual wage employees and the rest are regular wage and salaried employees. Public sector employees number around 19 million, representing 40% of regular employees. If economic growth does not accelerate and if it is not labour intensive, unemployment will soar over the years.

Some experts say that the National Renewal Fund (NRF), the so-called 'social safety net'[15], in reality, creates more retrenchment, thus contributing to the empowerment of employers. Moreover, training schemes under the NRF have not been of much use because training is given without taking into consideration the availability of jobs or skills on the market, standards of training are poor and units undergoing

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[12] For instance, at the time of independence and for some years after there were more than 500,000 million people in the textile industry. In the name of competition and export promotion most of the textile mills were either closed or automated and today this industry employs less than 200,000 workers.

[13] Quoted from Indian Industrial Relations, January 1997

[14] According to the HMS Maniben Kara Institute, the Bombay-Thane Industrial Belt has cut its regular workforce by about 48% in the last 10 years. In addition, there are no less that 3 million jobs at stake in 200,000 sick private industrial units facing closure.

[15] The objectives of the National Renewal Fund are:
a) to provide assistance to cover the costs of retraining and redeployment of employees arising as a result of modernisation, technology upgrading and industrial restructuring;
b) to provide funds where necessary, for compensation of employees affected by restructuring or closure of industrial units, both in the public and private sectors;
c) to provide funds for employment generation schemes both in the organised and unorganised sectors in order to provide a social safety net for labour needs arising from the consequences of industrial restructuring.

modernisation prefer to train their surplus manpower rather than hiring workers retrained under NRF[16]. In fact, "It is now fast degenerating into just severance payments. There is neither preparation nor real awareness regarding the huge set up and machinery required for skills development, upgrading, retraining and re-deployment. ... The way in which things are being done gives the impression that this is a device to bring about closures and retrenchment by circumventing the legal provisions"[17].

In response to the new economic policy in the public sector which they described as "a well designed sabotage of public sector undertakings", all Central Trade Unions launched a series of protests at the beginning of the year which were to culminate in a token strike in all public sector undertakings on April 2, 1997. This follows the numerous rallies, strikes, public meetings and sit-ins (dharnas) organised by workers since 1991 to protest against privatisation. In some instances they have been able to stall privatisation moves like that of the Indian Iron and Steel Company (Burnpur). Unions fear that the Board of Industrial and Financial Reconstruction (BIFR[18]) set up to revive the sick industrial units will become a "fast-track liquidating mechanism"[19] and that even profit-making public enterprises are threatened because of the government's liberal concessions to multinational corporations and taxation policy. They demand the scrapping of the Disinvestment Commission set up by the government to prepare a white paper on disinvestment of public sector undertakings. The MNCs' investment policies are another major source of concern for metal workers and their unions. Not bound by social objectives the main thrust of these companies now is to exploit the vast domestic market and repatriate profits, regardless of workers' interests and development needs of the country in which they operate.

Deregulation and liberalisation have widened the gap between the haves and the have nots. Six years of reforms have done very little to address the acute problems of poverty and income distribution. The fruits of growth have not reached labour but benefited, first and foremost, capital. Officially, the proportion of poor has decreased somewhat but poverty management - and in particular rural poverty - remains the big challenge which India will have to meet at the dawn of the next century. Another dimension of this gap is the east-west divide which is marked by disproportionately large flows of investment into the west and relatively huge job losses in the east where fresh investments are meagre. Of the major states, Maharashtra (including Bombay) and Gujarat are way ahead; Tamil Nadu (including Madras) and Karnataka

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[16] Liberalisation and Industrial Relations, Economic and political Weekly, 24 February 1996

[17] New Industrial Policy and Its Implications on Workers, Shanti Patel, in "New Economic Policy - Problems and Alternatives", FES, ; New Delhi, 1993.

[18] The Board of Industrial and Financial Reconstruction was set up under the Sick Industrial Companies (Special Provisions) Act, 1985, to revise potentially viable but presently sick industrial companies or to recommend the closure of totally non-viable companies. Though the BIFR began operations in May 1987, it was only in December 1991 that the Government chose to bring the public enterprises within the purview of the BIFR through an amendment of the SICA. However, the Board has been exposed to criticism for its inability to meet the challenges.

[19] The Hindu, December 7, 1996. This plan of action was decided upon at a national convention in which over 1,000 delegates from nearly 50 organisations participated, including the AITUC, HMS, CITU, major industrial federations as well as a number of other social groupings.

(including Bangalore) are holding their own. On the other hand, West Bengal has declined[20] and states like Bihar, Uttar Pradesh and Madhya Pradesh are sliding further behind. If unchecked, this trend could exacerbate the existing regional imbalances and escalate social tensions due to poverty, unemployment and deprivation.

4 Increase in Informalisation

The Indian labour market is characterised by a sharp dualism, reflecting an economic structure where both organised and unorganised sectors co-exist. About 27 million Indians have a job in the organised sector[21] - that is less than 10% of total employment - and within this latter, approximately 70% of employment is in the public sector. This means that the bulk of the Indian labour force is employed in the unorganised segment, either in agriculture or in the informal sector, with neither job nor social protection of any kind. The "micro-enterprises" are often single-person establishments that either produce or sell a number of inexpensive goods or services. Wages are extremely low, working hours usually hover between 10-12 hours per day, an exploitative piece-rate system prevails and there is no obligation of the employer-employee relationship. The informal sector is highly unregulated, "at times functions on the wrong side of the law and survives from day to day. But what it does do is at least provide the urban poor with the means of survival".

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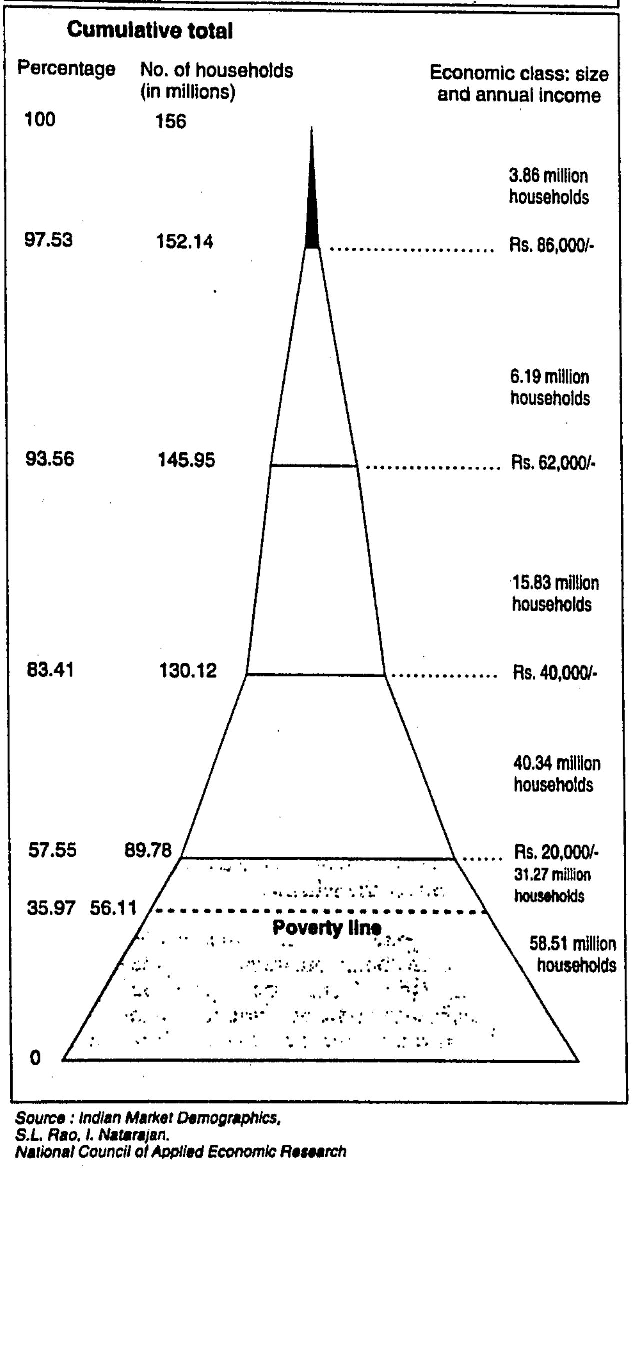
[20] Investors are not inclined to locate more industries in West Bengal because the Centre of Indian Trade Unions (CITU) backed up by the ruling Communist Party (Marxist) has launched violent campaigns against management personnel. This is one of the major reasons for declining investment in West Bengal.

[21] The "organised sector" is a legal and statistical notion. It represents all the establishments in the public sector and only the non-agricultural establishments in the private sector employing 10 or more workers on a permanent basis (Factory Act 1948).

Likely structure of households when arranged according to their annual income



Source : Indian Market Demographics, S.L. Rao, I. Natarajan. National Council of Applied Economic Research

THE HUMAN DEVELOPMENT PROFILE OF RURAL INDIA

State	Per Capita Income+	Wage Earning Households	Population Below Poverty Line*	Capability-Poverty Measure**	% Of Income Spent On Education	% Of Income Spent On Health	Households With Electricity*	Households With Piped Water*	Households Using PDS*
Andhra Pradesh	5,046	54	21	42	2	6.9	63	31	66
Bihar	3,691	26	42	66	3	7.5	10	4	5
Gujarat	5,288	45	39	45	1.9	3.8	72	60	48
Haryana	6,368	21	27	47	3.4	3.5	82	44	9
Himachal Pradesh	4,168	18	45	48	7	N.A.	88	71	76
Karnataka	4,769	43	33	48	2.6	N.A.	63	47	70
Kerala	5,778	41	30	12	5.7	6.8	61	17	78
Madhya Pradesh	4,166	24	40	56	1.9	5.4	51	11	34
Maharashtra	5,525	51	34	46	2	3.4	60	43	51
Orissa	3,028	24	55	55	2.5	4.2	19	24	5
Punjab	6,380	22	32	36	3.6	5.8	84	21	6
Rajasthan	4,229	19	40	66	3	6.5	49	28	24
Tamil Nadu	5,122	52	34	30	2.5	6.7	63	50	82
The North-East	5,070	19	33	40	2.6	3.8	44	9	22
Uttar Pradesh	4,185	18	40	61	2.6	5.9	20	15	5
West Bengal	3,157	30	51	53	3	7	16	9	11
National Average	4,405	27	39	52	2.7	5.3	43	25	33

*As % of total population **Average of percentage of births unattended by health personnel, percentage of stunted children, and female illiteracy rate +Rs per annum

Source: "Business Today", 7-21 February, 1997

Workers in this segment lack organisations which can effectively defend and represent their interests at the various levels. Clearly, there is an urgent need to ensure some minimum standards with regard to wages, social security and safety (very often hazardous jobs are entrusted to unskilled casual labour, hence serious accidents) in this sector. As reported by an Indian industrial relations analyst, "In the unorganised sector, the statutory minimum wage turned out to be more notional in the face of ineffective enforcement. Even its required periodic revisions turned irregular"[22].

With the introduction of new economic policy from 1991, employment has moved from the organised towards the peripheral and unorganised sector as firms begin to use new technology and employ contract and casual labour. The trend is towards more liberal labour laws and lax implementation of existing labour welfare and protective legislation. According to Labour Ministry estimates, employment in the organised sector has fallen from 27.4 million to 27.2 million during the period 1990-1994. In fact, job creation in the manufacturing sector has decelerated sharply in the last few years and most of the employment growth was in the unorganised segment. The shift of production to the unorganised sector brings two major advantages to the employers - firstly, lower production costs and, secondly, "the control over the labour process. The unprotected sector provides them with much needed flexibility in terms of either change in production levels or of product itself, or introduction of new technology, and so on. Such flexibility is not easy to come by in the unionised and protected sector."[23]

As stated, the economic reforms have pushed quite a significant number of organised workers into the category of casual labourers. Under the present circumstances, it is unlikely that the organised sector will spearhead employment growth. The bulk of the new job seekers will be forced to find work as self-employed or casual wage labourers. There is, therefore, a strong case for organising the unorganised in India and trade unions as well as some NGOs have now brought this issue to the forefront and taken a number of valuable initiatives[24].

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[22] State, Market and Labour, C.P. Thakur, Indian Industrial Relations Association Digest, July-December 1996.

[23] Labour strategies of multinational corporations in India, Sarath Davala, Friedrich Ebert Foundation, New Delhi, 1995.

[24] For a comprehensive analysis of success and failure stories in this field, see "Organising the Unorganised Workers", Ed. Ruddar Datt, Vikas Publishing House Pvt Ltd., New Delhi, 1997.

5 Export Processing Zones (EPZs)

The first EPZ set up in India was in 1965, the Kandla Free Trade Zone. Subsequently, six more EPZs have been established in various parts of the country.

- Falta (West Bengal): a multi-product export processing zone with access to a large and prosperous hinterland, is developing as an integrated industrial area with the active support of the State & Central Governments. There are 20 units in the zone manufacturing a diverse range of products
- Santa Cruz (Bombay): the export-oriented zone contains 104 electronics and 5 gem and jewellery companies employing 18,000 people.
- Madras (Tamil Nadu): multi-product EPZ with over 86 exporting units. Exports, which increased by about 40% during 1994-1996, are mainly in the fields of electronics (62%), garments (15%) and engineering (13%). About two-thirds of the workers are women.
- Noida (Uttar Pradesh): multi-product EPZ
- Cochin (Kerala): "
- Visakhapatnam (Andra Pradesh): "

Economically speaking, EPZs do not play a significant role in the Indian context today. According to an academic at JNU in Delhi[25], the problem is not so much exports from EPZs, as the flight of capital. The black economy represents 35-40% of GDP and is concentrated in the hands of 3-4% of the population.

Operations of Export Processing Zones

	Operating Units (No.)	Number of workers	Exports 1994-95	(Rs.) 1993-94	Crores) 1992-93	1990-91
Santa Cruz	155	15.000	1,549	1,107	806	390
Noida	114	6.000	367	263	145	45
Kandla	95	10.000	320	270	167	457
Madras	71	12.300	281	200	177	61
Cochin	39	3.100	103	84	62	5
Falta	19	1.400	32	36	18	25
TOTAL	495*	47.800	2,653** (3.2)	1,960 (2.8)	1,376 (2.6)	983 (3.0)

Note: figures in brackets indicate percentage share to total exports.
* As at end March 1995; 704 units at end March 1996.
** Including 2 units of Visakhapatnam exporting Rs. 30 lakhs only in 194-97.

Source: Statistical Outline of India, 1996-97, Tata Services Ltd., Department of Economic and Statistics

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25 Dr. Arun Kumar, Associate Professor at the Centre for Economic Studies and Planning, J. Nehru University, New Delhi.

All labour laws apply to workers in the EPZ. However, although rights to freedom of association and collective bargaining are available to workers, in practical terms trade union activity has been negligible in these zones and labour laws, most of the time, are being flouted, especially in the electronics sector. Even minimum wages are not always being paid (ex. Kandla Port) and cases have been reported where employees have been made to work compulsory overtime far in excess of permissible limits[26]. At the Madras EPZ, for instance, trade unionism is viewed as "a problem"[27] and, according to the press, the Ministry of Commerce has promised exporters that unions would not be allowed inside the Zone. The EPZ has been designated as a "public utility area" where strikes cannot be held without prior notice of 15 days. In its submission to the 33rd Session of the Indian Labour Conference, HMS pointed out that "EPZs are mostly surrounded by security gates with customs officials who allow no entry to any person claiming to be a trade union leader". HMS has received complaints from workers in Noida who have been dismissed for demanding respect for labour laws and welfare amenities. Generally, the EPZ employs a large number of young men and women who work in unsafe conditions without benefits or the right to collective bargaining[28]

[26] "Flouting norms", Outlook, August 7 1996.

[27] The Hindu Business Line, February 22, 1997.

[28] 33rd Session of the Indian Labour Conference, New Delhi, October 24-25, 1996.

II THE METAL INDUSTRY IN INDIA

For most of the post-Independence period, special attention was given to heavy industry under state control or ownership. While there is a trend towards privatisation, there is still a predominance of state ownership in the production of steel, non-ferrous metals (virtually 100% for copper, lead and zinc; half for aluminium), shipbuilding and engineering (including power generating equipment, machine tools and many capital goods).

1 An Overview

1.1 The Iron and Steel Industry

During the period of heavy industrialisation, the steel industry was one of the government's main priority areas which led to the construction of a series of integrated steel plants. There are now six such plants of which two date from before independence. Five of them are in the public sector and regrouped under the Steel Authority of India - SAIL with a combined capacity of twelve million tons per year. One company Tata Iron and Steel Co - TISCO is under private ownership with an aggregate rated capacity of 2 million tons, currently being expanded to 3.1 million tons. The remainder of steel output is produced in over 180 mini steel plants (electric arc furnaces), almost all in the private sector. Apart from SAIL and TISCO, other major players are Essar Steel, Jindal Iron and Lloyds Steel. India has one of the lowest percentages of steel produced by continuous casting in the world - 21.7% in 1995. In comparison, the figure is 47% in the PR of China and averages 95% in other Asian countries.

Finished steel production reached 20.2 million tons in 1995 - of which about 30% was done by electric and 24% by open hearth processes - and 21.7 million tons in 1996. According to OECD sources, production will rise to 23.2 million tons this year. Steel demand is expected to grow from 21.6 million tons in 1995-96 to 32 million tons by 2001-2002 and to nearly 49 million tons in 2006-2007. This is based on moderate estimates of GDP growth (5-6% per annum). The potential for growth for the steel industry is borne out by the current low consumption figures - about 22 kg per capita which is among the lowest in the world. In 1996, India exported 1.7 million tons compared to 1.5 million tons the year before[29]. The Ministry of Steel has projected that steel exports could reach a level of 6 million tons of finished steel by the turn of the century and progressively grow to 9 million tons by 2006-2007[30].

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[29] Figures from "The Steel Market in 1995 and the outlook for 1996 and 1997", OECD.

[30] An expert group comprising major steel producers has suggested that steel be granted the status of an infrastructure sector and be given similar priorities and facilities by the government. This would mean, among other things, fiscal benefits such as tax holidays and concessional project import duties.

Steel Employment and Production

	1990	1991	1993	1994	1995
Employment	284,000	286,000	278,000	280,000	280,000
Production (million metric tons)	15.0	17.1	18.2	19.3	20.2

Source: World Steel in figures, International Iron & Steel Institute

The steel industry in India has changed significantly since 1991, as a consequence of the new economic policy introduced by the Government. Prior to that date, the industry was subject to compulsory licensing for capacity creation and addition, i.e. prospective producers were required to get government approval as well as administration of price regime. With the liberalisation and deregulation measures that followed, it was de-licensed and controls over pricing and distribution were removed. Trade policy was also liberalised and there is no longer any physical restriction on the import or export of steel. All these changes have created a very competitive environment for the industry and the workers.

The Steel Authority of India Limited (SAIL) is the leading steel making Company in India, and together with its subsidiaries was the world's tenth largest steel producer in 1995 in terms of crude steel production volume. SAIL manufactures and sells a broad range of steel products, among which are hot and cold rolled sheets and coils, electrical sheets, railway products, pipes, stainless steel and other alloy steels. Flat products accounted for about 57% of the Company's total saleable steel production in 1996. SAIL produces iron and steel at four integrated plants at Bhilai, Durgapur, Bokaro and Rourkela, located principally in the eastern and central parts of the country and close to domestic sources of raw materials. It also produces stainless steel and alloy steel of different customers' grades in its two special steel units at Salam and Durgapur. In a move to control costs and increase efficiency of operation, SAIL is also in the middle of a programme aimed at restructuring facilities and work processes. The company has been able to adjust to the present depressed market conditions by advancing its capital repairs of blast furnaces and Coke Oven at a couple of its major integrated steel plants and opting for two shift production in the plate mill at Bhilai.

Tata Steel is also undergoing a major transformation process which will hit workers particularly hard. Three old mills will be closed down and production rationalised around a narrower range of products. As a result, the work force will be cut by 16,000 to 62,000 this year. Yet, at the same time, a large amount of new investment is taking place which should add substantially to the industry's productive capacity.

Six new steelworks projects with a combined capacity of 4.9 million tons are currently under discussion, in addition to those with 11 tons of saleable steel capacity which are due to start production in 1998-99. The public sector is to invest Rs. 165 billion in the steel industry in 1997-2002 on top of the expected Rs. 300 billion to be invested by the private sector. Although the Indian steel industry has still a long way to go to be fully competitive, it has improved its position in the market[31] and, as argued by steel employers, it is well placed to meet growing Asian steel demand due to its low-cost labour and abundant reserves of high quality iron ore. But this has not been reflected in real wage increases. In fact, the purchasing power of steelworkers has dropped in the past few years.

Steel manufacturing unit cost comparison (US$)

	India *	Rep. of Korea	Japan
Materials	144	134	125
Other RM	175	161	186
Labour	56	80	170
Operations	375	375	481
Depreciation	33	90	82
Interest	19	20	24
Total	802	860	1068

* SAIL costs
Source: Metal Bulletin Monthly, May 1996

Privatisation or denationalisation of steel mills is a very contentious issue and unions have blocked the rationalisation process at the IISCO plant at Burnpur in West Bengal because of the adverse impact this would have on employment. Nevertheless, the private sector is poised to play a major role in the future development of steel. Integrated steel mills are less likely to be set up. Instead, capital intensive, micro-chip based mini-steel mills with value added product will be the norm for the development of steel[32].

1.2 The Automobile Industry

The car industry has expanded significantly in the past few years and production registered a strong growth. The Indian passenger car market is still dominated by Maruti Udyog Ltd., equally owned by the Government of India (50%) and Suzuki of Japan (50%). With a current capacity of 300,000 cars Maruti holds more than 70% of the market. Other manufacturers include Hindustan Motors, Premier Auto (PAL), DCM Daewoo, Pal-Peugeot, HM General Motors. During the first eight months of the fiscal year 1996/97, the production of commercial vehicles was up by 17.4% - over and above a 35.5% growth in April-November 1995. Cars accounted for 21%, jeeps 16%, motorcycles 23.3% and auto-rickshaws 34%. According to the Association of Indian Automobile Manufacturers, production will rise 15-20% in 1997 and should reach 850,000 cars by 2000. As regards sales, the latest data points to a slowdown in the latter part of the year, reflecting the broader weakening of India's economy during most of the year 1996.

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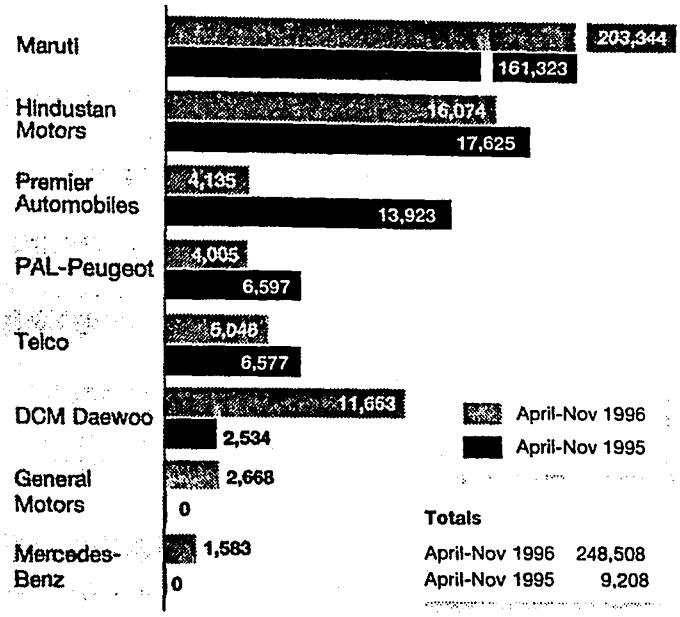
[31] It is worth noting that India's Essar group has moved to Indonesia to set up facilities to manufacture cold rolled coils.

[32] Steel Industry in India: A Study of changes in some aspects of employment relations, Ventaka Ratnam, June 1994.

Indian car sales (table FT, 16.1.97))



Source: Association of Indian Automobile Manufacturers

There are two traditional motor vehicle centres - Pune (Maharashtra State), home of Telco and New Delhi where Maruti, the joint venture between Suzuki and the Indian government was established in the early 1980s. Telco produces trucks but does not have so much in the car segment. With the lifting of central controls on the direction of investments, other states are competing to attract investors. It is reported that the state of Tamil Nadu which makes one-third of India's car components but no finished cars could yet become "the springboard for entering India's liberalised car industry"[33]. Both Ford and Hyundai are setting production plants for cars near Madras in Tamil Nadu. Calcutta (Hindustan Motors - Ambassador car), Mumbai (Premier Automobiles) and Chennai (Ashok Leyland) are also auto industry centres.

The domestic auto parts industry is also enjoying robust growth. From the provisional estimate of US$3,371 million during 1996-97, the Automotive Component Manufacturers' Association of India (ACMA) expects production to increase to US$4,229 million during 1997-98 and peak at US$6,371 million by the turn of the century. On the basis of the data available, it reckons that exports in the next five years will be about 25% per year to reach US$621 million in 1999-2000. The main destination for auto components has shifted from Africa and South East Asia to Europe and America.

[33] Financial Times, 10 April 1997.

1.3. The Electronics Industry

Electronics is one of India's fastest developing industrial sectors, in particular the sub sectors of computers and consumer electronics. Annual growth was over 30% in the 1980s and has been over 15% since, despite the recession and it is expected to be Rs.945 billion (US$ 27 billion) by the year 2005. Exports rose 30% in 1993 to reach US$526 million. Though this expansion was originally led by an upsurge in the demand for consumer goods, the industry now covers the gamut of electronic products from avionics, computer software and hardware, to medical electronics and telecommunications equipment. Public sector companies continue to dominate the industry which is, to a great extent, domestically oriented although an increasing number of foreign companies are sourcing their components from India to retain their competitive edge. The industry's 2,600 firms, employing a total of 230,000 workers, import about half of the materials and components needed. With a view to boosting production and becoming more competitive, the indigenous manufacturers of equipment and components have asked for the rationalisation of excise duties. Consumer electronics, the main user of electronic components, had rough sailing at the very beginning of the '90s but then recovered with a boom in colour TVs, video cassette recorders, tape recorders and electronic clocks. According to the Department of Electronics this sub sector registered a 21% growth in 1995 and contributes about one-third to the total electronics production in the country. Panasonic and Sony already have a strong presence and last year the Korean firm Samsung Electronics Co. decided to set up a Rs.22 billion (US$628 million) facility to produce a range of consumer electronics products.

India also has a strong base for the manufacture of computers and software. The software industry is predominantly export-oriented and its major export market is the US, which accounts for about 60% of foreign sales. In other words, exports promotion has been given priority to the detriment of the domestic market. Software exports grew from 10% of total electronics exports in 1980 to 40% from 1991-1995. Outsourcing by highly industrialised countries and also emerging economies like the Republic of Korea[34] has been the principal factor driving the growth of software exports from India which, among developing countries, has enjoyed a clear advantage because of its high quality professional skills available at comparatively low cost and its wide practice of the English language. More than 100 of the top 500 US corporations use on or off site software services of Indian companies. General Electric, AT&T, IBM, Digital, Motorola, Texas Instruments and General Motors are among the international giants already in partnership with Indian software houses. Other foreign companies include Bosch, Siemens and Fujitsu. Interestingly, the National Association of Software and Service Companies (NASSCOM) which has been primarily focusing on developing and promoting the Indian software industry, is now going global. The Association is planning to build up a software industry in Nepal, Bangladesh and Sri Lanka.

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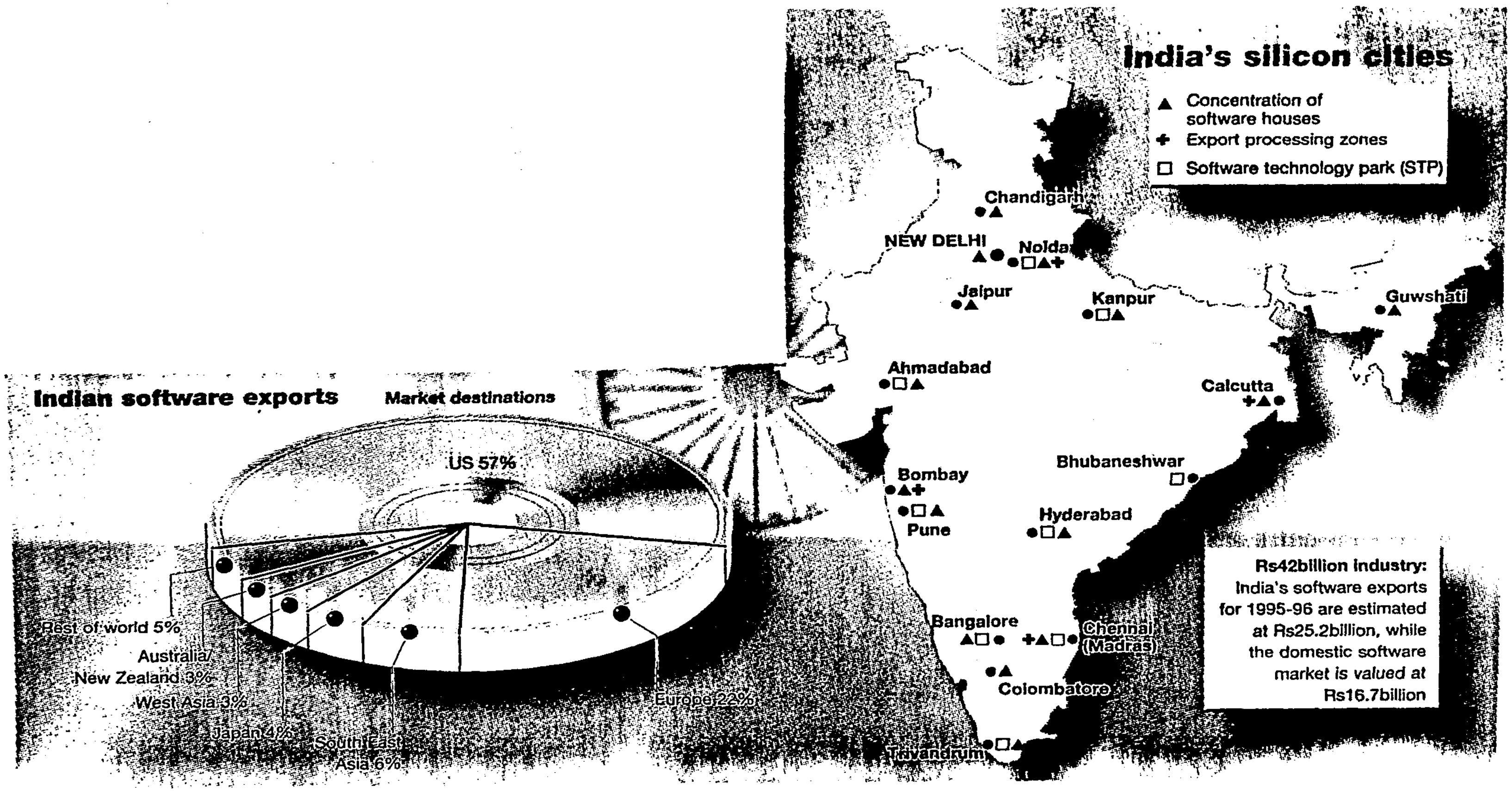
[34] Korea Telecom, for instance, is keen to out source its telecoms software requirements for India. The Hindu, 1 February 1997.

INDIA'S SOFTWARE INDUSTRY

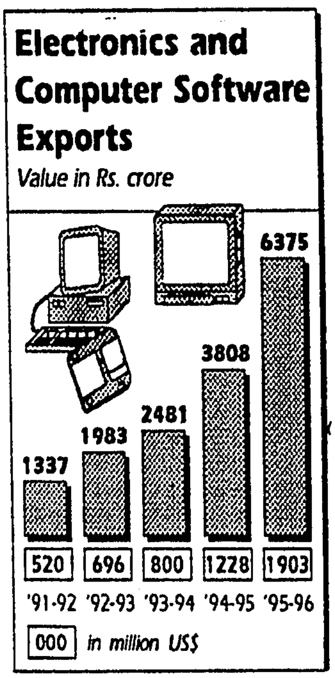


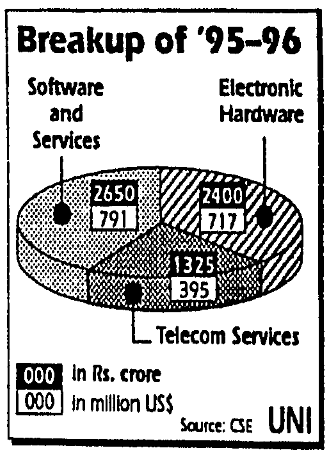
Source: *Financial Times, 6 November, 1996*

As the map on the previous page shows, there are several software centres in India. Among the cities, Bangalore is on its way to emerging as the leading one as it will soon have its "Silicon valley" with all the necessary infrastructure enabling software companies to have "trouble-free operations". In fact, many firms in the new, non traditional, high-tech industries are "union-free".

For the period April-November 1996, export of electronics and computer software grew by 35% in dollar terms. They totalled US$1.5 billion as compared to US$1.1 billion in the corresponding period of the previous year. Exports have nearly quadrupled since the beginning of the 1990s.

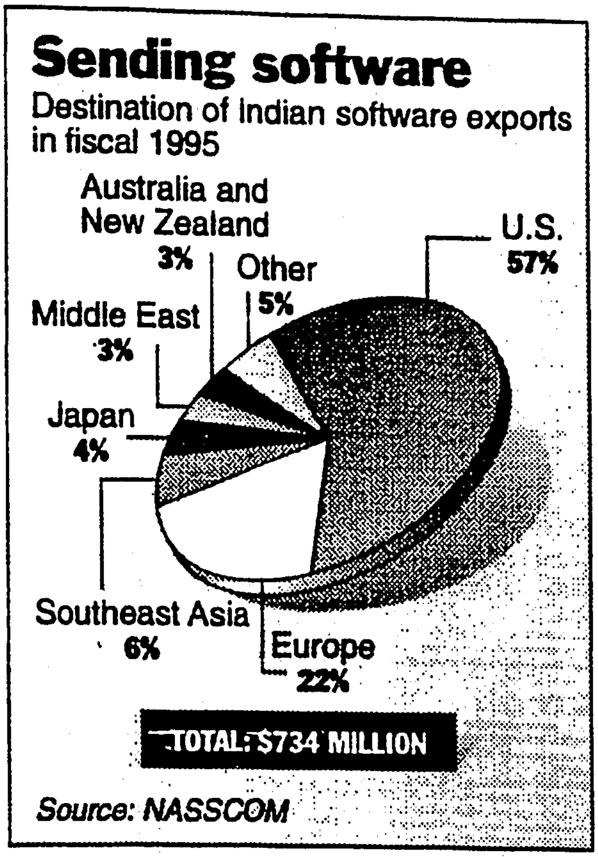
Precise employment figures for the Indian software industry are difficult to obtain. It is estimated that there are some 120,000 Indian workers in about 700 companies, over 400 of which are exporting firms. There were 6,800 in 1985 and 56,000 in 1990. In spite of this job increase, "software cannot be described as a significant employer in general terms. Employment in the mid-1990s represents about 8% of the total electronics industry employment (up from about 1% in the early 1980s) and just over 0.5% of total manufacturing employment in India. It has employed a few thousand people, against which one can compare India's total of around three million registered unemployed graduates in the 1990s. However, software has become a significant source of jobs for top graduates from computer science and related courses"[35].





Source: The Times of India, 10 February, 1997.

[35] India's Software Industry, Richard Heeks, Sage Publications, 1996, p. 93-94.



Source. The Nikkei, 17 February, 1997

One major problem is the high turnover of skilled employees. On average, the rate is 15-20% but in some companies it can be as high as 50% in one year. Employees, particularly when on-site, opt for employment or study overseas partly "because of a sense of exploitation". The low wages of Indian software engineers are "a big attraction". The average monthly salary of a software engineer is US$450-500. In Germany, a similar engineer can demand a minimum monthly salary of DM 7,000 (US$4,200) plus the usual social security benefits[36]. For its part, the Japanese Software Development by Indian Companies (JASDIC) can propose an average cost for a systems engineer which is half to one-third that of the Japanese average[37].

1.4 The Shipbuilding Industry

There are five major yards, of which two are commercial units - Hindustan Shipyard Limited (HSL) and Cochin Shipyard (CSL) - and three military and defence oriented yards - GRSE, Mazagon Dock Limited (MDL) and Goa Shipyard Limited (GSL). About 95% of the orders of these pertain to building warships for the Navy and patrol vessels for the Coast Guard.

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[36] The Economic Times, Bangalore, 11 February 1997.
[37] The Nikkei Weekly, 17 February 1997.

The two civilian yards - CSL and HSL - have an annual output of about 30% of installed capacities and a total work force of approximately 8,600 (6,000 for HSL and 2,600 Cochin). Gross tonnage completed in 1995 was just over 41,000 tonnes and provisional data points to lower performance in 1996. Despite important state subsidies they have been running up huge losses in their shipbuilding programmes and diversified into the secondary ship repair activity to help improve their cash flows.

1.5 The Aerospace Industry

The aerospace sector has expanded over the past twenty years largely due to the licensed manufacturing of military aircraft, including French and US helicopters, the British/French Jaguar and Dornier light transport. Hindustan Aeronautics Ltd.. (HAL), the manufacturer of most of these planes, has been negotiating with several Western manufacturers during the last few years for the co-production of several types of aircraft. India has also joined forces with Russia to produce in India a commuter aircraft which will eventually be sold in Russia and other CIS republics. It now seems that HAL will be made more civil oriented. It has entered into agreement with Boeing to export parts from India to Seattle. The estimated work force in the aerospace industry is around 22,000, of which nearly 20,000 in Bangalore and the rest in Hyderabad.

The government announced recently that it would review its aeronautical policy to facilitate growth of both civil and military aviation and help the industry and R&D "attain their rightful place on the international scene". The technology base created in the wake of military aviation, the availability of skilled manpower and the proximity to the Asia Pacific provide good opportunities for the aviation industry to grow and even target exports. This means that there is a potential for designing and developing transport aircraft for commercial civil aviation in the country. The Ninth Plan has set forth challenging programmes for both aeronautics and the space sector and India's aerospace industry seems eager to become an important player in the international context.

2 Trends in Foreign Investment[38]

2.1 Main features

The opening up of India to foreign direct investment (FDI) was part of the economic liberalisation process initiated in the early '90s. Prior to the economic reforms initiated in July 1991, the flow of foreign investment into India was insignificant. However, since then, both approvals and actual inflows have grown steadily.

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[38] Besides foreign investors, mention should also be made of the role played by non-resident Indians whose remittances have shot up from US$2.77 billion in 1992-93 to US$ 7.5 billion in 1995-96 and may reach US$ 9 billion in 1997. Indeed, remittances have risen far more than foreign investment - both direct as well as portfolio.

Global Inflows of Foreign Direct Investments
(in US$ million)

Year	FDI inflows	Growth (%)
1991	154.54	
1992	231.22	49.6
1993	567.75	145.5
1994	950.54	67.4
1995	1,958.97	106.1
1996	1,600.00*	

* First eight months of 1996, estimates.
Source: Reserve Bank of India

Government approved cumulative foreign direct investment reached Rs.957 billion (US$26.7 billion) in 1996. Because of the lag between approvals and actual inflows, largely due to the power of bureaucracy in India, only 23% of the amounts approved were converted into investments in 1996 (21% in 1994 and 19% in 1995 according to a survey conducted by the Indian Ministry of Industry). Of all the FDIs approved, 48% went to infrastructure (roads, ports, telecoms, energy), 18% to basic engineering industries (minerals and metals, capital goods and machinery and equipment, electrical equipment and chemicals) which provide core inputs for Indian industry, 5% to automobile and other transport means and 1.8% to software.

Ranking by Country;
Amounts in billions of rupees*

1. U.S.	254.78
2. U.K.	53.22
3. Mauritius	48.01
4. Japan	43.24
5. Israel	41.64

6. Germany	37.51
7. South Korea	37.17
8. Australia	28.37
9. Netherlands	26.94
10. Thailand	24.26

Source: The Nikkei, 28 April, 1997.

Almost half of total investment between 1991 and 1996 originated in USA, one-third in Europe and only 7.5% in Japan[39].

[39] Until the beginning of the 90s, Japanese investment in India had a rather low profile, partly due to India's foreign policy mainly oriented towards the former Soviet Union and its planned socialist-type economy. This is changing now that India is liberalising and deregulating its economy. Japan is currently the fourth largest foreign investor in India after the US, Israel, and the UK with a total of Rs. 28,355 million in terms of cumulative FDI approvals between 1991 and 1995. It also ranks 4th in terms of actual inflows, with a total of Rs 6,380.13 million. The manufacturing industry accounts for almost 75% of direct investment and electrical products together with metals and machinery represent nearly half.

Actual Foreign Direct Investment Inflows: Selected Industry Sectors (US$ million)

Industry	1992-93	1993-94	1994-95	1995-96
Engineering	69.8 (24.9)	32.9 (8.9)	131.6 (15.1)	251.9 (17.8)
Domestic appliances	15.8 (5.6)	2.4 (0.7)	108.3 (12.4)	0.5 (0.0)
Electronics & electrical equipment	32.8 (11.7)	57.1 (15.5)	56.4 (6.5)	129.6 (9.1)
Computers	8.3 (2.9)	7.6 (2.1)	10.2 (1.2)	52.1 (3.7)
Finance	3.7 (1.3)	42.2 (11.4)	97.7 (11.2)	270.0 (19.0)
Services	2.4 (0.8)	20.2 (5.5)	93.4 (10.7)	100.5 (7.1)
Total Actual FDI inflows	280	369	872	1418

Bracketed figures are percentages of column totals.
Source: India Development Report, 1997, Indira Gandhi Institute of Development Research, Bombay.

The FDI approvals have been mostly destined for six states - Delhi, Maharashtra, West Bengal, Tamil Nadu, Gujarat and Karnataka - and two of them - Maharashtra and Gujarat account for about one-fourth of the aggregate investment. A number of states are putting all their stakes into attracting FDI, hence there is tough competition for the same projects and an outbidding of incentives to the foreign firms. In this process, they are resorting to so-called "investor friendly" labour policies, and "disciplined" labour is an important factor. As stated at the National Conference on the Future of Industrial Relations in New Delhi in 1996, "The components of industrial relations policy of Kerala, the relaxations and exemptions to labour inspections in Rajasthan and Uttar Pradesh, the liberal response of the Tamil Nadu Government to requests from employers for notice of change, lay-off, etc., the cancellation of the registration of an unusually large number of unions in West Bengal, have far reaching implications for industrial relations. The legislative initiatives for introducing secret ballot as the method of union recognition in several states, including Andhra Pradesh, West Bengal, Orissa and similar efforts in other states are manifestations of an approach whereby the relative inertia of the Central Government is sought to be offset by the aggressive measures by certain state governments"[40].

India still receives a relatively modest amount of FDI compared to other countries in the region. At the beginning of 1995, the amount of FDI going to India during the preceding 12 months reached just US$1 billion as against US$34 billion for China and over US$2 billion for Indonesia. In the first eight months of the fiscal year 1996-97, foreign direct investment and portfolio investment were pegged at US$1,456 million and US$2,190 million respectively, up from US1,352 million and US$995 million recorded in the corresponding period of the previous year.

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[40] Indian Industrial Relations Association, Newsletter, June 1996, New Delhi.

FDI inflows by country

$m	1991	1992	1993	1994	*1995 est*
China	4,366	11,156	27,515	33,787	*37,500*
Hong Kong	538	2,051	1,667	2,000	*2,100*
India	**155**	**233**	**574**	**959**	***2,100***
Indonesia	1,482	1,777	2,004	2,109	*4,500*
South Korea	1,180	727	588	809	*1,500*
Malaysia	3,998	5,183	5,006	4,348	*5,800*
Singapore	4,879	2,351	5,016	5,588	*5,302*
Taiwan	1,271	879	917	1,375	*1,470*

Source: World Investment Report, 1996, United Nations.

With the economy opening up more and more, foreign investments are expected to increase further and in some sectors of the metal industry, like white goods, automotive and engineering, multinational companies will be major players. The huge potential domestic market, the quality of skills available, the established legal structure and the low labour costs (much lower than in South East Asian economies) are certainly major attractions for foreign captains of industry. For Ford's Chairman "India will play a very important role in our global growth programme ... It is essential for us to substantially raise our market presence in Asia and India will definitely be a big piece of that equation. We expect great things from our joint venture (with Mahindra & Mahindra Ltd.)"[41]. Hyundai's Chairman expressed a similar view when he said that India benefited from a "strategic position to service the Asian market and in the company's world network"[42] and in GE Chairman's opinion, India provides one of the world's best prospects[43]. In the same way, the President of AB Electrolux which has committed a US$100 million investment to India recently expressed the view that Electrolux's "endeavour is to double its turnover in emerging markets by the year 2000 and India is a key to the company's success"[44].

India's comparative advantages should not, however, obscure some of the problems the country is facing in the race for foreign capital. The country is short of infrastructure like electricity, transportation, availability of water, telecommunications, etc., and cutbacks in the Plan have added to shortages in this sector. In fact, the government is expecting multinational companies to invest in these areas.

An example of this cut-throat competition is with the Toyota car manufacturing project. There is a tug-of-war going on between four states (Maharashtra, Karnataka, Tamil Nadu and Delhi) to win the project estimated to be worth over Rs. 1,000 crores.

[41] Ward's Automotive International, April 1996.

[42] Les Echos, December 11, 1996.

[43] India in 1996: Steady as She Goes, The Washington Quarterly, Autumn 1996.

[44] The Economic Times New Delhi, 22 January 1997.

The low rate of alphabetism in India - 52% as against 80% in China - and the large proportion on unskilled workers - in spite of a high number of scientists and high technology experts - are other key issues which have to be addressed urgently to foster the economic and social development of the Indian subcontinent. With about 600 million relatively poor people and perhaps 200 million very poor, the huge potential Indian market may still be something for the future. It is said that foreign investors are attracted by the large domestic market but "Even if it is true that the Indian middle class is large, its purchasing power is not ... Most of the Indian middle class would like to have the standard of Western middle class but cannot purchase most of the goods that an average Westerner takes for granted. The Indian middle class market is potentially a large market but that is not the reality of today"[45].

The United Front Government has set a US$10 billion annual target for foreign investment - a five-fold rise from the 1995 level. New sectors, like infrastructure and export-oriented businesses, will be added to a list of 35 industrial sectors (mainly capital goods) in which foreign investment up to a stake of 51% is automatically approved. This will bring to 51 the number of sectors where a take-over will be possible without administrative intervention. Infrastructure is a priority area if a sustained 7% growth is to be attained. Under the present circumstances, the government is in no position to invest massive funds to generate power, build roads, develop more sea ports and provide transportation and communications for far-flung areas. Moreover, the government decided to raise the equity limit on automatic approvals above 51% for nine "high priority" industries and "using Indian subsidiaries as an export platform". For the first time, foreigners will be able to hold up to 74% of capital in several industrial sectors, among which are the manufacture of semi-finished iron and steel products and electronic software.

A number of large multinational companies in the metal industry have committed themselves to invest in India[46], like Motorola, General Electric, BMW, Toyota, Samsung, etc. IBM which disinvested in the 1970s is now back. Big car makers such as GM, Mercedes-Benz, Ford Motor, Peugeot and Daewoo already have established manufacturing bases and have started production. Others still, like Volkswagen/Skoda, Mitsubishi Electric Corp. (MEC)[47] and Chrysler are expected to make inroads into the market soon. Volkswagen has entered into talks with local authorities and, according to recent information, could spend between US$130

[45] Draft paper presented by Arun Kumar at the IMF-India Committee Meeting held on March 26, 1997 in Hyderabad.

[46] Interestingly, a number of Indian companies are also beginning to see the world as their marketplace. They have started to go global marketing or manufacturing abroad, by establishing joint ventures with local producers or wholly-owned subsidiaries. Malaysia has a large share of Indian joint ventures - Kirloskar Electric Co Ltd., Gupta Machine Tools Ltd, India Pistons Ltd, Tata Engineering, to name but a few.

[47] Japanese companies are now keen to enter India and develop long-term business links. In a first stage, Mitsubishi Electric Corp. (MEC) will market a number of products and then consider technical collaborations. It will draw up manufacturing plans in India only after an "intensive study of the market". MEC has recently established a micro-chip factory in Malaysia. "India is the next in line" but as put by MEC's management "we will not set up a manufacturing base hastily". Financial Express, Bangalore, 11 February 1997.

million and US$190 million to build up to 20,000 cars a year in India[48]. At the beginning of 1996 the authorities approved the entry of two new truck makers - Renault SA in a tie-up with Eicher Motors, and AV Volvo with a 100% subsidiary[49]. Foreign investors mostly opt to establish joint ventures to benefit from the local companies' distribution networks and market expertise. Other companies, such as ABB with long-standing subsidiaries in India, are listed on the stock exchange and are fully Indian. There are also corporations which are delaying their entry into India or cutting the scale of their operations. Siemens, for example, decided at the end of February 1997 to reduce its holdings in a joint venture in which it had a 51% stake. US West Inc., a major US telecommunications company, AES Corp., a US power station builder and Seagram Co. of Canada are also reviewing business in India because of the weak infrastructure and heavy bureaucracy.

It is widely recognised that the coming of multinational corporations to India will not make a major contribution to employment creation and poverty alleviation. Some even say that they are only interested in highly skilled workers and will create an "elite work force" with different pay and life style. Most of these companies utilise highly automated production processes which require a low labour input[50] and if jobs are created, then this will be, first and foremost, in the unprotected sector in the form of subcontracted or casual work. In addition, in the rush to attract investors, environmental regulations are often violated. Failure to make environmental protection and sound natural resource management an integral part of foreign investment policy will result in high rates of resource exploitation.

[48] Financial Times, 28 January 1997 and The Economic Times, Mumbai, February 7, 1997. Eicher is, by all indications, one of the companies with which VW has been conducting talks. VW has envisaged the introduction of two models in India - the small Skoda and Polo but no final decision has been taken yet.

[49] More recently, Volvo signed a memorandum of understanding with the Karnataka government to assist the management of the state's transport system.

[50] Because of automation, employment at PAL-Peugeot, for example, dropped from 7,000 in 1994 to 4,000 in 1997.

2.2 *Investment in the automobile sector*

India's new car projects

Foreign Company (% stake)	Indian partner (% stake)	Model (petrol engine)	Production capacity ('000)	Start year	Investment planned $ million
Daewoo (51)	DCM Daewoo (35)	Cielo 1500cc	80 **	1996	1,000
Peugeot (32)	Premier (32)	309 1360cc	60	1996	170****
Mercedes (51)	Telco (49)	E-220 2200cc	20	1996	115
Fiat Auto Spa (74)	Vinod Doshi*	Palio	30-50	1999	2,000
Ford (50)	Mahindra& Mahindra (50)	Escort 1300cc Fiesta 1300cc	25 100	1996 1998	800
GM Opel (50)	Hindustan Motors (50)	Astra 1600cc	25	1996	100
Honda (60)	Shriram (40)	Civic 1300/1500cc	30	1997	260
Hyundai Motor Co. (100)		Accent 1300/1500cc	100***	1998	700
BMW (51)	Hero Motors (49)	5-series semi luxury cars	10	1997	80
Toyota (51)	Kirloskar Group	com. vehicles 1500cc & Corolla	100	1999	240
Mitsubishi	Hindustan Motors	Lancer	30	1997	85

*Promoter of Premier Automobiles **200,000 starting 1998
200,000 starting 2001 * includes provision for existing models
Source: The Economist, March 2, 1996, Financial Times July 7, 1996, the Nikkei Weekly, January 6. 1997, Business India, January 27-February 9, 1997 and Express Investment Week, 10-16 February 1997.

If all these new projects materialise, they will create over-capacity in the Indian market, all the more so as local manufacturers are also expanding. Ashok Leyland is to create new capacity in the Ennore area after the ongoing scheme has been completed, with an expenditure of Rs. 1800 crores. Bajaj Auto and Honda are increasing capacity while TVS Suzuki will establish a second factory near Mysore (State of Karnakata). The whole world already has over capacity. It is said that the increase in Asia-Pacific capacity will outpace gains in output in the next five years and over 40% of the world's excess capacity will be precisely in that region. So considering that both the Indian and the export markets have limits, one can expect that only a few car manufacturers will eventually survive in India. There are currently too many players in the same market at the same time. The question is also raised whether India will become a major exporter of passenger cars, commercial vehicles, two-wheelers and auto-parts in the coming years.

Indeed, the auto parts industry is also expanding. The Automotive Component Manufacturers' Association is banking on co-operation agreements with foreign partners in the field of auto parts - in the form of technical tie-ups, joint ventures and equity participation - to attract fresh investment in this sector. Mitsubishi Corporation is reported to be examining the possibility of setting up a joint venture with Jai Bharat Maruti Ltd. to supply auto parts to a local arm of Hyundai Motor Corporation. In the same way, Bosch of Germany, Valeo of France and Ficosa of Spain are said to have entered into talks with several Indian auto ancillary manufacturers with a view to possible joint ventures.

Some additional examples will illustrate this trend. Ford Motor Company is setting up two auto component ventures at an investment of Rs 500 crores to supply its car venture, Mahindra Ford India Ltd. The first one to be called Electrical & Fuel handling India Private Ltd. (EFHI) will be owned directly by Ford and provide both the Indian and export markets. The manufacturing operations should start in the second part of 1998 and reach a production capacity of 1 million units over a seven year period. The second venture - Automotive Components of India (ACI) will be 80% owned by Ford and the remaining 20% by the Korean company Halla Climate Control (HCC). Through HCC's participation, the venture will also assist in catering for Hyundai Motor India's requirements. Similarly, Magneti Marelli, the component subsidiary of Fiat has announced plans to set up Magneti Marelli India, a 76/24 joint venture with Premier Automobile in Pune. The joint venture expected to go on stream by the end of 1997, will manufacture instrument clusters and rotary machines used in automobile production. All these plans will eventually make India an important regional supplier of components.

A report produced by the Council of EU Chambers of Commerce in India argues that the car industry and, to a lesser extent, two-wheelers will be dominated by multinational companies. In the car parts sector, small and medium-sized enterprises (SME) have significant market shares and this sector is expected to remain mainly Indian owned. Almost half of the car value is from buy-outs. According to this report, "There are a few thousand auto parts units with some relatively large companies and a large number of SME. Of these, some 200 have foreign collaborations, mostly by way of technology and knowledge transfer. One company, MICO, a subsidiary of Bosch of Germany, is MNC controlled. There are some joint ventures with foreign partnership but, by and large, the auto parts industry is controlled by Indians. With the entry of car majors, many new joint ventures for auto parts are on the anvil. However, from present indications, the FDI envisaged in auto parts is truly collaborative, involving a number of joint ventures with local partners. The auto parts industry will continue to be controlled essentially by Indian firms"[51].

Foreign investment is also going into the agricultural machinery sector. The world's second biggest maker of tractors, New Holland (69% owned by Fiat), is about to invest US$50 million in a plant to manufacture tractors based on standard designs devised in the West. The tractors will initially be for the domestic market but will also

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[51] "Foreign Investment and MNCs in India: The Liberal Dialogue", The Council of EU Chambers of Commerce in India, Mumbai and Friedrich-Naumann-Stiftung, New Delhi, November 1996.

be sold to other countries both in Asia and further afield. Production is planned to go on stream in 1998 with 18,000 units a year and 35,000 around 2003. Employment is expected to reach about 1,000 by early next century.

2.3 *Investment in Engineering and Electronics*

In the engineering goods and electrical equipment sectors, foreign owned firms have an important role but, unlike in the automobile sector, they do not dominate and SMEs are active players. It is assumed that both domestic and foreign firms will set additional capacities so that the market share (approx. 20%) of these latter should remain more or less the same. A major feature of the engineering and electrical equipment firms is the considerable amount of subcontracting entrusted mainly to small and medium-sized enterprises. Due to the opening up of the Indian economy, there has been rapid growth in the consumer market, of which the white goods segment alone, is expected to grow at 30% per year.

Some New Investments in Engineering and Electronics

Foreign Company (share)	Amount (US$)	Sector	Indian partner
ABB ABB (51%)	1 billion n.a	power generation screw compressors	 Alfa Laval India Ltd.
Exide Electronics (51%)		power systems	Crompton Greaves
Daewoo Electronics* (76)	800 million	consumer goods	Anchor Electronics & Electricals Ltd.
Matsushita (70%) starting production in 1998/100,000 units	14 million over a five year period	air-conditioners and washing machines	Shree Dhoot Trading & Agencies Ltd., connected with the Videocon Group
Siemens** (expansion of existing capacity)	60 million	loop controllers wiring harnesses	Nasik
Electrolux (51%)	100 million	white goods	Kelvinator
Lucent Technologies, USA, linked to AT&T (50)		telecoms	Tata Telecoms

*The Hindu, January, 27 1996.
**The Economic Times New Delhi, April 22, 1996

ABB has two manufacturing and sales facilities in India: Asea Brown Boveri Ltd. in Bombay and ABB ABL Ltd., New Delhi. In the period 1995-1996 employment dropped from 10,234 to 9,802 (this represents about 30% of ABB total employment in the Asia/Pacific region). In contrast, revenues soared from US$508 million in 1995 to US$974 in 1996 (ABB Annual Report 1996).

Matsushita already has a prominent presence in India in the form of "National Panasonic India Pvt. Ltd." established with 80% foreign equity participation and the remaining 20% contributed by Indian parties including from the already existing joint venture companies of the Matsushita Group. Last year National Panasonic India was made the regional headquarters of the Matsushita Group in South East Asia.

This capacity expansion will enable **Siemens** to manufacture the entire range of single loop controllers (used to control different processes like temperature and pressure) in India. Set up in 1987, the Nasik unit is Siemens' biggest production unit in India.

At the beginning of 1997, Siemens transferred its telecoms division from its 51% owned Indian subsidiary Siemens Ltd. to Siemens Communications Software in Bangalore in which Siemens has a 70% share. Siemens Ltd. is going to be restructured which will result in the retrenchment of "excess workers".

The ownership of the Kelvinator brand reverted back to **Electrolux** at the beginning of 1997 after being in the possession of Whirlpool Corporation from mid-1995 to December 1996. In 1996, Electrolux also acquired a 51% stake in a small goods manufacturer called Maharaja International and a similar stake in another company called Intron Ltd. which makes washing machines.

2.4 Joint Venture Projects in the Steel Industry

Several agreements have been signed with foreign partners to establish joint ventures, of which:

- **Sandvik**, Sweden, is to set up a joint venture with Choksi Tube Company Limited (CTCL) in Ahmedabad to manufacture hot extruded seamless stainless steel tubes. The new installation will have an annual capacity to produce 3,000 tonnes of tubes corresponding to annual sales of US$30 million which is expected to go up to 7,000 tonnes a year over a period of time. This marks the first step outside Europe and North America for Sandvik's tubing operations and is part of a growing focus on developing markets[52]. The company, to be called Sandvik Choksi will be 51% owned by Sandvik and 49% by Choksi. Sandvik and CTCL, will be the only two consumers of the product rolled out by the joint venture.
- **Inland Steel Industries Inc.**, USA just finalised a 50/50 joint venture with Tata Iron & Steel Co. The "Tata-Ryerson" joint venture will begin operation this year in the industrial cities of Jamshedpur (where Tata is located) and Pune, and plans to expand to three other areas: Gopalpur, where Tata is to build a new integrated mill, Delhi and Hosur. The facilities will serve manufacturers of cars, white goods and machinery. Many of the end-users are transplants from other countries, including the USA, which have moved some operations to India to exploit its low labour costs and potentially huge domestic market. Tata-Ryerson will source steel from TISCO and Inland Steel but also from other suppliers in the world market.

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[52] The establishment of this venture is an important element in Sandvik's strategy, in particular, its continued expansion in Asia. Sandvik Choksi complements Sandvik's existing units for tube production in Sweden, England, France, Czech Republic, USA and Canada. Economic Times, 11 February 1997.

- **Nippon Steel Corporation**, Japan, has agreed to provide technical assistance to TISCO for the construction of a cold rolling mill.
- **Ugine**, France, plans to set up a joint venture with the Indian group Jindal for the construction of a 350,000 tons per year (tpy) fully integrated stainless steel mill. The first phase of the government-approved project, a 50/50 partnership between the two partners should commence before the year 2000. The first phase will involve the installation of a 70,000 tpy cold rolling mill. The stainless steel mill will serve the Indian market but initially about 40% of production will be exported.
- **Shougang International Trade & Engineering Corp. China,** has formed a joint venture with Bellary Steel & Alloys to build a blast furnace and steel plant. The new works are designed to produce 550,000 tpy of pig iron and 450,000 tpy of wire rod. Some 25% of output is due to be exported to China and the Far East.

India's New Crude Steel Making Capacity in the Asian Context

Country	1995/1996	1997	1998/1999	Total (1995-1999)
INDIA	4,200 (3,200)	7,200 (3,700)	n.a.	11,400 (6,900)
Rep. of Korea	6,200 (6,200)	4,000 (4,000)	3,000	13,200 (10,200)
Malaysia	1,450 (1,450)	n.a.	1,400	2,850 (1,450)
Rep. of China	n.a.	2,500 (2,500)	2,500 (500)	5,000 (3,000)
Thailand	1,200 (1,200)	200 (200)	4,200 (4,200)	5,600 (5,600)
People's Rep. of China	3,000 (1,000)	3,000 (1,000)	7,500 (1,000)	13,500 (3,000)
Others	2,000 (2,000)	2,000 (2,000)	2,000 (2,000)	6,000 (6,000)
Total Asia	18,050 (15,050)	18,900 (13,400)	20,600 (7,700)	57,550 (36,150)
INDIA'S SHARE	23% (21%)	38% (27.6%)	-	20% (19%)

Figures in parenthesis indicate capacity by electric arc furnaces
Source: Metal Bulletin, January 6, 1997

India is also attracting foreign capital into its mining industry. About US$500 million investment by big foreign companies has been approved by the Foreign Investment Promotion Board in the last part of 1996. The list of investors includes Ashton Mining, Broken Hill Proprietary of Australia (BHP) and Normandy of Australia, De Beers and Boart Longyear of South Africa and the Anglo-Australian group RTZ-CRA. In particular, BHP is to establish a joint venture with Hindustan Zinc. The venture will focus on zinc, lead, copper, gold exploration and mining.

2.5 Prospects in Shipbuilding

Foreign investment is also visible in the shipbuilding sector. The Norwegian shipbuilding giant **Kvaerner** is negotiating the setting up of a joint venture with the state-owned Hindustan Shipyards Limited. The Indian government has approved a capital restructuring plan for the yards to help the ailing shipbuilding industry.

3 Wages and Working Time

In India, the government has played an active role in the determination of wages. In all public sector wage negotiations, it is the Department of Public Enterprises which issues guidelines to public sector undertakings (PSUs) and public sector management about wage negotiations. The government has appointed over 20 wage boards to fix the wages to be paid to production workers in most major industries. These boards are typically tripartite, consisting of representatives from government, employers and unions. Their recommendations are not statutory binding but they are generally accepted by both labour and management. However, there are a number of cases where, thanks to the pressure built up in the bargaining process, unions have been able to secure higher wages and improved benefits for their members.

In addition to the basic wage, workers receive a dearness allowance (D.A.)[53] and a home rent allowance (H.R.A.) which, together with bonuses, account for over half of the total wage. The Payment of Bonus Act (1965) requires the payment of a bonus to all production workers in most industries in the private sector. Employees in the public sector also get a bonus called ex gratia on the same basis as in the Bonus Act. The minimum bonus to be paid, irrespective of profit and loss, is 8.33% of the worker's annual salary and the maximum is 20%, all according to the profitability of the company. Promotions are mostly on the basis of seniority, at least in the public sector. Average monthly gross wage is Rs.2,500-2,800 (US$72-80) in basic metals, Rs. 3,000 (US$85) in electrical industrial machinery and Rs.3,300 (US$94) in the motor vehicle sector. Taking the specific case of a steel worker, the minimum wage (basic pay + dearness allowance) was Rs. 3,056 (US$87) and the maximum wage Rs 6,373 (US$182) per month in October 1995. In multinational enterprises, the wage of a skilled worker can vary from Rs5,000 (US$143) to Rs.8,000 (US$228), depending on the skills level and years of seniority. As the table below shows, wages at SKF are comparatively higher than in other companies in the area.

KRUPP INDUSTRIES
A Worker's Wage after 15 years' service

Total earnings	Rs. 6,289.47
of which	
• Basic earning	Rs. 2,008.25
• Dearness allowance	Rs. 2,782.22
• Home Rent allowance.	Rs. 465.00
Total deductions	Rs. 3,598.95
• Provident Fund*	Rs. 479.00
• income tax	Rs. 960.00
Net salary	Rs. 2,690.52

*10% paid by the employer
10% or more paid by the employee

[53] The D.A. is linked to the price index which is revised every quarter. Several allowances such as transport subsidy, night shift allowance, leave travel expenses, etc, may also be paid.

SKF, PUNE[54]

Minimum Gross Wage after the Agreement, May 1996 Unskilled worker		Maximum Gross Wage after the Agreement, May 1996 Skilled worker	
Basic	2600 /Rs. 12.50/hour)	Basic	6606 (Rs. 31.76/hour)
D.A.	2737	D.A.	2737
H.R.A.	364 (14% of basic)	H.R.A.	924 (14% of basic)
Fix Incentive	2100	Fix incentive	2100
TOTAL	7801	TOTAL	12367

Regular Hourly Earnings in the Auto Industry (Wages in US$ for 1995)

	Low	Mid*	High
TVS Brakes	1.10	1.20	1.30
TVS Wheels	1.00	1.10	1.50
TVS Suzuki	1.10	1.30	1.50
Premier	0.80	1.40	1.70

* Middle wage of a production worker with seven years' experience
Source: Unions and the Auto Industry, Asia-Pacific, IMF, Geneva

The Factory Act sets the legal working time at 48 hours and this is also the average number of hours worked per week by production workers, compared to 45 for non-manual workers. Overtime is a common practice and, as reported by a union representative at TVS-Suzuki, "workers like to do overtime because they get double pay". In a way, overtime has become a partial substitute for the low normal wage. At the Simpson Group Companies in Madras, overtime is 36-40 hours a month. Similarly, at Atlas Copco and Indian Brakes, overtime work is around 20-25%.

4 Subcontracting on the increase

The system of subcontracting is certainly not new but has recently taken on a new dimension. There is a growing tendency among medium and large scale enterprises to subcontract part or their entire production to smaller units (in the latter case the enterprises limit themselves to marketing). As already noted, industries like electrical machinery and motor vehicle manufacturing are no doubt amenable to decentralised production and subcontracting. In the '70s, subcontracted products were about 10%; the share increased to 25% in the '80s and currently averages 35%. Figures from

[54] In 1989, SKF opened a second manufacturing plant in Bommasandra - Bangalore with 460 workers, of whom 240 were production workers. As reported, one of the reasons for building another facility outside Pune was to defuse union power. There is a union in Bangalore too but management opposes contact with the union in Pune where wages are much higher. The SKF union in Bangalore is not affiliated to the IMF. International affiliation is not part of the horizon of a large number of unions in multinational companies.

the National Productivity Council reveal that 67% of production is subcontracted in the mining and construction equipment sector, 52% in automobile and nearly one-third in industrial machinery.

As shown in the table below, 30-40% of the work is subcontracted at SKF Pune, 40% at Simpson and 45% at Krupp. At Indian Brakes, only highly skilled core workers are permanent, the rest of the work is given outside. Workers in subcontracting activities get less than one-third of the wage of a regular worker.

Number of Subcontracting and Temporary Workers in Pune/Madras Area

	Subcontracting		Temporary Workers	
	1990-91	1997	1990-91	1997
Sandvik, Pune	10%-15%	30%-40%	ca. 10%	ca. 20%
SKF, Pune	7%-10%	15%-20%	ca 3%	ca. 3%
Simpson, Madras	10%	40%	n.a.	n.a.
Alfa Laval, Pune	42%	39%*	n.a.	n.a.
Atlas Copco, Pune	13%	33%	29%	47%
Krupp, Pune	35%-40%	45%	30%	20%
Philips, Pune	20/30%	70%	n.a.	n.a.

* The amount of subcontracted work has dropped, largely due to the huge financial losses at the Pune Alfa Laval plant.

Source: IMF Affiliates in Pune and Madras

In fact, subcontracting is essentially geared to by-pass protective legislation with the result that, over the years, the proportion of casual and contract labour has increased in almost all the industries in both private and public sectors. It has emerged in order to evade labour laws, fragment labour and union power, enhance management control over the labour process and minimise labour costs. Subcontracting has become a major tool of management to put pressure on permanent workers and weaken their bargaining power and even to break strikes[55]. The higher the number of workers in subcontracted activities, the greater the difficulty for the trade unions to formulate common issues or demands to employers. Unions have attempted to respond to these developments but have faced problems, notably the inadequate or complete lack of information from management on the actual amount of subcontracted work, difficulty in organising workers in the subcontracted units as these are small and not easy to locate and the reluctance of workers in these units to join unions for fear of losing their jobs. Due to their insecure employment situation, workers are not always forthcoming in committing themselves to union work. Union activists find it hard to gain confidence and make them aware of the importance of collective action.

[55] For instance, the Bombay textile strike was broken by mills subcontracting their production to power looms where labour laws do not apply.

In addition to subcontracting, employers are also using contract labour more and more. Over the years, new activities have been transferred to contract labour, such as repair and maintenance, electrical work, data entry operations, etc. Contracted labour is often denied provisions secured by law, such as the minimum wage[56], Provident Fund and other social security benefits[57]. A study carried out by an IMF affiliate on contract labour in central public sector industries in Hyderabad shows that the minimum wage paid to contract labour is 30-40% that of a permanent worker doing the same or a similar job. Fringe benefits are not provided and the majority of contract workers are not covered by the Provident Fund. Contract labourers are paid on a daily basis and, as a result, do not receive payment for holidays. Cases have been reported where permanent workers have been released through voluntary retirement schemes (VRS) and then given the same work on a contract basis at a fraction of the previous wage and without paid leave, Provident Fund, gratuity or any other legal rights, despite long hours of work.

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[56] The Minimum Wages Act, 1948 is applicable to workers in the unorganised sector. It empowers both Central and State Governments to fix/revise the minimum wage rates for scheduled employment under their respective jurisdictions. The Act also provides for the setting up of enforcement machinery to secure compliance with the provisions of the Act. The Central Board for Workers' Education is making efforts to give wide publicity to the provisions of the Act through various educational programmes for rural and unorganised workers.
An ILO study has revealed that the minimum wage varies from state to state and within a state, from industry to industry. The year of fixation/revision of the minimum wage is not uniform across the states or across industries. In most cases, the minimum wage is below the poverty line. The minimum wage in force during 1996 varied from Rs.5 to Rs.80 in different states/union territories.

[57] A protest action was organised in Hyderabad (Andhra Pradesh) on February 18, 1997 to demand the abolition of the contract labour system and equal pay for equal work. The Contract Labour Act, 1970 seeks to regulate employment of contract labour in certain establishments and provide for abolition in certain circumstances. Specifically, the Act provides for registration of establishments engaging contract labour, licensing of contractors, provision of welfare and amenities for contract workers, and stipulation of liabilities of principal employers.

III The Indian Trade Union Movement

1 Some characteristics

Prior to Independence, there was by and large, a single trade union structure in India, even at industry and plant level. There was one national centre - the All India Trade Union Congress, AITUC, which included leaders of all political allegiances and was under the dominance of the Indian National Congress. This trade union unity could largely be explained by the common objective of all parties which was to achieve the country's freedom and the AITUC itself became a major force in India's freedom struggle.

During the independence movement in 1942, the Communists who were opposed to the freedom movement supported the British Government and took over the AITUC because the freedom fighters were in jail. After Independence, some Congress members thought it proper to start a labour organisation called INTUC as they felt that it was impossible to work with the Communists. This further consolidated control of AITUC by the Communists. The Socialists and other progressive forces were reduced to a minority. No democratic functioning was possible under the entrenched Communist leadership. They were left with no alternative but to start a new national labour centre, independent from employers, government and political parties - the Hind Mazdoor Sabha (H.M.S.). Unlike HMS, other major national centres are directly or indirectly linked to political parties[58]. There is no doubt that this multiplicity of unions has contributed to the fragmented patronisation of workers by political parties for which concern for workers and promotion of the interests of these latter were often a corollary of their own personal political activities and interests[59]. In other words, the lack of a united voice on behalf of labour gives an almost free hand to the government and enables it to carry out reforms detrimental to the interests of the workers[60].

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[58] The INTUC is linked to the Congress Party, AITUC to the Communist Party of India, CITU to the Communist (Marxist) Party and BMS to the RSS and BJP parties. The H.M.S. is independent but oriented towards the Socialist Party.

[59] In its 1992 World Labour Report, the ILO synthesises the trade union situation in India as follows:" Indian unions are too fragmented. In many workplaces several trade unions compete for the loyalty of the same body of workers and their rivalry is usually bitter and sometimes violent. It is difficult even to say how many trade unions operate at the national level since many are not affiliated to any all-India federation. The early splits in Indian trade unionism tended to be on ideological grounds - each linked to a particular political party. Much of the recent fragmentation, however, has centred on personalities and occasionally on caste or regional considerations".

[60] Employers too have unity problems. There are four employers' associations in India: the All India Employers organisation (AIOE) founded by the Federation of India Chambers of Commerce and Industry (FICCI) in New Delhi, the Employers' Federation of India (EFI) founded by the Associated Chamber of Commerce (ASSOCHAM) in Bombay, the Confederation of Indian Industries (C.I.I.) and the Standing Conference of Public Enterprises (SCOPE) in New Delhi which was set up by central public sector undertakings. These formed an umbrella organisation called the Council of Indian Employers (CIE). In addition, there is a fourth organisation the All India Manufacturers' Organisation (AIMO) which mainly represents the interests of small and medium-scale enterprises in the private sector. Indian Industrial Relations, C S Ventaka Ratnam, January 1997.

Another important feature of trade unionism in India is the role played by outside leaders, particularly in public sector undertakings. The Trade Union Act 1926, Section 22, provides for outsiders to hold posts in a union[61]. The outsiders role in the Indian trade union movement is a legacy of the freedom struggle. Mahatma Gandhi, Jawaharla Nehru, Subash Chandra Bose (freedom fighters), Ashok Mehta (founder/leader of the democratic Socialist movement in India and of the free and democratic trade union movement) and many others, have maintained links with unions and helped them during their struggles. However, after Independence, trade unions gradually slipped into the arms of political parties and their leaders. Workers had recourse to outside leaders because these were educated, had more knowledge and could bring pressure to bear at certain decision-making levels in support of specific demands. Obviously, this has had both positive and negative effects on the unions.

Things are now changing slowly due to better education and the growing self-confidence of the workers themselves. Moreover, with the generation gap widening between the rank and file and leadership the question is now how long and how much can outsiders control the unions. The new young leaders coming up feel they can tackle their own problems and are showing signs of impatience with the ageing leadership. They want to run the union themselves but often lack adequate experience and training. This trend is widespread in metal unions, hence the key role of workers' education and the need for more training programmes to deal with inadequate skills in the trade union movement. With this objective in mind, the IMF has already developed specific programmes for leadership training. Indeed IMF has a crucial role to play in this field and if it continues to help unions become self reliant, the goal of international solidarity will become even more meaningful.

There are about 54,000 unions registered in India under the Trade Union Act with an aggregate membership of some 30 million - essentially in the country's organised sector. Labour in unorganised industries still remains untouched by effective trade unionism. West Bengal has the largest number of registered trade unions followed by Kerala, Tamil Nadu and Maharashtra. These unions are regrouped into central organisations, of which five qualify for recognition as national trade unions as per the figures of verified membership (figures from August 1995). In the last verification, ten national centres were on the list. In the public sector, the trade union movement consists of semi-skilled and unskilled workers and the bulk of the unionised work force in India comes from there. Some unions say that skilled workers tend to "consider themselves as the brahmins of their own movement".

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[61] The Trade Union Act 1926 stipulates that "No less than one-half of the total number of the (Office bearers) of every registered trade union shall be persons actually engaged or employed in an industry with which the trade union is connected".

Recognised National Centres and International Affiliations*

National Centre	Membership		International Affiliations
	Total	of which Industry	
Indian National Trade Union Congress - INTUC	2,707,251	2,587,378	ICFTU
Bhartiya Mazdoor Sabha - BMS	3,117,304	2,769,536	none
Hind Mazdoor Sabha - HMS	1,477,472	1,318,804	ICFTU
Centre of Indian Trade Union Congress - CITU	1,798093	1,768,044	none
All Indian Trade Union Congress - AITUC	923,517	905,975	WFTU

* These figures are the only ones available but should be used with caution. They are based on data submitted by the national centres whereas, according to H.M.S. and other trade union centres, secret ballot would be a more proper and fairer method to ascertain the correct membership figures.
Source: Financial Express, August 13, 1995.

The United Trade Union Congress (UTUC-Lenin Sarani), the National Labour Organisation (NLO), the United Trade Union Congress (UTUC), the National Federation of Indian Trade Union (NFITU), and the Indian Federation of Free Trade Union (IFFTU) have lost status as national centres as they could not fulfil the eligibility requirements. To be eligible for recognition, a central trade union organisation should have a minimum membership of five lakhs (500,000), affiliated unions in four states and four major industries. This recognition ensures representation, in proportion to verified strength, on various national and international bodies and committees.

Besides the national federations, at enterprise level, there are independent unions which have experienced a remarkable growth in the past few years[62]. In fact, the national federations still play an important co-ordinating role and continue to have a strong presence in the public sector. But new patterns of unionisation point to a shift in the focus of union activity to the local level because of the excessive politicisation of national centres and federations. To the question of why they did not want to affiliate national federations, several leaders of independent unions in Pune and Madras answered that it was because of the political background of the federations. On the other hand, it is also true that, as a rule, enterprise unions are more self-centred, isolated and concerned essentially with issues coming up in their own factory. They are not in a position to influence national policy making and articulate the longer term interests of the workers as a whole at various levels and in different government and non-governmental fora. This, in turn, can lead to a more fragmented trade union movement and makes it difficult to consider the demands of workers in a cohesive perspective. Hence the need to examine the appropriateness

[62] Enterprise unions are not a new phenomena in India. They have coexisted with the party-based unions for several years. They are more likely to be found in the new modern enterprises than in the traditional industries. To date, there are 6 independent unions affiliated to the IMF - 5 in Pune and one in Madras representing a total membership of approximately 5,000. For more information on independent unions, see "Enterprise Unionism in India", Sarath Davala, Friedrich Ebert Foundation, New Delhi, 1996.

of co-ordination structures at local or regional level to promote workers' solidarity and collective action.

Unions cannot continue to function the way they did in the past. The question is raised as to how they can revitalise themselves to regain the confidence and trust of the members and counter the declining membership trend. The present leaders come out of the freedom struggle and are encountering growing problems in the delivery of required services and in meeting their members' expectations. In addition, there is a lack of consciousness on the part of workers which makes union work very difficult.

2 The IMF India Council

In November 1969, as part of its efforts to foster regional activities, the IMF set up a regional office in New Delhi which was officially opened in March 1970[63]. When the IMF Office started its work, only two Indian unions were affiliated to the IMF: the Indian National Metalworkers' Federation (INMF) - a member of the Indian Trade Union Confederation - INTUC affiliated to the ICFTU - and the Indian Union of Steel and Engineering Workers (SMEFI) affiliated to the Indian national centre HMS, also a member of the ICFTU. Later, Philips workers, the SKF and the Simpson trade unions in Madras and Bangalore also joined.

In the 1980s, two further unions affiliated - the Asian Sandvik workers and the Indian National Association of Miners. Krupp Industries Workers' Union and Atlas Copco Employees' Federation joined the IMF in 1996 and KSB Mazdoor Union in 1997. From an initial 125,000 in 1970, IMF membership in India has grown to approximately 800,000 - out of a total of 3 million metalworkers in the organised sector.

With a view to promoting co-operation among its affiliates in the country and to help to overcome union fragmentation, the IMF decided to set up an IMF-India Council along the lines of the councils already existing in other Asian countries. Preliminary discussions took place on the occasion of the IMF Congress in Zurich in 1993 and the Director of the South Asian Office was requested to call a meeting with all Indian affiliates to take stock of the situation and approve a set of rules which would guide the work of the new Council. This first meeting was held in Pune in March 1994 and discussed several key issues, like production outsourcing, voluntary retirement schemes as well as educational programmes. A second meeting took place in 1996 where the IMF General Secretary put forward several points for the consideration of the Council, notably:

- the establishment of regional meetings to obtain the widest possible discussion on the IMF plan to revitalise the India Committee;
- organising the unorganised particularly in the fast growing private sector enterprises;
- implementation of the IMF Action Programme priorities;
- setting up of an education task group to facilitate discussion and action on future education programmes requiring IMF assistance.

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[63] In 1972, the activities of this Office, then renamed "The West Asian Regional Office of the IMF" were extended to Pakistan, Bangladesh and Sri Lanka.

Although the Council is composed of different structures - national federations and independent unions - these have many common interests and objectives - organising and education being the most important. With the concepts of liberalisation, flexibility and new methods of work organisation gaining momentum, unions have to show unity, transcend sectional interests and rise beyond their "fragmented identity" if they want to influence the direction of change. Channels of communication have to be established between independent and traditional unions. With this objective in mind, the members of the IMF-India Committee meeting in Hyderabad in March 1997, decided to form a restricted Committee entrusted with the task of examining the following issues and to give its recommendations on:

- Collective bargaining
- Relations with non-IMF unions including affiliation
- Education
- Plans for greater co-ordination and action within the IMF-India Committee

3 Main Challenges

Trade unions in India today operate in a much more difficult environment than in the '70s or '80s. Studies carried out by institutes close to the labour movement have shown that unions' bargaining power has been eroded due to new employer strategies encouraged by economic reforms and privatisation. These include (1) the conversion of jobs from the unionised to the non-unionised section by making employees into officers, junior executives, supervisors and the like, i.e. a number of jobs which were in the unionised category in the '80s and are now in the "non-bargainable category"; (2) a ban on recruitment, particularly in unskilled and semi-skilled jobs, both in the public and private sectors; (3) growing recourse to subcontracting work; (4) the transfer of permanent jobs to contract and casual workers; (5) the introduction of voluntary retirement schemes[64] with their golden handshakes; and (6) closure of sections/divisions/plants. The shift of production to the unprotected sector gives employers a twofold advantage - firstly, the lower costs and, secondly, the control over the labour process. The declining employment in the organised sector further erodes the trade union base whilst worsening competition between the advantaged and disadvantaged groups of workers.

Amendments to the laws which protect labour represent another big challenge for the unions. Since Independence, labour laws for the workers in the organised sector in India have mainly emphasised worker protection and welfare. These laws give organised workers in India permanent employment after a probation period. Employees cannot be fired without government permission, even when the firm becomes non-viable. Industrialists criticise the lack of an exit policy[65] and argue that,

[64] These voluntary retirement schemes (VRS) are used more and more often by management to get rid of workers. In fact, they are disguised job terminations. A recent case is that of the Swedish company Alfa Laval based in Pune which announced VRS without initiating any dialogue with the Union which is affiliated to the IMF. As explained by a union representative during a meeting with the IMF, "A voluntary retirement scheme should be the last resort to reducing costs but we still do not oppose it. What we strongly oppose is the manner in which the VRS is being converted to a 'Compulsory Retirement Scheme' by management. Employees who have worked 20-25 years for the organisation are now being 'forced' to opt for the retirement scheme".

in the era of liberalisation and deregulation, laws must be made more pragmatic to conform to present needs and should provide for readjustment of the workers to include retrenchment[66] as well as temporary employment for efficient and cost-effective running of enterprises. Under pressure from industry and international financial institutions, the Government is once again examining the possibility of removing legal restrictions on retrenchment and closure, putting flexibility and competitiveness at the top of the agenda[67]. There is a move to exempt small sector industries from specific provisions in the labour law and most of these are in the subcontracting areas. The Mararashtra government, for example, has set up a High Level Committee on Employment and Self-Employment which is working on "a proposal to free the small sector from labour laws"[68]. Moreover, attempts are being made to thwart unions through amendments to the Trade Unions Act of 1926[69]. As mentioned earlier, labour is in the Concurrent List of the Indian Constitution with both central and state governments having power to legislate on certain similar matters concerning industrial relations. A special committee was set up in November 1996 at national level to review various labour and industrial relations laws. This bipartite committee comprises eight members each from major employers' and employees' trade union organisations in the country and it is expected to submit its report on several contentious labour issues in the course of 1997.

Another important issue on the government agenda is the implementation of the secret ballot for granting recognition of a trade union. So far there is no law providing for compulsory recognition of trade unions in enterprises. The Trade Union Act of 1926 provides for registration of unions and allows any union with 7 or more members to be registered as a trade union. The verification of union membership is left to the Labour Commissioner and is rarely done. Recognition of unions as bargaining agents is left to the discretion of the management which often creates division among the workers by recognising more than one union. All national centres agree that the majority union in a plant should be recognised as the main bargaining agent but they differ considerably on the way this majority should be established.

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[65] An "exit policy", in other words rules governing termination of employment and closing of an industrial establishment, would include, for instance, the possibility to fire workers without needing prior state government approval (the Industrial Disputes Act, 1947 confers upon Labour Commissioners the right to approve or veto any labour reduction in cases of retrenchment or closure), productivity-linked wages and annual bonuses, the suppression of the dearness allowance, etc.

[66] Taking the case of TISCO, one can observe that modernisation did not come through despite the fact that 9,000 workers were given a golden handshake.

[67] It should also be stressed that labour jurisprudence has been very pro-labour. So far, employers have not succeeded in modifying the labour law. On three occasions since 1978, comprehensive reform bills were introduced in Parliament, but the day before the bill was to be tabled, the government fell.

[68] The Hindu, December 27, 1996

[69] The Trade Union Act, 1926 recognises the legal entity of a trade union and provides for its registration. It requires trade unions seeking registration to include in their constitution provisions like (i) minimum membership fee, (ii) mode of appointment of office bearers, (iii) and proper management of finance and audits of accounts. The Act gives to the registered union and its office bearers protection against prosecution and civil suits in respect of actions taken for furtherance of industrial disputes.

The AITUC and HMS are strong supporters of the secret ballot while the INTUC is pushing for the verification of membership on the grounds that the ballot can be manipulated with money and caste considerations.

4 Mobilising Union Potential

As in many other countries, union membership in traditional industries in India is declining and as privatisation and restructuring proceed, one can expect that the closures of "sick" companies will increase the number of jobless. In parallel, recruiting new members in non-traditional, high tech sectors is a difficult task, partly because of the small size of the new units in terms of employment and the high turnover of employees. This is all the more difficult in a country where unemployment is hitting a growing share of the population and there is a large labour surplus. Management uses this situation to pit workers against each other and impose substandard conditions of work. Furthermore, individualised employment contracts make conditions for organising campaigns difficult. There have been cases where companies have closed down in industrial areas (ex. Bangalore) giving golden handshakes to the workers and gone to greenfield sites where labour is plentiful, young and flexible and where, so far, unions have no access.

Unions therefore need to develop new strategies and competencies to initiate organising drives targeted, in particular, at the private sector where there is no real union tradition. They should also devote more time to re-examining their structures and financial base in order to better meet the needs of their membership in a rapidly changing economic environment. There is a growing awareness among semi-skilled workers that the present structure is useless for them. Indeed, trade unions at national level do not have proper structures and, in general, tend to reflect more the voice of the politicians than that of the workers. Therefore, they have to re-focus their action and better articulate the concerns and needs of their members at plant level.

Since the beginning of the 1990s, there have been some attempts towards union mergers. Following the announcement in the year 1994 of the results of the membership verification of apex trade union federations conducted in 1989, the National Labour Organisation and INTUC have talked about uniting but, so far, this has not materialised. Discussions have also been going on for some time on a merger between the HMS with a membership of 1,900,000 (main strength in railways, seamen's bodies and airlines, steel and engineering, port and dock industry as well as road transport) and AITUC with 1,500,000 members (main strength in banks, insurance, metal industry and the mining sector). There is a strong feeling that the policy of globalisation and privatisation pursued by the government is an attack on public sector undertakings and that problems arising from the new economic environment can only be solved through unity and concerted action.

The two central organisations had a joint meeting last year in Delhi and decided to accelerate the merger process initiated in 1993[70]. The merger programme of HMS and AITUC adopted by the Working Committee of both organisations on 24 March 1996 is:

- A national joint committee with five representatives of both HMS and AITUC shall be set up immediately to work out the modalities and to monitor the merger process;
- The joint committee shall convene a joint meeting of the Executive Committee of both organisations before the end of July this year. Report on the modalities and the progress of merger process shall be placed before this meeting and decisions on further steps shall be taken. The joint executive committee shall decide the dates of the joint national convention of both organisations for effecting the merger decision;
- In the meantime, joint co-ordination committees shall be set up in those states which have not done this so far. This shall be done within a period of one month;
- One of the functions of the State Committees shall be to identify unions which have rivals belonging to either of the two organisations and to work out modalities for their unification. In case the State Committees find it difficult to do so, such matters shall be referred to the national committee for its intervention.
- Both organisations have publicly declared that they will merge in order to strengthen an independent trade union movement free from the control of employers, government and political parties.

It is expected that this merger will "act as a catalyst for the unification of trade unions with the objective of achieving a 'one-industry one-union' norm in the country."[71] Union officials hold the view that once the HMS-AITUC merger process takes off, it may set the pace for other like-minded unions to join. In spite of the progress made towards unification, obstacles are numerous - from within the unions themselves and from outside, notably from those who do not want a united trade union movement - and more time will be needed for the merger process to be completed.

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[70] Coordination committees of the AITUC and the HMS have been set up in several States (like Maharashtra, Rajasthan, Assam) to coordinate their activities and also facilitate the unification process. Several joint programmes have also been undertaken.

[71] The Hindu Business Line, 18 April 1997.

IV India in Asia

1 India and the South Asian Association for Regional Co-operation - SAARC

1.1 The formative years

SAARC was officially set up in 1985 but the idea of regional co-operation in South Asia was first mooted in 1980, in particular by the Bangladesh President in an effort to overcome the hostilities of past decades[72]. The objective, as spelled out in the Charter, is clear. It seeks to "improve the quality of life, to accelerate economic growth, social progress and cultural development in the region and to provide all individuals with the opportunity to live in dignity and to realise their full potential". This regional grouping consists of Bangladesh, Bhutan, India, the Maldives, Nepal, Pakistan and Sri Lanka.

More than one fifth of the world's population lives in the SAARC region. The percentage of literate people in the region, according to reports, is more than 85% in Sri Lanka, 52% in India, 36% in Bangladesh and less than 30% in Pakistan. Similarly, per capita income also varies.

In an attempt to gain legitimacy, Afghanistan also applied for membership soon after SAARC's creation but Pakistan opposed it on the grounds that a Soviet-sponsored government was in power in Kabul. Burma was sometimes mentioned as another possible candidate on the basis of its geographic proximity and common history of British rule but it never asked for membership.

At the outset, these countries had no precise co-operation scheme in mind so SAARC became a forum for the discussion of non-controversial matters on which none of the members were in serious opposition. At the Dhaka Summit in 1988, it was agreed that all decisions should be arrived at unanimously (unlike within ASEAN where consensus is the rule) as a guarantee that the interests of small countries would not be overrun. It was further agreed that bilateral issues would not be taken up within SAARC's framework to avoid this forum being used to arbitrate on bilateral disputes.

In the first formative discussions on SAARC, there was not much consideration of economic patterns. Indeed, less than 3% of the trade of these countries at that time was among themselves and links were first and foremost with the West and with East Asia. Discussion therefore focused primarily on common problems of poverty, unemployment and underdevelopment, terrorism, drugs, population and women in development. Technical committees were set up to deal with these various issues. However, the wave of new groupings building up a trade regime across Asia gradually brought SAARC member states to re-examine their objectives and reactivate co-operation in their region in an endeavour to play a role in the overall integration process. Pressure from outside and intra regional

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[72] In fact, the countries of the region have worked together on bilateral and multilateral bases under the Economic and Social Commission for Asia and the Pacific (ESCAP), the Non-Aligned Movement, and within the Commonwealth.

economic logic are re-orienting India's perception and reinforcing its determination to assert its competitive edge.

1.2 A boost to Economic Co-operation

At their Eighth Summit Meeting in Delhi in May 1995, they resolved to move towards the creation of a free trade area in an attempt to boost intra regional trade which now stands at about US$ 3 billion. The seven countries agreed to initiate a series of tariff concessions under a SAARC Preferential Trading Arrangement (SAPTA) which was ratified in December 1995. Some 220 items have been identified for reciprocal concessionary import duties as part of a first SAPTA round. In addition, it was decided to establish a South Asian Development Fund (SADF) possibly by merging together some of the on-going programmes under SAARC Charter and a Fund for Social and Infrastructural Development. When they met in the Maldives, in May 1997, for their Ninth Summit, SAARC members agreed to establish a free trade bloc within four years and open political talks to end bilateral tensions plaguing the region.

SAARC is a construction of the political power to influence prevailing economic realities. Although there is growing emphasis on the need for strengthening contacts with non-governmental organisations, including professional bodies in the private sector, unions are not part of the process. This is clearly reflected in the organisational structure which shows the overwhelming role of Heads of State and Foreign Ministries in decision-making A high level Committee on Economic Co-operation (CEC) was established in 1991 to identify and implement programmes in the core area of economic and trade co-operation but it has no link with the labour movement.

Progress in turning SAARC into a more effective political and economic bloc has traditionally been impeded by political suspicion and distrust among members, most notably between India and Pakistan, the most powerful countries, on the Kashmir question. Antagonisms also exist between Nepal and Bhutan, and Bangladesh and Pakistan on refugee related issues but political rivalry is not the only barrier. SAARC members export many of the same primary commodities, hence the lack of adequate complementarity in the production and trade structures of the constituting parts to move towards a free trade area. The competitive and non-complementary nature of the economies, the inadequate quality of goods imported from within the region as well as old historical trade links with countries outside the region are important factors to be taken into consideration. Imports are largely restricted to petroleum products and machinery while the most dynamic sectors for the three largest economies of the region - India, Pakistan and Sri Lanka - are the non-tradable ones. In fact, the level of trade between the countries remains low and still accounts for about 4% of global trade (in comparison, intra-ASEAN trade is estimated to be 20% and intra European Union trade 70% of global trade).

In short, various social, political and historical variables play a role in the low level of intra-regional trade and, in particular, the low degree of complementarity in the production and trade structures of the countries concerned. This is partly the outcome of the pursuit of import substitution and self-sufficiency policies in light manufactured goods and consumable items in order to attain self-sustaining growth. SAARC member countries can certainly increase mutual trade by exploring and expanding potential complementarities. What is also needed to boost trade flows within the region is harmonisation and better co-ordination of trade and investment policies between member countries in addition to genuine political will. In this regard, India, Bangladesh, Nepal and Bhutan announced very recently that they would set up a regional group to increase economic co-operation among themselves, that is outside the SAARC framework[73].

THE SOUTH ASIAN ECONOMY IN FIGURES

Key economic indicators

Country's name	GNP Per Capita USD	GDP USD (billion)	Average annual growth	Average annual inflation
Bangladesh	200	26	4.2 %	6.6 %
India	320	172	3.8 %	9.7 %
Nepal	200	4	4.9 %	12.1 %
Pakistan	430	52	4.6 %	8.8 %
Sri Lanka	640	12	5.4 %	11.0 %

Source: World Development Report, 1996.

Sectoral share of GDP in South Asia

(In percentage)

Country's	Agriculture			Industry			Services		
name	1970	1980	1995	1970	1980	1995	1970	1980	1995
Bangladesh	-	49.4	32.8	-	14.8	19.6	-	35.8	47.6
India	44.5	38.1	27.8	23.9	25.9	31.1	31.6	36.0	41.2
Nepal	-	61.8	41.9	-	11.9	19.3	-	26.3	38.8
Pakistan	40.0	30.6	24.0	19.6	25.6	27.0	40.3	43.8	48.9
Sri Lanka	30.7	26.6	19.8	27.1	27.2	31.3	42.2	46.2	48.9

Source: Asian Development Outlook 1996 and 1997, Asian Development Bank.

[73] Financial Times, 3 April 1997.

Despite all the progress, South Asia's economic base has remained quite weak and fragile. The structural adjustment programmes carried out under the International Monetary Fund's rule which include cutbacks in public expenditures (particularly in social services), privatisation, promotion of labour market flexibility, abolition of price controls and subsidies, have raised many concerns for the workers and trade unions in particular. The social costs of adjustment have several facets - growing employment insecurity in labour markets, increasing exposure of vulnerable groups to economic adversity and poverty, and difficulty in maintaining an adequate growth rate in productive employment. As in industrialised countries, jobless growth is becoming a major feature in the region. Nearly all countries posted a growth rate of 4-5% in 1995 and yet unemployment exceeds 15%.

Interaction among SAARC members has always taken place against the background of India's predominance and political significance. With about 900 million inhabitants - in comparison, Maldives has less than 200,000 people - India accounts for nearly 70% of the population in the group, 79% of the land area, and 76% of GNP. This country has a huge trade balance surplus with all other members, except with Pakistan. As already noted, In 1995-96, India's economy grew by 6.8% while the government is aiming at cutting the fiscal deficit to 5% of GDP from 5.8% in the preceding fiscal year. Although still at a low level, foreign direct investment has risen steadily in the past few years and reached nearly US$ 2 billion in 1996.

Yet the government's free market push with its emphasis on all-out deregulation and reduction of subsidies for food and other commodities is taking a heavy toll on workers' living standards. In the name of opening up the economy, the government has allowed more freedom to the private sector without any control on its greed for profits at any cost. Thousands of jobs have been slashed and factories closed without any consideration for social consequences. Whereas Indian law prohibits unprofitable companies from sacking employees or even closing down, those with resources shed labour by other means in a move to cut costs and improve productivity.

The Delhi Declaration issued at the end of the last SAARC meeting (May 1995) calls for deregulation of markets in the region to promote economic growth and reaffirms commitment to full implementation, as scheduled, of the Final Act of the Uruguay Round of multilateral trade negotiations. In parallel, it is to be expected that the World Bank inspired policies implemented by SAARC states will put increased pressure on workers and probably lead to important reforms in labour legislation. It is also worth underlining that, in this Declaration, the Heads of State "called upon countries to refrain from erecting trade barriers in the guise of promotion and protection of workers' rights. They deplored the tendency to impose any conditionalities on international trade, whether as a "social clause" or as an "environmental clause" while reiterating their commitment to ensuring workers' rights as well as protection of the environment".

India's new foreign policy aimed at promoting regional harmony, particularly with regard to Pakistan, and the type of economic co-operation which exists in other parts of the world could give a new boost to the establishment of a free trade zone agreed upon between the SAARC member countries. The South Asian Preferential Trade Agreement (SAPTA) providing for tariff reductions on specified items and commodities, is a first step in this direction. Much will depend on the way relations between India and Pakistan develop in the next few years, in particular on the Kashmir issue. The resumption of talks at high level between India and Pakistan in March 1997, after three years of unremitting tensions and non dialogue has raised hopes of reducing decades of hostility. This might help iron out differences and pave the way for regional development.

2. India in South East Asia

The role India could play in South East Asia in the next century has become a new point of focus and the relevance of regionalisation integration processes (NAFTA, ASEAN, APEC, EU) throughout the world have been the subject of vigorous debate. India is not only seen as a power able to attract the bulk of foreign investment from within Asia, rather than from Europe and North America but also to counterbalance the growing significance of China on the regional chessboard. As stated by a government official "While ASEAN is cultivating China, it is also fearful of its fast growing influence ... On its own, despite its considerable economic clout, ASEAN is not in a position to counter China. It is only India which can play that role"[74]. In the longer term, India is bound to be a key player in the regional economy. Its renewed interest in South East Asia and application for APEC membership, are an indication of its eagerness to be involved and take advantage of these processes. Unions will have to monitor these developments very closely and muster their collective strength to ensure that social issues are placed on government agendas and labour standards effectively promoted in the various fora in which India will eventually participate.

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[74] The Hindustan Times, 16 February 1997

CONCLUDING REMARKS

The changes taking place in India following the liberalisation and deregulation of a previously highly protected economy pose the greatest challenge to the labour movement. There are job losses in the organised sector and an expansion of the unprotected, informal sector. A fragmented trade union movement can hardly cope with this process and provide appropriate responses. The need for greater unity and joint action is imperative at this juncture in order to counter new management strategies designed to weaken the trade union base and bargaining power. Under the present economic climate, unions cannot continue to function as they did in the past as the extended arm of political parties. They have to re examine their role and structures, and re focus their activities so as to effectively deliver the services which are expected from them.

As stressed by several union representatives throughout the mission, education of membership and organising are important tools to strengthen the trade union movement in India and help overcome some of the problems labour is facing. The educational programmes carried out so far have proved very useful to union members in their daily union work. They have helped to make them more effective in consultations and negotiations in different fora and on different issues. These programmes have to be continued and enlarged so that workers at all levels have the possibility to acquire the necessary knowledge and self-confidence which would also make them less exposed to the magnanimity of certain leaders mostly interested in promoting their own image.

With this objective in mind, affiliates should endeavour to develop long term and comprehensive training programmes based on a clear assessment of their educational needs. Such long term planning would help to avoid so-called "routine" seminars which are inadequate in meeting workers' requirements and expectations. Unions should further consider how to become self-reliant in implementing these programmes and, if need be, envisage introducing an educational fee to finance them, as has been done by other unions. In these programmes, special attention should be given to women and young workers, and social policy issues affecting metalworkers.

Organising is another lever and campaigns have to be launched by the local unions themselves to recruit new members, particularly in the private sector which is bound to play a prominent role in the years to come as the result of the opening up of the economy. Organising campaigns should also target workers in subcontracting firms. Some initiatives have been taken in this regard, for example, by IMF affiliates in the Pune area, and have to be consolidated. The IMF Indian Council should also contribute to developing new ways of approaching metalworkers in the new industries which are emerging as a result of the opening up of the economy.

Restructuring and deregulation often create antagonisms and conflicts of interest between permanent and contract or temporary labour. Solidarity between permanent and contract workers is practically non-existent and the majority of the unions representing the first do not bother about the latter. As part of the implementation of the IMF Action Programme, the issue of solidarity building between these two groups and with other unprotected workers should be addressed, in particular during training courses.

Research has to be integrated into union policy making and more resources allocated to research projects in the field of, e.g. employment and labour market measures, wage structure and demands, contract labour, new work organisation, companies' performance analysis. There is a need to continuously update economic and social information to keep members well informed on policy developments and strengthen the unions' capacity to play a role in policy-making at national and regional levels. Furthermore, efforts displayed in this field would help identify issues which could be put on the agenda of the IMF and, more generally, the international trade union movement.

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The International Metalworkers' Federation was founded in 1893 and represents the collective interests of some 19 million members in 173 unions in 92 countries worldwide.

It is one of the largest and oldest of the International Trade Secretariats, dealing with such industries as steel, shipbuilding, automobile, aerospace, electrical and electronics. In addition to industrial departments, the IMF's Geneva headquarters has special departments for Eastern and Central Europe, the Mediterranean basin, Africa, Asia, equality of opportunity, economic and social research, education and health and safety.

The IMF publishes comprehensive reports on trends in international metal industries, including the unique *Purchasing Power of Working Time: An International Comparison*. The IMF also produces a journal, the *IMF News*, as well as providing the *Fax News* service, to keep its affiliates well informed.

In addition to organising industrial and regional conferences, the IMF brings together trade union representatives to discuss international union policy on subjects such as working time, new technology, industrial democracy and workplace health and safety.

In the 1990s, the IMF, jointly with its affiliated unions, has increasingly organised meetings of World Company Councils, bringing together workers from the same company employed in different countries.

The IMF also presents the metalworkers' case in bodies such as the ILO, the OECD and various United Nations agencies, as well as in discussions with officials of the World Bank and the International Monetary Fund.

The IMF has offices in Africa, South Asia, East Asia and Latin America, to help metal unions develop in these parts of the world. Reflecting the rapid growth in economic activity in Asia, new sub-regional structures are being established in this area in order to facilitate and support trade union activities.

Forty percent of the IMF's income is earmarked for international solidarity assistance and is used to help newly established unions to develop the human skills they require and to participate in IMF conferences.