

Neoliberal Globalisation, Economic Restructuring and Labour: Understanding 'Postindustrial' with special reference to India

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'Catching Up': An Elusive Milestone

By the end of the twentieth century, the international inequality in wealth distribution attained an amazingly high degree on the 'scale'. Wealth is heavily concentrated in North America, Europe, and high-income Asia-Pacific countries. Collectively they own nearly 90 per cent of world wealth. North America has 6 per cent of the world adult population, while 34 per cent of world's household wealth. For Africa, China, India, and lower income Asian countries, share of wealth is considerably less than population share, sometimes by a factor of more than 10. Europe's share in the world total population is less than that of India. On the other hand, India's wealth share is 1 per cent while that of Europe is 30 per cent. Similarly North America's wealth share is 34 per cent, and rich Asia-Pacific's 24, while that of Africa is 1 per cent, China 3, Latin America and Caribbean 4, and other Asia Pacific is 3 per cent (Davies *et. al.* 2006). Although wealth distribution, say, in the initial years of the earliest globalisation of trade and finance during the period 1870-1914 are imperative, wealth inequality afterwards, till the beginning of the new era of globalisation, is a derivative of income inequality produced through the 'centre-periphery' relations. Towards the end of the twentieth century, 56 per cent of world population in the low-income third world—including Sub-Saharan Africa, South Asia and China, and excluding low-income countries of the former USSR—had a share of less than 5 per cent of world income, while less than 15 per cent of world population in rich countries had a share of 80 per cent of world income.¹

By the end of the World War II, a group of countries—Argentina, Brazil, Chile, Mexico, India, Indonesia, South Korea, Taiwan, Thailand, Malaysia and Turkey (in short, 'The Rest' à la Amsden 2001)—with manufacturing base of and experiences in textiles and light consumer goods raised the hope of the South's 'catching up' the North in the following years. Indeed manufacturing output (real) grew at the annual average rate of 9 per cent in 'The Rest' during the period 1960-1995, while that in the North Atlantic countries—i.e., 14 European countries plus Australia, New Zealand, Canada, and the United States—was, on an average, less than 4 per cent.

However, the 'catching up' process varies across countries. In 1870, India's per capita GDP was 25 per cent of that of an average North Atlantic country. It gradually declined to 10 per cent in 1950. Despite postcolonial India's planned drive toward industrialisation, income-gap continued to widen thereafter. India's per capita GDP remained only 9 per cent of that of an average North Atlantic country in 1995 (Table 1). Similarly, Latin America and Africa slipped down gradually as compared to the North during the post-war period. Only a few among 'the rest' like South Korea and Taiwan

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¹ Computed from World Bank, *World Development Report*.

have achieved significant rate of growth in manufacturing and thus been able to reduce the North-South income-gap to some extent (see Table 1).

Table 1: Per capita GDP by Region, 1870 to 1995 (1990 International Dollars)

Sl.	Region (1)	1870	1913	1950	1973	1995
(a)	North Atlantic Economies (2)	2,238	3,957	5,676	12,412	17,761
(b)	Latin America	760	1,439	2,487	4,387	5,031
(c)	Asia	582	689	708	1,701	3,267
(d)	Africa	450	575	830	1,311	1,221
(e)	The 'Rest' (3)	717	913	1,074	2,245	7,122
	Argentina	1,311	3,797	4,987	7,970	8,130
	Brazil	740	839	1,673	3,913	5,279
	Chile	na	2,653	3,827	5,028	8,794
	Mexico	710	1,467	2,085	4,189	5,093
	India	558	663	597	853	1,537
	Indonesia	657	917	874	1,538	3,393
	South Korea	na	948	876	2,840	11,868
	Taiwan	na	794	922	3,669	13,028
	Thailand	717	846	848	1,750	6,491
	Malaysia	na	na	na	na	7,808
	Turkey	na	979	1,299	2,739	na
Ratio						
	(b)/(a)	0.34	0.36	0.44	0.35	0.28
	(c)/(a)	0.26	0.17	0.12	0.14	0.18
	(d)/(a)	0.20	0.15	0.15	0.11	0.07
	(e)/(a)	0.32	0.23	0.19	0.18	0.42
	India/(a)	0.25	0.17	0.10	0.07	0.09

Notes: (1) Regional averages are computed by summing the GDP for a whole region and then dividing by the region's total population. (2) North Atlantic economies are a simple average of 14 European countries plus Australia, New Zealand, Canada, and the United States. (3) 'The Rest' excludes China.

Sources: Country averages except for 1995 adapted from Maddison (1995). [Amsden 2001].

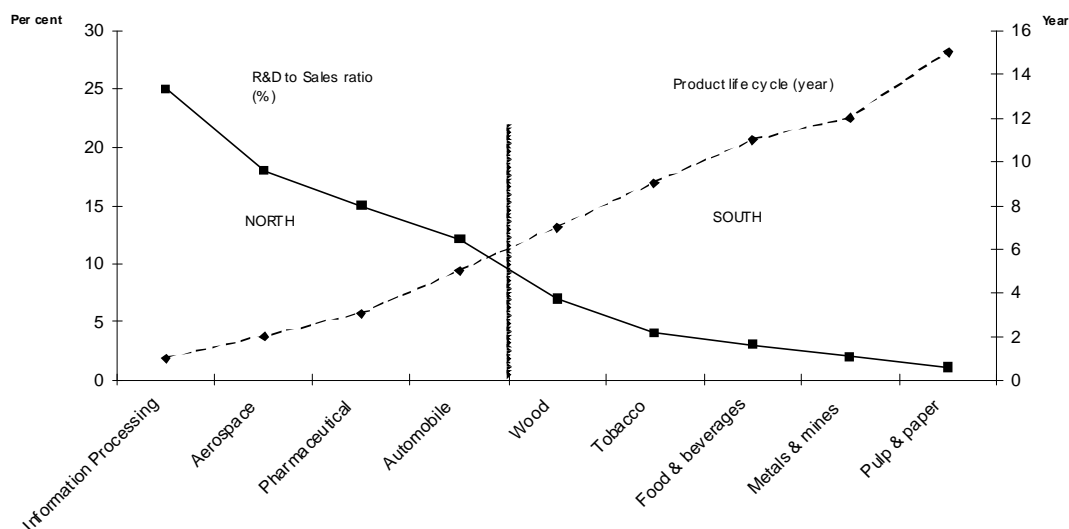
One of the principal hurdles to 'catching up' by an average country in the South is the fact that the world market for manufacturing is divided very sharply, based on R&D intensity of a product. Either, the latter decides the life cycle of a product, or *vice versa*. The higher the R&D-to-sales ratio the shorter is the length of product life cycle and *vice versa*, like in information processing, aerospace, pharmaceutical, and automobile, in that order. Products like wood, tobacco, food and beverages, metal and mines, pulp and paper are on the other end of the product horizon with low R&D-to-sales ratio and longer product life (see the indicative Figure 1). The former group of products are concentrated in the North following the logic of 'core competence', while the developing countries are found to have competitive advantages in the latter.

No matter what advantage the South has in terms of wage costs in, say, pharmaceuticals, she is no competitor of the North. Drug discovery and development is a multi-billion dollar global industry and country like India's stake in it is in decimal points. What is happening in India is just peripheral research where the industry is developing new formulations of existing drugs or new routes of drug delivery (e.g., delivering prescription drugs to customers in Europe and North America 'illegally' *via* e-marketing). A large proportion of drug and pharmaceutical exports from India consists of toiletries—which go in the name of *herbal medicine*, having very little of R&D as input—while the export values of drug and pharmaceuticals look quite impressive.

Further, India incidentally has emerged as one of the largest exporters of computer software services in the South. Notwithstanding high growth rate, India's exports have been largely low value output (Nasscom, various issues). What are missing from the software export-basket are software products and packages. Major IT services that constitute the global market are R&D-intensive systems integration (more than 20 per

cent), processing services (15 per cent), information services outsourcing (15 per cent), and packaged software support services (13 per cent). In all of these areas, India's share is less than 0.3 per cent. However, in 'custom applications', which constitutes less than 4 per cent of the global IT services market, India's share is more than 20 per cent (*ibid*).

Figure 1: Interrelationship between product life cycle and R&D



The North-South segregation in the global market for manufacturing gets reflected in the commodity-composition and direction of trade from the developing countries (see Table 2). During the period 1980-2003, exports of labour-, and resource-intensive manufactures from the developing countries have grown significantly. In 2003, the latter's share in aggregate exports from the developing countries was 21 per cent, while high-skill and technology-intensive manufactures constituted merely 7 per cent.

Table 2: Composition of developing-economy exports to developed countries, 1980-2003 (shares, *per cent*)

Exporting economies (all developing)	1980	1990	2000	2003
Agricultural products	13.2	15.1	8.9	9.2
Minerals, ores and metals	4.7	4.6	2.7	2.5
Mineral fuels, lubricants and related materials	65.0	23.7	14.2	12.2
Labour-, and resource-intensive manufactures	9.4	24.6	20.3	20.7
Low-skill and technology-intensive manufactures	1.6	5.1	5.3	5.6
Medium-skill and technology-intensive manufactures	1.0	7.4	14.1	15.6
High-skill and technology-intensive manufactures	1.7	5.0	6.3	6.9
Electronics excluding parts and components	1.4	7.7	11.2	12.9
Parts and components of electrical and electronic goods	1.9	6.8	17.0	14.4
Total merchandise exports	100.0	100.0	100.0	100.0

Source: UNCTAD, TDR 2005.

The composition and direction of the South's trade, to a great extent, is the result of R&D performance of the South in relation to the North. While in countries like India, gross expenditure on R&D per inhabitant is PPP\$ 20 that in Germany \$ 678 or in the U.S. is \$ 1,006 (Table 3).

Table 3: Gross expenditure on R&D per inhabitant (in PPP\$), 2002

India	China	Brazil	Germany	France	United States	Japan
19.8	56.2	75.0	678.3	591.5	1005.9	836.6

Source: UNESCO Institute for Statistics estimations, December 2004

India's poor performance in R&D, in product as well as process innovation, as compared to the developing countries like China or Brazil explains her retreat from catching up the North through industrialisation. Based on the number of patents applied for, it shows India is not among the top 30 countries—China is fifth after Japan, U.S., South Korea and Germany. Countries like Brazil, South Africa and Israel are far ahead of a retreating India.²

Thus, it is not surprising to find that manufactures based on labour and natural resources as proportion of total non-oil Indian exports, which constituted 40 per cent in 1980, increased to about 60 per cent in 2000.³ Ghana, India, Morocco and Turkey, among other developing economies, experienced the largest increase in the share of labour- and resource-intensive manufactures, while countries like Taiwan, South Korea managed to pull down the importance of this product group along with the drop in the share of primary commodities, during the period 1980-2000.

Following the 'logic' of emerging nature of manufactured goods, the OECD countries those had consumed 66.1 per cent of India's exports in 1960-61, gradually reduced the same to 53.5 per cent by 1990-91. The LDCs in Africa, Asia, Latin America and the Caribbean constituted 15 per cent of India's exports in 1960-61. Over three decades this increased by only two percentage points to 17 in 1990-91. There was a substantial increase in the importance of South countries in India's exports, to 27 per cent in 2000-01. In 2000-01, if OPEC countries were included, the share of the South (excluding Eastern Europe) in India's exports was 38 per cent, as compared to OECD's reduced share of 52.7 per cent.⁴ The considerable share of OECD in India's exports is however misleading in the present context unless the export-basket is carefully analysed.

India is the world's biggest diamond and gemstone cutting centre, and polishes more than 70 per cent (in weight) of the global diamond yield. The gems and jewellery industry is now India's single largest export earner and constitutes about 24 per cent of manufactured goods exports. The United States is the single largest importer of gems and jewellery from India, besides significant imports by Belgium, Japan and Switzerland. 'Readymade garments' is the second most important item in the export-basket constituting more than 10 per cent of aggregate manufactured exports of India, bulk of which is directed to OECD. Leather and leather products also constitute major exportable to OECD (RBI, 2004-05). Incidentally, all of these are heavily produced by labour-intensive methods and mostly in the unorganised sector.

² Based on World Intellectual Property Organisation (WIPO), WIPO Industrial Property Statistics [URL: <http://www.wipo.int/ipstats/en/statistics/patents/filed/source.html>]

³ The figures as quoted in UNCTAD, *Trade and Development Report*, 2003, Table 5.8, have been revised in the light of the fact that although 'gems and jewellery' is the single largest export item from India it has not been included in this group of manufactures. Instead it is included in "Other manufactures" and classified under Group V (High technology intensity). If we exclude Gems and jewellery from the latter group of manufactures, for obvious reasons, 'high technology intensity' exports from India would rather show declines during the period 1990-2000.

⁴ Based on GoI, 2003-04: Table 7.4.

Shadow of ‘Centre-Periphery’ on Globalized Trade

During the period 1980-2004, there was more than four-fold increase in value of world exports (in U.S. dollars). Aggregate exports from the developing countries was about five-times more in 2004 as compared to the value of exports in 1980, while that of the developed countries increased by 4.3 times.⁵ On the other hand, imports of the developing countries during the period increased at a still higher rate; there was about six-fold increase. And, the developed countries’ imports—increased by about 4.2 times—lagged behind the developing countries (UNCTAD 2005b). This shows, among others, that trade liberalisation is fast replacing the import-substitution strategy that occupied the centre stage in the development agenda of most of the post-War developing countries.

It is important to recognise that the growth in value of trade is greater than that in income, and thus implies *ultra-pro-trade biased* growth. The median growth rate of world output, during the period 1990-2005, was 2.6 per cent per annum; in the developed countries it was 2 per cent, while in the developing countries 4.8 per cent. In China⁶ as well as India the growth rate however was exceptionally high: in China it was 9.05 per cent, and in India 6.25 per cent. Still higher was the rate of growth in trade in these countries. It grew at the median rate of 24 per cent in China and 9.5 per cent in India, while the average developing country’s trade grew by 8 per cent. On the other hand, the growth in trade of the developed countries was comparatively much lower, at 4 per cent per annum.⁷

Although trade as a ratio of developing South’s gross domestic product (GDP) has accelerated since 1992, it was not insignificant before. Trade in goods and services did constitute nearly 50 per cent of GDP in 1980; a ratio higher than in the high-income countries (World Bank 2004). However, the distinctive feature since the early 1990s is the emergence of China very strongly. The newly industrialising economies in Asia (NIEs)⁸ and India have been following China in the formation of the new geography of global trade.

In 1980, trade in goods and services as proportion of GDP (at constant US\$) in the developing countries was about 50 per cent, and that in the high-income countries was less than 30 per cent. These together resulted in a world trade that constituted 31 per cent of world output. The proportion since then has increased: more than half of the annual world outputs are now globally traded (World Bank 2004). Notwithstanding, there are still hindrances to global integration.

Trade statistics since the mid-1980s reveal three distinctive features of development. First, it is the deceleration in the average annual rate of increase of developed countries’ market share in world exports. During the period 1970-1980, the *rate* was 19 per cent. Thereafter, it came down to 7 per cent during the 1980s, and further to 6 per cent during nineties. The first three years in the new millennium witnessed further decline of the developed countries’ share in world exports. The developing South’s combined market share in world exports thus increased annually from an average of 3 per cent per annum in the 1980s, to 9 per cent in the 1990s (UNCTAD, 2005c: Table 4.2). Imports too exhibited

⁵ Unless otherwise mentioned South-East Europe and the Commonwealth of Independent States (CIS) are excluded from this exercise for the very reason that their development processes until 1990s were different from the rest of the world in many respects.

⁶ Unless otherwise mentioned ‘China’ refers to mainland China in this text.

⁷ Based on UNCTAD 2005c.

⁸ First-tier NIEs: Republic of Korea, Taiwan Province of China, Hong Kong (China), and Singapore.

similar trend. It may so happen that the *higher rate* in fact reflects the lower base with which the developing countries began their journey.

Second, despite very major growth in the movements of merchandise across the national boundaries, the North-South divide is still quite noticeable. In 1965, intra-North trade constituted 67 per cent of the North's aggregate merchandise exports—i.e., only 33 per cent were exported to the South. The *ratio* had marginally increased to 68 per cent in 1985. However, during the high 'tide' of globalisation, the intra-North trade rather increased to 75 per cent. The same *trend* is visible in both the manufactures and primary groups of commodities (Table 4). The North-South income differential—i.e., the buying capacity of the South for North's products—may explain, at least partially, the outcome. Alternatively, North's commodities perhaps are not competitive in the South's market. But then one has to explain why the share of developing countries' exports of manufactures to the developed countries reduced by about 4 percentage points, between 1985 and 2003.

Table 4: Trade relations between the developed and developing countries, trend during the period 1965 – 2003 (% share of the exporter's total)

Importer →		1965		1985		2003	
		Developed	Developing	Developed	Developing	Developed	Developing
Exporter ↓	Developed countries						
	All merchandise	67.2	22.6	67.5	22.1	74.7	21.7
	Manufactures	64.5	26.4	67.0	24.0	74.0	22.6
	Primary commodities	75.2	15.2	71.6	16.9	78.0	17.3
	Developing countries						
	All merchandise	68.9	25.1	60.3	26.9	53.8	43.4
	Manufactures	53.4	43.8	58.3	33.7	54.4	44.2
	Primary commodities	71.7	21.8	59.4	18.2	52.6	40.8

Source: UNCTAD, 2005c.

Notes: The shares of South-East Europe and the CIS countries are not included in this table, which explains why the shares do not add up to 100.

Over a long period of historical time ever since capitalist colonialism came to rule the world in the early nineteenth century, 'dependent' South used to export primary goods to the North in lieu of manufactured goods from there. As late as in the 1960s, about three-quarters of the aggregate exports of primary commodities from the developing countries did find markets in the developed countries. However, in a span of 40 years, the *ratio* has declined to 53 per cent (Table 4). In fact, of the total merchandise exports from the South to the North, agricultural products and, minerals, ores and metals together constituted about 18 per cent in 1980. By 2003, that percentage declined to 12 per cent. Most remarkable is the diminishing relative dependence of the developed countries on mineral fuels, and lubricants from the developing countries (Table 2).

Further, the developed countries used to import US\$ 15.6 billion of primary commodities from the developing countries, in 1965. In the next 38 years there has been almost 17-folds increase in the value of primary goods exported from the South to the North. However, the reverse process appears to have accumulated more steam. Although the North is still net importer of primary goods from the South her exports of those to the developing countries increased by about 22 times, from \$6.2 billion to \$136.2 billion during the period 1965-2003.

Declining North-South share in trade notwithstanding there has been stupendous growth in the volume of merchandise exports of the South to the North. In fact, all along the last 40 years about, the value of exports—of both manufactures and primary commodities—of the South to the North had been greater by a considerable margin than that of the intra-South (Table 5a). The trade of China with the U.S. and Western Europe perhaps is crucial to the phenomenon. Imports into the South from the North also increased very significantly (Table 5b).

Table 5a: Merchandise trade (US\$ billion) between the developing and the developed countries, 1965–2003

Importer → Exporter— Developing countries ↓	Importer—Developed countries			Importer—Developing countries		
	1965	1985	2003	1965	1985	2003
All merchandise	17.6	217.8	1,141.7	6.4	97.0	921.4
Manufactures	2.0	74.3	879.1	1.6	43.0	714.3
Primary commodities	15.6	131.9	258.3	4.7	40.3	200.2

Source: UNCTAD 2005c.

Third notable feature of the emerging pattern of global trade is faster growth in the South-South trade. The South-South trade as a percentage of total developing-country exports has steadily increased from 23 in the 1970s, to 30 in the 1980s, to 39 in the 1990s, and further to 41, during 2000–03. However, bulk of these increased trade constituted agricultural products, and fuels, minerals and metals. The rate of increase in South-South trade in manufactures is not comparable to the latter—the *percentage* of which was 34 in the 1970s, and later declined to 42 in 2003.

Table 5b: Merchandise trade (US\$ billion): Developed countries exports to developing countries, 1965–2003

Importer → Exporter— Developed countries ↓	Importer—Developing countries		
	1965	1985	2003
All merchandise	29.3	279.2	1,033.4
Manufactures	22.6	221.2	864.3
Primary commodities	6.2	50.5	136.2

Source: UNCTAD, 2005c.

To note, a substantial part of the statistical increase in South-South trade in manufactures is due to double counting associated with intra-regional production-sharing (or, trade in semi-manufactures) in East Asia for products eventually destined for exports to developed countries. It is also due to double counting associated with the function of Hong Kong (China) and Singapore as transshipment ports or regional hub ports.

Keeping that aside, in the South-South trade, it is Asia that dominates by accounting for more than half of aggregate South-South commodities exports, and almost 70 per cent of South-South commodities imports. Further, there is a ‘new’ trade-distribution within the South. The first-tier NIEs and China together contributed almost 50 per cent in developing-country exports to developed countries, in 2003, while it was 8 per cent in 1965.

The intra-developing Asia trade increased at a faster rate than South-South trade as a whole, between 1990 and 2003. The share of developing Asia (excluding Central and West Asia) in intra-developing country exports was 62 per cent in 2003, while the share

of other developing regions in America and Africa was less than 28 and 12 per cent, respectively. On the import side, developing Asia accounted for 70 per cent of the total intra-developing country imports (UNCTAD 2006).

On the whole, about 37 per cent of the aggregate commodity exports of developing Asia used to remain within developing Asia, in 1990.⁹ This *proportion* has steadily increased to 53 per cent in 2003. Japan was the destination of 33 per cent of developing Asia's exports in 1990. However, by 2003, China has become the prime destination of developing Asia's exports with 20 per cent share of it, replacing Japan whose share by now has reduced to 18 per cent (UNCTAD 2006).

The explosion of export-import business of China, especially since the early 1990s, owes to the massive growth in the U.S. imports of merchandise from China (Table 6). While the U.S. commodity trade deficit with the OECD declined from 54 per cent of the U.S. total to 45 per cent during the period 1996-2005, the same with China increased from 23 per cent to 26 per cent (Table 7). Excepting Japan to some extent, no country in OECD is nearer to the U.S. in terms of values of imports from China during the last 10-15 years. Low value-added commodities such as toys and games, furniture, apparel, footwear, plastics articles, leather and travel goods, and automobile parts, together constitutes more than one-third of the U.S. imports from China.

Table 6: The U.S. trade with China (\$ billion), 1995-2005

	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	Annual trend rate of growth (%)	\bar{R}^2
U.S. Imports	45.6	51.5	62.6	71.2	81.8	100	102.3	125.2	152.4	196.7	243.5	7.01	0.9866
U.S. Exports	11.8	12.0	12.8	14.3	13.1	16.3	19.2	22.1	28.4	34.7	41.8	5.61	0.9174

Source: U.S. International Trade Commission Web site, 2006.

Note: U.S. exports reported on FAS basis; imports on a general customs value, CIF basis.

Trade-led growth in China has not only transformed it into the 'trade hub' of the developing Asia, its imports from Australia quadrupled in the 1990s as it sought new sources of metals. China imports strategic metals such as copper, tin, iron ore, platinum, and aluminium from as far as Chile, and Brazil, and many other countries like Indonesia and Malaysia. It sought agricultural and timber imports from everywhere, and Chinese demand for scrap metal became as enormous as to raise prices all over the globe (Harvey 2005).

Table 7: The U.S. commodity trade deficit (billion dollars) with OECD and China, during 1996-2005

Country/ Region	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
with, China	39.5	49.7	56.9	68.7	83.8	83.0	103.1	124.0	162.0	201.6
with, OECD	91.4	96.0	130.7	181.1	226.8	227.5	255.7	272.0	319.1	345.9

Source: The U.S. International Trade Commission Web site, 2006.

Pro-high labour standards OECD countries accounted for more than half of the U.S. aggregate trade deficit until 2003. The U.S. trade deficit in manufactured goods (SITC-6) with OECD which was 63 per cent of the manufactured total in 1996 gradually declined to 42 per cent in 2005, despite there being faster increase in U.S. imports of manufactured goods from OECD than her exports to OECD during 2003-05.¹⁰ It was the phenomenal

⁹ Admittedly, the results of trade dynamism analysis are sensitive to the period chosen. But reliable export data on Asia are perhaps not available for a longer period, especially as one includes China in the data-set.

¹⁰ Source: U.S. International Trade Commission Web site 2006.

growth of the U.S.-China trade largely through the supply chains of Wal-Mart¹¹ and similar others¹² that together have shifted the U.S. trade balances somewhat away from the OECD countries. Wal-Mart imports from China alone valued US\$ 18 billion in 2004. And, Wal-Mart alone accounted for about 1/10th of the U.S. trade deficit with China in 2005.¹³

More than 3,000 manufacturing units in China are feeding the supply chains of the 3,500 stores of Wal-Mart in the United States, the largest profit-making enterprise in the world. Shenzhen (China), the home of Wal-Mart's global purchasing headquarters, was nothing but a fishing village 25 years ago when it was picked up by government officials to become the showplace of China's economic resurgence. Now this city of 10 million rivals Hong Kong as a hub in the trading network.¹⁴

With by far the world's largest manufacturing workforce, at more than 100 million, China is widely known to have low labour costs. As Banister (2005) reports, employees in China's city manufacturing enterprises received a total compensation of US\$ 0.95 per hour, while their non-city counterparts averaged less than half of that: \$0.41 per hour. Altogether, with a large majority of manufacturing employees working outside the cities, the average hourly manufacturing compensation estimated for China in 2002 was \$0.57, about 3 per cent of the average hourly compensation of manufacturing production workers in the United States and of many developed countries of the world. Equally as striking, regional competitors in the NIEs of Asia had, on average, manufacturing labour costs more than 10 times those for China's manufacturing workers; and Mexico and Brazil had manufacturing labour costs about 4 times those for China's manufacturing employees. China is thus eating up jobs from the middle-income countries in the South even.

Wal-Mart being the dominant retailer in the United States and employing more than 1.3 million workers in the country alone, its wage rate has a dominant influence on the country's wage-level. The average per capita earnings of employees in the retail sector in the U.S. is far lower than in other industries, with a median hourly wage of \$9.71. Adjusted for inflation, the real value of wages in the retail sector fell between 1970 and 2004, and median hourly wages in general merchandise stores, the sector of the retail industry that Wal-Mart and other discounters are categorised, is even lower—\$8.66 per hour in 2003.¹⁵

The low-wage based supply chains have great impact on the labour markets in the countries that get integrated to the chains. Wal-Mart entered the Mexican market in 1991. With roughly 101,000 employees, it is the country's largest private employer. It also controls a market share which is larger than that controlled by its three closest competitors combined (Tilly 2006). By dint of having the supply chains from China, Wal-Mart could easily squeeze the Mexican suppliers—ask for several kinds of business

¹¹ World's biggest company, measured by the size of its revenue, until Exxon Oil displaced it late last year.

¹² That includes Target (discounters and mass merchandisers), Home Depot (home improvement centres), Costco and Sam's Club (warehouse clubs), Gap and the Limited (apparel speciality), Dell and Hewlett-Packard (computer hardware), Best Buy (other speciality).

¹³ Wake-Up Wal-Mart, "The real facts about Wal-Mart", [URL: <http://wakeupwalmart.com/facts/>] Accessed on 31 July 2006.

¹⁴ Wal-Mart opened its first buying office in Hong Kong in 1981.

¹⁵ Karjanen (2006); based on U.S. Bureau of Labour Statistics, Occupational and Employment Survey Data, Panel Years 1964-2003.

discounts—the brunt of which ultimately has to bear by the workers with reduced wages and social security, or longer working hours. Thus, the low-wage supply chains of China—like the one of Wal-Mart—have a depressing effect not only on the U.S. labour market but also in other trading partners of the U.S., since the U.S. merchandise exports alone constitutes about 9 per cent of the world total merchandise exports, and since the relative wage costs of the major trading countries would tend to be pegged to the U.S.

China, on the other hand, has been a tougher market to crack for smaller and mid-sized American companies, like those selling bicycles, vacuum cleaners, and lawn mowers, who face stiff price competition from Chinese manufacturers of these products.¹⁶ China's currency, which is pegged to the U.S. dollar, is a major point of strife with many U.S. manufacturers and trade groups. Moreover, a population that earns only a fraction of what U.S. consumers make, and therefore, lacks the purchasing power to buy consumer goods made in America.

The average real wage in the U.S. showed symptoms of decline for the first time in over a decade, in 2005. The decline in wages is a product of increased inflation, combined with a persistently poor job market that has made it hard for workers to renegotiate real improvements in living standards. Nominal yearly growth in compensation and wages for all workers has been decelerating since 2000, and it has levelled off in recent months at around 2.5 per cent, well below the historical average for this series.¹⁷

Though wages in the developing countries are lagging much behind the U.S., yet in the globalized trade regime the relative wages in the former are pegged to the U.S.; and every country having strong trade relations with the U.S. would try to maintain the relative wage, as far as possible, lest the exchange rate need revisions.

'Dollar Empire' restricting economic choice

Most of the developing countries record a surplus on their current account. And, there is a build-up of foreign currency assets, which is especially noticeable in Asia, and more so in India and China. During the last 15 years, external reserves of the developing countries together grew more than 572 per cent. Most dramatic increase in foreign reserves is recorded in Asia and Africa than in South America or Other America. Country-wise, China's reserves grew more than 1,468 per cent, while that of India's more than 660 per cent (Table 8).

The swelling of reserves in these countries and regions occurred strongly during the last couples of years when the absolute volume of the U.S. trade deficits have been accelerating. As the volume of trade grows, the necessity for increased reserves also grows. Every country would like to keep at least as much of reserves as would be required for her expected import bills for the coming couples of months—i.e., the adequacy norm of international liquidity—although it is true that a country can hardly come into a situation where she can export nothing but will import at the usual rate.

In 1980, an average developing economy used to maintain external reserves equivalent to 4 months of imports. In 2004, that has increased to 9.3 months' import-bill equivalent.

¹⁶ 'Is Wal-Mart good for America?', *Frontline*, November 16, 2004.

¹⁷ Economic Policy Institute, 'GDP Picture', 28 April 2006, Washington, DC [URL: <http://www.epi.org/>]

The *equivalence* was still greater in the faster growing import regions, namely, in East and South-East Asia, and more unexpectedly, in slow-growth Africa (Table 8).

Table 8: Change in external reserves (total reserves *minus* gold) of developing countries, 1980-2004

Region/Country	Change in external reserves (US\$ billion)						Growth (1990- 2004) (%)	Number of months of imports (a)				
	Annual average (1980- 1990)	Annual average (1990- 2000)	2001	2002	2003	2004		1980	1990	2000	2002	2004
Developing Economies	15.8	72.1	92.0	208.2	347.3	428.7	572.3	4.0	4.7	6.8	7.9	9.3
South America	0.3	7.4	(-)9.9	(-)3.5	25.5	16.9	223.7	5.6	6.7	8.7	9.1	9.6
Other America	0.6	3.5	12.1	5.6	9.2	8.3	220.4	1.6	2.3	2.5	3.5	3.9
Africa	(-)0.8	5.4	12.4	7.4	23.9	42.1	796.1	4.0	3.2	7.2	7.8	10.3
Asia	15.7	55.8	77.3	198.8	288.5	361.1	618.8	4.1	5.0	7.3	8.4	9.8
East and South												
Asia	16.8	50.8	79.6	182.2	272.3	349.3	654.5	2.8	5.0	7.4	8.8	10.5
China	2.7	13.9	47.3	75.5	117.0	206.3	1468.3	1.5	6.1	8.6	9.9	13.1
China, Hong Kong		8.3	3.6	0.7	6.5	5.2	-37.6		3.2	6.2	6.1	5.5
India	(b)	3.6	8.0	21.8	31.3	27.7	660.2	5.5	0.8	8.9	12.7	16.2

Source: Based on UNCTAD 2005b.

Notes: (a) Reserve stock of the year divided by the average monthly imports of the current and following year, as calculated in the *source*. (b) In India, total reserve was \$6.9 billion in 1980, and dropped to \$1.5 billion in 1990.

Holding foreign exchange reserves that support longer (than usual) months of imports have been most pronounced in China and India, though the volume of reserves hypothetically need not grow as fast as the volume of trade. The external reserves to external liabilities ratio has a dramatic fall in India (*RBI Handbook of Statistics*). Apparently a crisis of confidence is brewing; confidence on dollar decreasing yet everyone try to prevent a disaster. In fact, these dollar reserves of the poorer countries providing stability to the global finance market. In the past, the main surplus countries receiving the dollars from the U.S. deficits were the members of the European Economic Community (EEC) and Japan. The U.S. continues to play the role of World banker, and the economic benefits accruing to the world banker in the form of ‘seigniorage’, or simply the profits from banking. The phenomenon of seigniorage is one of the main sources of a transfer of real resources from the poorer to the richest nation of the world.

The International Monetary Fund (IMF) set up at Bretton Woods just before the end of the Second World War, was essentially designed to deal with the problems that had haunted international economic relations during the 1930s: competitive devaluations, discrimination in foreign exchange dealings and tariffs, lack of convertibility and disorderly capital flows. However, IMF’s provision of international reserves remained totally inadequate; it remained only a small part of total international reserves. An ‘in-built’ mechanism meanwhile has developed out of incredible growth in global trade, and subsequently the role of IMF has ‘shifted’ to something else other than managing international economic relations.

So long as the U.S. with very high trade deficit does not devalue dollar, the latter restricts income transfers to the South (through cheaper imports than otherwise would have been). The result: international income inequality continues to grow.

Besides, there is another critical dilemma of the developing economies. Exchange rate appreciation would harm the exporters, especially as trade among low-wage South countries assumes importance, and as the exchange rate differentials between these

countries are small. Either the entire major trading countries in the South, who have more-than-adequate reserves, simultaneously appreciate their respective currencies. Or else, the central banks have to intervene in currency markets to purchase foreign currency preventing revaluation—i.e., another round of reserve building.

However, the irony is that to facilitate capital inflows into the developing economy the exchange rate needs to appreciate. Failing to do that the developing countries try to insure increased return to foreign capital through labour market reforms (e.g., wage depression, lengthening working hours without compensation), or other organisational and institutional reforms (e.g., bending the laws and Constitution of the land in favour of the foreign investors, adopting policies towards forming Special Economic Zones or ‘special exploitation zone’ where the investors would enjoy tax holidays for a long period of time, get subsidised water and electricity, workers won’t have basic rights, and so on so that the rate of return to FDI does not suffer owing to *inflexibility* in exchange rate). Thus, the developing countries are beaten in both ways in the ‘new’ international economic order. The adjustment mechanism compels distortions in the development of underdevelopment.

Economic Restructuring

Industrialisation in the early developed countries (EDCs) was hand in glove with the development of capitalism in agriculture. By the end of the eighteenth century when industrial revolution taking place in Britain the country had achieved highest agricultural productivity among the European countries. As a result domestic demand for industrial goods prompted mass production of those goods, which had been so far produced in disparate small units by the craftsmen. Industrial revolution did not immediately bring in to the market products not been produced until that time. By contrast, in many of the LDCs, the route of industrialisation since the inception of current globalisation has taken a *detour*: ‘digital’ capitalism is unfolding very strongly without there being capitalism in agriculture or high agricultural productivity, while agriculture still provides livelihood to about 70 per cent of the country’s population. Capitalism is also not the characteristic feature in that part of manufacturing which provides employment to 93 per cent of the country’s manufacturing workforce.

Arthur Lewis’s ‘modern’ sector, in fact, is relatively small in size, and it would continue to be so in the foreseeable future, as (a) the sector becoming more and more labour-displacing, capital-intensive and computer-aided, and thus unable to absorb the vast potential migrants from the ‘traditional’ sector; and (b) trade liberalisation taking place at an ever increasing rate. The import-substitution strategy that boosted the dynamics of industrialisation in the postcolonial economies has been abandoned under pressure from abroad as well as the upwardly mobile segment of the ‘middle class’. However, there is perhaps no alternative for these underdeveloped agriculture dependent (employment-wise) countries like India to the nationalist policy of developing agriculture raising barriers to liberalised trade in agricultural products.

There are 23 countries in the world whose average agricultural GDP per economically active population (EAP) in agriculture was US\$ 43,510, in 2002 (at constant 1995 prices) (FAO 2004). This was an increase of more than 116 per cent over the average agricultural productivity in these countries during 1979-81. Average agricultural GDP per EAP in agriculture in OECD (30 countries) was, however, lower (i.e., \$32,034) since such countries as Czech Republic, Greece, Hungary, South Korea, Mexico, Poland, Portugal, Slovakia and Turkey whose agricultural productivity is comparatively lower are included.

Average agricultural productivity in the low income countries (LDCs), on the other hand, was \$461, in 2002. The productivity *gap* between the 23-country average and the LDC average was 94:1, in 2002. The average per capita GDP (at constant 1995 dollar prices) of the high-agriculturally productive 23 countries was five times more than the LDC-average during 1979-81, and which later increased to six times in 2002. Notwithstanding, the *gap* in agricultural productivity between LDC and 23-country increased from 1:60 during 1979-81, to 1:94 in 2002.

EAP in agriculture in high-productive 23-country was 10 million (or, 0.75 per cent of the world total EAP) as compared to 666 million in the LDCs (or, 49.4 per cent) in 2004. In other words, taking into consideration four dependents per EAP, about 2.66 billion people in the LDCs are dependent on an agriculture that is relatively highly unproductive.

More than one-fifth of the EAP in agriculture in the world are in India (Table 9). The weight of Indian agriculture—in terms of the population dependent on agricultural activities—in its national economy has reduced by more than 12 percentage points during the period 1980-2004. Yet, about 277 million people are still economically active in Indian agriculture. If the family members are included, not less than 800 million people are still dependent on agriculture.

Two issues come to the fore. First, the equilibrium principle in the era of globalisation would dictate that India should denounce or discourage agriculture and import agricultural commodities from the high-productive countries such as Argentina, Australia, Canada, France, Germany, Russia and the USA who together constitute about 64 per cent of world exports of cereals (FAO 2004). The productivity difference between India and U.S. is 1:134, and with Canada 1:107. This being the case apparently the well-being of Indian people would improve by importing foodgrains. The argument is sound provided the 800 million people is accommodated in the industrial and services sectors so that the displaced people have the minimum income-security so as to have access to the imported foodgrains.

Table 9: Economically active population (EAP) in agriculture, 1979 - 2004

Variable	EAP in agriculture				
	1979-1981	1989-1991	1999-2001	2003	2004
India as a ratio of World (%)	19.5	18.9	20.0	20.4	20.5
Low income countries as a ratio of World	43.9	44.7	48.0	49.1	49.4
	Share in total EAP in the economy (%)				
India	69.4	64.1	59.6	58.3	57.8
OECD (30)	15.0	11.4	8.4	7.6	7.4
OECD (20) (a)	8.0	5.8	4.2	3.7	3.6
Low income countries	75.5	71.7	62.9	61.3	60.8

Source: FAO 2004.

Notes: (a) OECD (20) excludes Turkey (whose 43 per cent of EAP is in agriculture), Poland (20 per cent), Portugal (11 per cent), Mexico (19 per cent), Greece (15 per cent), Hungary (10 per cent), Ireland (9 per cent), South Korea (8 per cent), New Zealand (9 per cent), and Slovakia (8 per cent).

Moreover, the productivity differences do not immediately get reflected in price differences. The total quantum of farm subsidies given by the developed OECD countries works out to 340 billion US dollars a year or almost a billion dollars a day, which does show that despite productivity advantages their products are not price competitive in the LDCs like India. The 'price-war' led to the collapse of the Doha round of the World Trade Organisation, in Geneva at a meeting in July 2006, between representatives of G6

countries (comprising Australia, Brazil, the European Union, Japan, India and the United States) and the WTO director general when the U.S. refused to bring down subsidies for its farmers. The key U.S. demand was the lowering of import duties on agricultural as well as non-agricultural products. High-pitch advocacy of free market capitalism notwithstanding the Hong Kong ministerial meeting of the WTO as well as at Doha strongly exhibited that the developing countries would receive differential treatment.

Beyond the debates on ‘trade distorting subsidies’ and as to the employment effect, the common understanding is that economic restructuring accompany economic growth. Kuznets (1971) saw income elasticity of demand as the primary reasons for changes in economic structure and away from agriculture. Kaldor (1966, 1967), on the other hand, considered manufacturing as the engine of growth. Agriculture, he assumed, is characterised by diminishing returns to scale—unlike the Kautsky-Lenin thesis (1902)¹⁸—and, thus not capable to sustain increasing level of production and income, and, therefore, manufacturing, without such limitations on expansion of production is the key to sustained economic expansion.

That neither the demand-side nor the supply-side argument on its own could explain the trajectory of structural change or the shift away from agriculture is amply evident. The average per capita GDP (at constant 1995 dollar prices) increased in the agriculturally highly productive 23-country by 48 per cent during the period 1980-2002, while the agricultural GDP per EAP in agriculture grew at a higher rate, i.e., by 116 per cent. This was possible by a synergy of industries producing labour-saving technologies and agriculture providing the ground of application of those technologies, while displaced labourforce found alternative economic means to survive. Unlike Kuznets’ closed economy model, these high-productive countries did find the much needed vent-for-surplus agricultural commodities in the world market. Failing which, they just dumped foodgrain in the seas in order to evade price crash in the domestic market.

There were, in India, 101.3 million holdings operated during the *kharif* season¹⁹ in 2002-03 and 95.7 million holdings operated during the *rabi* season (October–March) of the same agricultural year (NSSO 2006). Average area operated per holding reduced to 1.06 hectares in 2002-03, from 1.34 hectares during 1991-92, and from 1.67 hectares in 1981-82. In other words, there has been more and more fragmentation in operational holdings as certain economic classes of the EAP became more dependent on agriculture.²⁰ The size distribution of operational landholdings exhibited more or less the same concentration ratio (Gini coefficient) in 2002-03 as it was in 1991-92.

¹⁸ As Lenin (1902, 1954) puts it: ‘the “law of diminishing returns” does not at all apply to cases in which technology is progressing and methods of production are changing; it has only an extremely relative and restricted application to conditions in which technology remains unchanged. That is why neither Marx nor the Marxists speak of this “law”, and only representatives of bourgeois science like Brentano make so much noise about it, since they are unable to abandon the prejudices of the old political economy, with its abstract, eternal, and natural laws’ (p. 10).

¹⁹ The cropping season starts with the on-set of South-West monsoon and runs along with it till October.

This is the main and substantial agricultural season.

²⁰ Marginal holdings (of size 1 hectare or less) in 2002-03 constituted 70 per cent of all operational holdings, small holdings (size 1-2 hectares) constituted 16 per cent, semi-medium holdings (2-4 hectares), 9 per cent, medium holdings (4-10 hectares), 4 per cent, and large holdings (over 10 hectares), less than 1 per cent.

Here is the puzzle, following Lewis. The capitalist industrial sector in India has grown relatively fast yet the agricultural sector is to come out of its subsistence level (Table 10). During the period 1980-2002, the agricultural GDP per EAP in agriculture though marginally increased—from \$269 to \$385 (at constant 1995 dollar prices) (FAO 2004)—it is much lower than the average GDP per capita.

Table 10: India: Sectoral trends in labour productivity vis-à-vis national average (=100)

Sector	1981	1991	2001
Primary	57	49	40
Secondary	188	231	114
Tertiary	201	191	256

Notes: Sectoral (i-th) labour productivity is calculated as the ratio x_i / X to l_i / L ; where X and L are national GDP and employment, respectively.

Instead of declining, economic dependence on agriculture in fact has increased in India as well as in the LDCs. In India, it has steadily increased from 208.3 million during 1979-81, to 276.7 million in 2004. In the average low-income country, dependence among the EAP on agriculture increased at the rate of 42 per cent, whereas in India it was 33 per cent, during the period 1980-2004.

The rise in the EAP in agriculture turns out to be a 'net' global phenomenon despite decline in the same in many of the countries. The world is divided grossly between OECD (20) where the share of EAP in agriculture to the total EAP is less than 4 per cent and the LDCs where it is more than 50 per cent (Table 9). Under this condition of unevenness, if the developing countries open up to agricultural imports following the dictates of WTO the outcome would be nothing but explosion in global net unemployment. Even if labour mobility across countries was made free, this would be a long way from adequate solution of the problem of gainful employment for more than 666 million currently agricultural labourforce.

The countries those are lagging much behind the agriculturally advanced countries must have efforts to increase their productivity. There is no doubt about it. But what is doubted is the viability of the conventional path—i.e., capitalism in agriculture following the eurocentric Kautsky-Lenin thesis on 'agrarian question'. The latter thesis was based on the models of agricultural development in the U.S. and Russia, in particular, and Europe in general, where millions of hectares of cultivable land remained idle due the shortage of cultivators. In between 1850 and 1900, of the total population of not more than 320 million in Europe (Maddison 1995), more than 50 million people had migrated to countries such as Canada, America and Australia (Lewis 1977), landing Europe into severe shortage of agricultural labourforce.

If the European model of capitalism in agriculture was followed—with intensive use of labour-saving mechanised agricultural machinery—there would be massive displacements from the agricultural sector in countries like India and China. Among many other repercussions, the wage rates in the primary as well as secondary industrial labour markets, which are already below the international poverty line of \$1 a day, would be even lower and thereby accelerate the global 'race to the bottom'. The workers in countries with relatively high labour standards would in turn feel the punch in this era of globalisation. This is the gravest crisis of world capitalism: globalisation is supposed to widen capitalism whereas it induces resistance from more than two billion agriculture dependent people in countries such as India, China, and Indonesia and similar other

countries in the South (see FAO 2004) whose livelihoods are likely to be threatened by deregulation of trade in agricultural products.

India's federal agriculture minister confirmed in May 2006 that between 1993 and 2003, at least 100,000 had committed suicide because of their inability to repay loans. The minister has gone on record stating that as many as 16,000 farmers continue to commit suicide each year in 32 vulnerable districts in western and southern India in the provinces of Maharashtra, Andhra Pradesh, Karnataka and Kerala.²¹ It is important to recognize that the cultivators who needed more working capital, i.e., the substantial farmers are relatively more affected than the small and marginal farmers. For that matter, no case of suicide of cultivators been reported in the recent past in the public media in provinces such as Bihar (to many, the semi-feudal agrarian society) and West Bengal (that is overwhelmingly dominated by small and marginal farmers, and where merely 10 per cent of the agricultural working capital come from banks and the rest from the private moneylenders).

Transcendence from 'Traditional' to 'Modern'

Karl Marx did not foresee that it would be possible for capital, in the face of the imminent threat to its existence, to transpoliticize itself, as it were: to launch itself into an orbit beyond the relations of production. 'Weightlessness' is the emerging phenomenon: capital is becoming both deterritorialized and dematerialized in the globalized era.

The indices that captured the transition to industrial capitalism in a precise manner are: (a) increasing proportion of industrial workers to total labour force in the country; (b) increasing ratio of GDP originating in the industrial sector to the total GDP; and, (c) rising real wage in the industrial sector because of higher productivity mainly, in relation to that in the rest of the economy.

The processes that characterised the rise and maturity of industrial capitalism in the EDCs came to a halt in the 1950s. Thereafter, the indices of industrialisation have secular declines. There came post-industrial capitalism. Even in many late-developing countries the *ratios* either substantially declined or show symptoms of decline.

The sectoral composition of employment in India, in 1981, was closer to what was in the U.S. in 1820 (Maddison 1995). By 1850, all of the 17 advanced capitalist countries, for which Maddison (1995) has compiled data had achieved the level of per capita GDP that is higher than what India did after more than 130 years, i.e., in 1981. India's per capita GDP in 1981 was (at 1990 international dollars) \$462 (*ibid*). Notwithstanding, the sectoral employment composition in India appears quite 'postindustrial'. During the period 1981-2001, her sectoral composition has changed in a manner that took place in Japan over a period lasting for more than 50 years through 1913.

Faster economic restructuring in India however owes little to capitalist development in agriculture. Arthur Lewis' 'traditional' sector remained almost intact in terms of economic conditions of production. 'Push' or displacement from agriculture remained as weak as the 'pull' from the 'modern' sector because of the weak base of industrial capitalism. Thus, migration from agriculture to 'modern' remains sluggish.

²¹ Guha Thakurta, P. (2006), 'Trade India: Rare unity against west's farm subsidies' (New Delhi: India Press Service News Agency, 27 July).

Table 11: India: Proportion of employment by major economic sectors, 1981-2001

Year	Agriculture, Forestry and Fisheries	Mining, Manufacturing, Construction & Utilities	Services
1981	69	13	18
1991	67	12	21
2001	60	18	22

Sources: GoI, *Census of India* (1981, 1991 and 2001).

Lewis' traditional sector does cover, beyond agriculture, the manufacturing that is not organised on the basis of capitalist relationships. About 93 per cent of the Indian manufacturing workforce does find jobs in unorganised manufacturing, most part of which may be termed as 'pre-capitalist', employing, if any, less than 10 hired workers an establishment. The Factories Act and the labour laws covering wage, job and work-hour contracts, not to mention social security, do not cover the vast unorganised sector.

The very existence of a large unorganised manufacturing sector manifests underdevelopment overtly. Less the urbanisation more the underdeveloped transportation networks tend to be, resulting in small and diffused pockets of demand that leads to small-scale localised production. Following Engel's Law, underdevelopment also breeds small firms. Demand for simple items like bread, apparel, footwear, metal products (like utensils, simple agricultural implements) and furniture are rather efficiently produced using non-factory methods of capital and labour combinations (see Table 12). There is little incentive to consolidate production in several large plants and incur the extra distribution costs (for the services of the highly organised intermediaries).

More significant restructuring than agriculture-industry has been the changing balance between industry and services. By 1950, the advanced capitalist countries (excluding Japan) had reached the high point of industrial development, as measured by sectoral employment (Maddison 1995). GDP per capita in these countries, in 1950, had crossed \$5,000, and the share of industrial workforce was somewhere in-between 34 per cent (that in USA) and 45 per cent (that in UK). During the following decades, it was the services sector that came to rule the economy, and of course the society in the EDCs.

Table 12: India: Percentage of unorganised manufacturing sector workers employed in selected industries, 2000-01

NIC-1998 Codes	Industry	% of total workers	
		Rural	Urban
15	Food products & beverages	21.6	12.8
16	Tobacco products (mainly, indigenous cigars consumed by common people)	11.4	5.1
18	Wearing apparel	9.6	17.3
19	Leather footwear, handbags, etc.	0.6	2.0
20	Wood products	18.7	5.7
36	Furniture	5.1	13.5
	Total	67.0	56.4

Source: NSSO (2002), Report No. 477.

By contrast, the services sector in India already became larger in size than the industrial, in terms of employment, by the beginning of the 1980s, that is, at a time when globalisation was not on India's horizon. The trend remains unaltered thereafter. Thus, India is poised for postindustrial without ever being industrial.

In EDCs, the sectoral structure of the economy measured either in terms of employment or GDP looks symmetric. In either ways the share of agriculture is at the most 5 per cent across EDCs, that of industry 33 per cent and the service sector comprises the rest.

However, in South Asia such as in India and Pakistan where about 60 per cent of the country's total workforce are employed in agriculture the GDP share of the sector has reduced to less than a quarter (Table 13). India and Pakistan although industrially lagging far behind countries in East and South East Asia have excelled them in services.

Table 13: Structural changes in selected Asian countries, 1960 to 2004

Country	Value added as % of GDP					
	Agriculture		Industry		Services	
	1960	2004	1960	2004	1960	2004
India	55	22	16	26	29	52
Pakistan	46	23	16	24	38	54
Korea, Rep.	37	3	20	35	43	62
Malaysia	36	10	18	48	46	42
Philippines	26	14	28	32	46	54
Indonesia	50	17	25	46	25	38
Thailand	40	10	19	44	41	46
China	30 (1980)	15	49	51	21	35

Source: World Bank, WDR, various issues.

Quite often the shift is merely a shift of place, not of product. When 70 per cent of the labourforce as well as population were attached to agriculture, it performed in addition to agricultural cultivation many services like baking, spinning, soap-making, and building. As those activities commercialised gradually national income estimates have excluded those from 'the agricultural sector', and thus the services sector got inflated.

In industry, activities of a 'service' nature, which usually were carried out earlier within the factory premises, like accounting work, sweeping and cleaning, etc., are increasingly being outsourced as part of flexibilization program. Packaging, labelling and distribution of manufactured goods, accounting, or things like that are now being carried out by BPOs whose incomes are estimated in the services sector.

Pricing the public and social good: Water

While water is generally recognised as being a public good, the last two decades have put water services, which are dominantly in public hands, under huge privatisation. In some countries, massive changes in the municipal water supply systems have taken place, for example the sale of the entire water sector to private companies, takeovers by foreign companies, fusion of small public companies, and the establishment of public-private partnerships.

Water is not a new product—unknown before and newly innovated—rather a heritage good, which must be protected, defended and treated as such. However, there are many players involved in promoting water liberalisation in the name of 'bringing efficiency'. They include the World Bank and its 'Global Water Partnership' platform, the French and German multi-utility companies, and the respective trade and economics ministers and EU commissioners who push the liberalisation agenda at the WTO, EU and national levels.

Convinced that water should be suitably priced, the World Bank has relentlessly spearheaded a campaign to push the Dublin principle (Dublin Conference on the Environment, 1992)—that water is an economic, rather than social, good. The World Bank's view is that water and wastewater services are associated with several types of market failure, which require different regulatory approaches. First of all, raw water resource is a common good. Unless access is regulated, there is a risk that these resources

will be overused or abused. A water resources management scheme, which integrates both quantity and quality considerations, is needed to ensure that the allocation of water among competing users, i.e., agricultural, urban and industrial, reflects its economic value.

Earlier the local government, in some cases the central and state governments, used to supply this public good at cost-recovery prices or without it. Now, the state and its allied lobbies have a penchant for large, capital-intensive, foreign debt funded water infrastructure projects. Pakistan, in South Asia, shares the same experiences of development despite not being a water-stressed country (see, e.g., Bengali 2003). Water being increasingly priced under various project schemes, the revenue that accrues to the private corporations or the government is a huge sum, inflating the figures of ‘net value added’ in the services sector. ‘Unbundling’, using the World Bank jargon, that is, separation of distribution from ‘source’, steeply increasing tariffs, and allocation to highest value use through market mechanism have disproportionately enhanced the GDP originating in the services sector. Simultaneously, there has been reduction in value added in the agricultural sector, as the price for water goes up, and in turn reduced share of agriculture to GDP.

According to G rard Payen, President of AquaFed: ‘The private water sector is larger than many people think, with thousands of businesses working every day, for the most part, to implement government policies’ (OECD *Observer*, 2006). AquaFed is the international federation of private water operators, set up in 2005, another pressure group for private water, and a front group for Suez and Veolia, brings together over 200 water service providers in 38 countries worldwide.

Lending about \$20 billion to water supply projects over the last 12 years, the World Bank has not only been a principal financier of privatisation, it has also increasingly made its loans conditional on local governments privatising their waterworks. The International Consortium of Investigative Journalists (ICIJ) study of 276 World Bank water supply loans from 1990 to 2002 showed that 30 per cent required privatisation—the majority in the last five years (Marsden 2003). So far, privatisation has been concentrated in poorer countries where the World Bank has used its financial leverage to force governments to privatise their water utilities in exchange for loans.

On another front, water companies are working closely with the European Union to enforce trade barriers against any country that refuses to open its water utilities to privatisation. Working with the EU trade officials, the water companies are also trying to persuade the World Trade Organisation to force countries to open their utilities to free market forces. Documents obtained by ICIJ show that the European Commission trade office works closely with Thames, Suez, Vivendi and other private water companies to push for a reduction in trade barriers with the WTO.

A yearlong investigation by the ICIJ, a project of the Centre for Public Integrity, showed that world’s three largest water companies—France’s Suez and Vivendi Environment, and British-based Thames Water, owned by Germany’s RWE AG—have since 1990 expanded into every region of the world. Their revenue growth was more than proportional to their expansion across the globe. Vivendi Universal, the parent of Vivendi Environment, reported earning over \$5 billion in water-related revenue in 1990; by 2002 that had increased to over \$12 billion. RWE, which moved into the world water market

with its acquisition of Britain's Thames Water, increased its water revenue from \$25 million in 1990 to a whopping \$2.5 billion in fiscal 2002 (Marsden 2003). The water companies are chasing a business with potential annual revenue estimated at anywhere from \$400 billion to \$3 trillion. Water stocks actually do better than other utilities because of the long-term contracts that stretch for 10 to 30 years, offering a reliable and predictable return on investment. 'That is why a lot of pension funds as well as private individuals are willing to put money into it' as noted by Thames' executive Peter Spillett.

In brief, one has to disintegrate the 'illusory' part of tertiarisation from the 'real' part of it in order to understand the dynamics of postindustrial in the poor developing countries.

The North exporting services to the South

The overwhelming transition to postindustrial in the North has its repercussions felt by the South through trade in services like, among others, 'water services' (cf. Tables 14 and 15). The developed countries are increasingly exchanging services for the South's merchandise. The North, as against the South, has been experiencing trade deficits in merchandise, while the South unlike the North is having trade deficits in services.

Table 14: Tertiarisation in the North and South, as in 2004 (% share in GDP)

Developed country	Agriculture	Industry	Services	Developing country	Agriculture	Industry	Services
United Kingdom	1	27	72	China	15	51	34
United States	-	-	-	Indonesia	17	46	38
France	3	24	73	Thailand	10	44	46
Japan	1	30	68	Philippines	14	32	54
Germany	1	29	69	Malaysia	10	48	42
Italy	3	28	70	South Korea	3	35	62
Australia	3	26	71	Pakistan	23	24	54
Canada	-	-	-	India	22	26	52

Source: World Bank, *World Development Report*, 2006.

Trade deficits in merchandise of the North have increased at the CAGR of 5.24 per cent, while that in services of the South increased at 1.47 per cent, during the period 1985-2004. By comparison, trade surplus in services of the North increased at CAGR of 8.31 per cent during the period.

If production of television sets shifted to the South, TV serial production remained in the North, for export to the South as well. If computer hardware and assembly have gone to the South, software designing and services have remained in the effective control of the North. Large areas of manufacturing though have relocated in the South most of the product and process innovations remained in the North. Moreover, the IT 'revolution' has not made the world flat.

The contribution of IT to aggregate productivity growth appeared initially to be disembodied.²² Rapid technological progress within the IT-producing industry itself raised the level of the general purpose technology, and any firm could garner the benefits and make differences in competitiveness. Countries where the business sector has been quick in shifting resources towards the ICT industry and in adopting highly productive ICT equipment have been able to reap higher output and productivity growth rates

²² That is, acquisition of external technology in the form of patents, non-patented inventions, licences, disclosure of know-how, trademarks, designs, patterns and computer and other scientific and technical services related to the implementation of technological product and process innovations, plus the acquisition of packaged software.

(Cohen *et al* 2004). In the latter half of the 1990s things began to take new shapes. Productivity growth that embodies knowledge, know-how and software assumed importance. Productivity improvement is no longer a property of just new capital investment (*cf.* Solow 1960). And, market leadership rather depends to a great extent on developing distinguishing software, distinguishing computer programs.

Table 15: Trade balances of the developed and developing economies, in merchandise and service, 1980 – 2004 (values in US\$ billions)

Year	Trade Balance (Merchandise)		Trade Balance (Service)	
	Developed	Developing	Developed	Developing
1980	-143.4	101.1	-	-
1985	-	-	19.0	-41.2
1990	-122.3	35.5	8.6	-29.8
1995	10.0	-79.1	42.8	-36.6
1999	-231.9	73.1	54.5	-31.1
2000	-381.0	133.0	59.3	-43.8
2001	-330.5	93.6	56.0	-39.1
2002	-316.3	136.4	63.0	-44.8
2003	598.6	175.2	70.9	-46.4
2004	-514.0	190.9	93.6	-55.1
CAGR (%)	5.24	2.57	8.31	1.47

Source: Computed from UNCTAD, *Handbook of Statistics*, 2005.

'Real wage' indicator

Let us now examine the third index of industrialization—i.e., the real wage phenomenon—in this overall context of postindustrial development. During the period 1980-2000, while the unit labour cost in the OECD increased it declined in most of the major trading countries in the South. The decline in unit labour cost in India was fastest among the selected developing countries (Table 16). The real wage change in India also was the second lowest among the selected developing countries (excluding China) despite labour productivity in the Indian factory sector, measured in terms of value added per worker (in real terms), increased by about three times during the last two decades of the twentieth century.

Table 16: Changes in wage and labour cost in selected developing countries

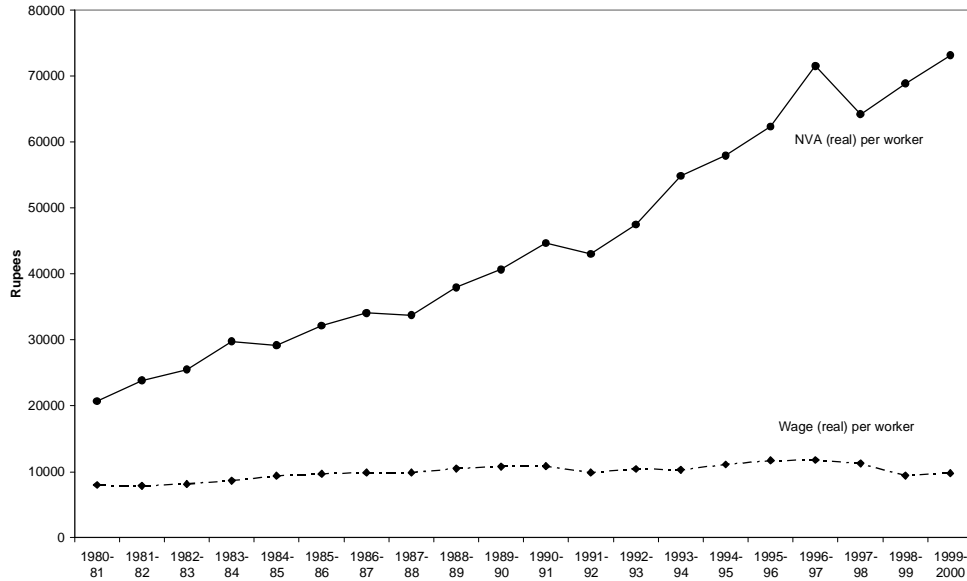
Country	Index numbers for 2000 with 1980=100, unless otherwise indicated	
	Unit labour cost ^(a)	Real wages ^(b)
Chile	82.1	148.0
India	52.8	145.9
Indonesia (1980-99)	81.7	188.0
Malaysia	84.9	216.5
Mexico (1984-2000)	90.2	100.7
Pakistan (1980-96)	95.2	181.4
Philippines (1980-97)	80.5	163.0
South Korea	72.1	329.8
Taiwan (1980-96)	121.0	248.6
Thailand (1982-94)	140.9	105.9

Source: UNCTAD, *Trade and Development Report*, 2003.

Notes: (a) Ratio of nominal wages in manufacturing (deflated by CPI) to value added in manufacturing (deflated by GDP deflator). An index number higher than 100 indicates an increase in the share of labour in the functional distribution of income. (b) Nominal wage per worker deflated by the consumer price index.

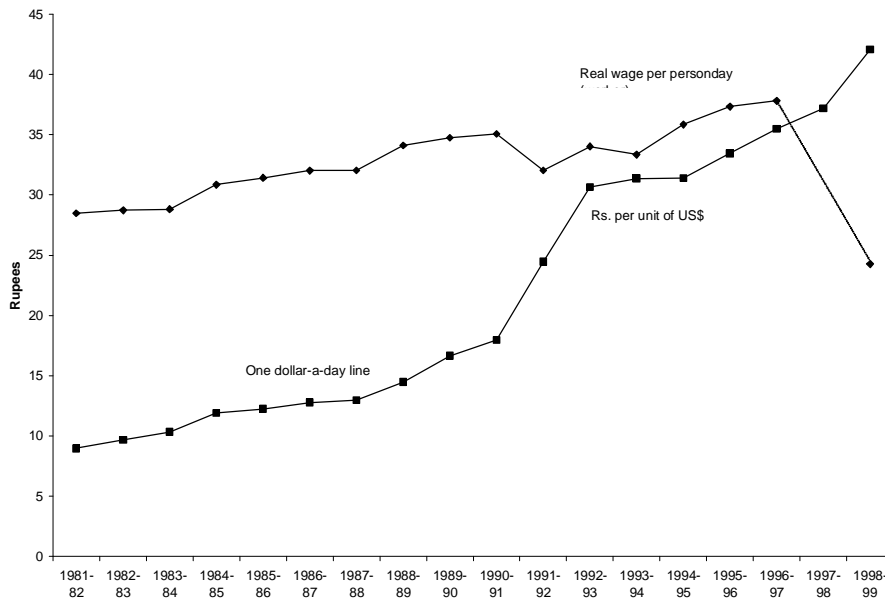
A comparison of wage and labour productivity in the Indian factory sector (see Figure 2), and the trend of the real wage rate vis-à-vis the international poverty-line (Figure 3) would elucidate how the jobs are becoming cheaper over the years. Labour productivity increased by about three times, while the workers are swimming on or sinking below the poverty line.

Figure 2: Growing Wage-Productivity gap in the Indian Factory Sector



Source: Banerjee (2005).

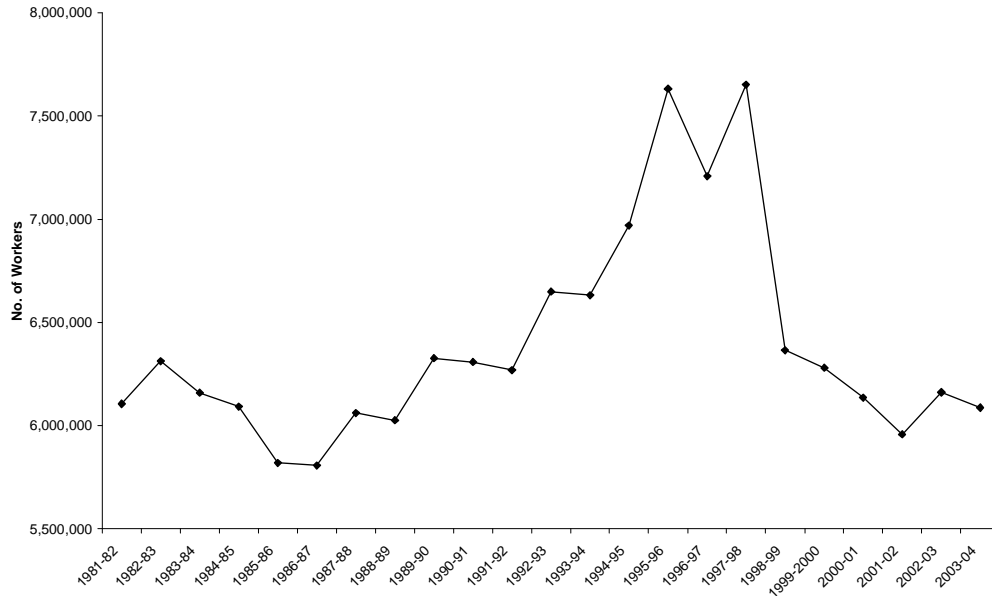
Figure 3: Real Daily Wage in the Indian Factories and the International Poverty-line



Source: Banerjee (2005).

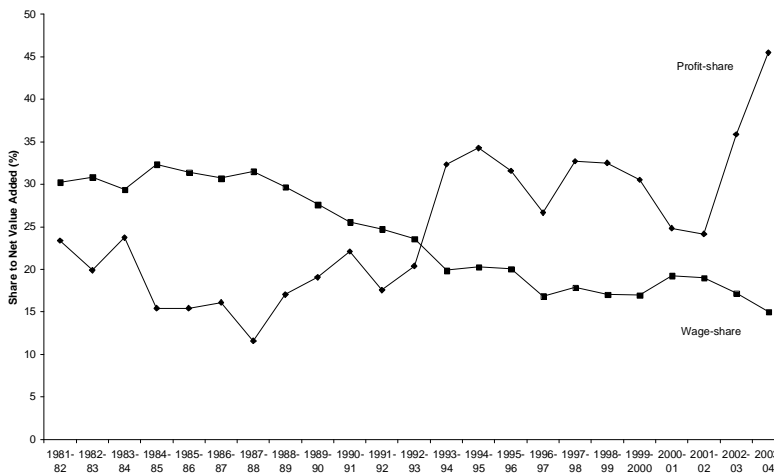
Downsizing, productivity growth with reduced strength of workers (Figure 4), and real wages being almost constant, profit-share in the factory income increased steadily since when deregulation began to take shape in the mid-1980s (see Figure 5).

Figure 4: India: Trend of Factory Employment, 1981 to 2004



Source: Computed from CSO, ASI.

Figure 5: Trend in the factor Distribution of Factory Net Income, 1981 to 2004

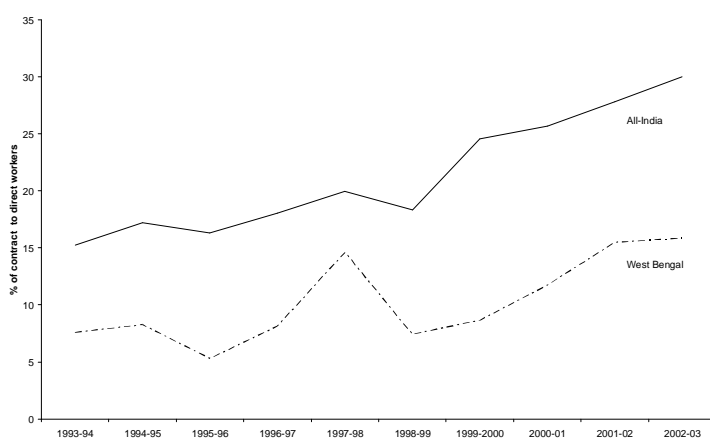


Source: Computed from CSO, ASI.

Ever increasing number of workers are employed on a contractual basis violating the Contract labour (Regulation and Abolition) Act, 1970. Employers, by the provisions of the Act, are restrained from employing contract labour in jobs, which are permanent or semi-permanent in nature. Instead of making casual workers permanent it has become a

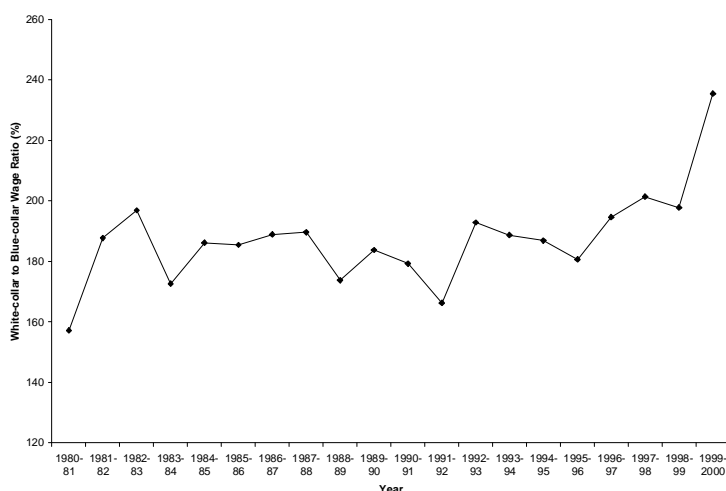
common phenomenon to route employment through labour contractor on a purely temporary and casual basis in large enterprises. The trend became noticeable since around the mid-1990s (see Figure 6). These contract workers perform most of the hazardous jobs inside the factory premises, but without any package of compensation, be it health or pecuniary.

Figure 6: Ratio (%) of Factory Workers Employed through Contractors to Direct Workers: All-India and West Bengal compared



Source: Computed from CSO, ASI.

In Great Britain, during the period 1850-1880, the lower grades of British clerks were in the per annum earnings range of £75 to £150. Only some 10 to 15 per cent of the blue-collar workers of the time were in that same range of pay, and they were described as ‘highly select super aristocracy’ (Lockwood 1958: 28). In 1900 in the U.S., clerical employees of steam railroads and in manufacturing establishments had average annual earnings of \$ 1,011. In the same year, the average annual earnings of workers in these industries were less than half of that: \$ 435 for manufacturing, and \$ 548 for steam railroads (Fleisher 1970: 219). Since then, the relative pay scales have undergone radical changes. By the beginning of the 1970s, the usual median weekly wage for full-time clerical work in the U.S. fell below the wage in every type of blue-collar work (Braverman 1974: 297-98; Flaim and Peters 1972). In Great Britain too the trend had been similar—by the 1950s, i.e., at the peak of industrial capitalism, the average white-collar worker became used to an income level equal to if not less than that of the average blue-collar worker (Lockwood 1958). By contrast, while India poised for postindustrial the occupational divisions between blue- and white-collar workers, the salary-wage gaps in the industrial sector rather began to diverge since economic reforms towards globalisation were initiated in 1991 (Figure 7).

Figure 7: White-collar to blue-collar wage differential in Indian organised manufacturing

Source: Computed from CSO, ASI.

Organised Labour and Politics

The common understanding is higher labour productivity enhance the workers, i.e., the ‘insiders’ bargaining capacity. The supply condition in the open labour market does not matter as the ‘outsiders’ are no substitute for the ‘insiders’ who have acquired firm or technology-specific skills during the period of employment. In the internal labour market, workers are entitled to a share of the productivity gains. The firm either share the ‘rent’ with the existing workers, or would increase employment. However, neither of these is happening.

The disorder in the primary labour market is spilling over to the secondary labour market, which has remained almost completely outside the purview of the central trade unions in postcolonial India. The Minimum Wage Act (1948) is a landmark in the history of social legislation in India as it guarantees the payment of minimum rates of wages to workers in scheduled employments those who are largely unorganised and have therefore weak bargaining power. The state governments are empowered to add any type of employment to the schedule under section 27 of the Act. At present, there are 60 types of employments in the schedule of which 15 were in the original Act. Besides fixation of minimum rate of wages, the state governments are supposed to revise the rates at regular intervals. Although minimum wages were fixed in the scheduled unorganised industries long back, those have not been revised for more than a decade.

Comprehensive data not available though, roughly about 86 per cent of the factory workers are unionised, unlike the trend in many of the EDCs (GoI, *Indian Labour Year Book*). But the workers are divided across the line of affiliating political parties and their ideologies. Until the 1970s, ‘unity in diversity’ represented India. The Indian National Congress (INC) ruled not only India as a whole, but also most of the states. Its TU organisation (i.e., the Indian National Trade Union Congress, INTUC) was naturally the largest TU spread across most of the states. In those days, ‘rival’ political parties in various states used to organise TU movements on wage, employment, social security, and against anti-worker policies of the government of India.

Since then, there emerged regional political parties who ultimately broke the ‘monopoly’ of INC as the ruling party in the states of India. ‘Diversity in unity’ emerged as the new face of Indian mainstream politics and culture. The political party or the combination of parties in power in respective state dissuade the labour-wings from undertaking organised struggle against capitals, as that might threaten the ‘rule’. This is true for the centre-right as well as centre-left political parties and their TUs. Thus the working class is fractured, while the employers have ‘single voice’ in negotiations with the workers’ organisations.

That’s not all. Some of the states have changed labour laws to make it easier for employers to deal with TUs, and rationalised union recognition procedure to facilitate a single bargaining agent in each workplace, a policy resisted by national unions on various grounds for a long time. Some announced temporary bans on labour dispute-related work stoppages that might affect foreign investors, and a permanent work stoppage ban in certain industries. In some of the states, government factory inspectors may enter factories to check for labour standards violations only after receiving permission from an officer of the rank of labour commissioner or the district magistrate, while in others the scope of labour inspection have been reduced, forms simplified and several establishments exempted from the purview of labour inspection. In the centre-left ruled states like West Bengal, the factory inspection system has been rendered as ineffective as possible. In 1980, an inspector visited a factory at least once in a year. Now, the frequency has reduced to once in five years. The state governments are in fact in a mad struggle to fetching industrial investments with most attractive terms to capitals be it domestic or foreign. Practically, none of the states has any ‘vision’ of development beyond that being supplied by Washington. And, as result the struggles between the state governments and the peoples’ organisations have become a regular feature.

Moreover, the *attitude* of the courts of law has changed. The courts judgements are often are discriminatory. It sounds quite weird, but the fact is that arbitrariness is in-built in the ‘Common law’ system. The latter, unlike the statute law in most of the European countries excepting UK, is characterised by the relative importance of decision-making by ‘independent’ judges, and the emphasis on judicial discretion as opposed to codes. Common law countries—mainly the ex-British colonies—tend to rely more on markets and contracts, while the civil law countries on regulation, as in France or Germany.

While ‘labour flexibility’ has become a central issue of discussion, it is important to recognise that the tradition of common law in India never allowed much rigidity in the labour market. Particularly, one of the current disagreements is over the provisions of Chapter VB of the Industrial Disputes Act (1947) introduced by an amendment in 1976, by the Government of India. This Chapter required firms employing 300 or more workers to obtain government permission for layoff, retrenchments and closures. A further amendment in 1982 (that took effect in 1984) expanded its ambit by reducing the threshold to 100 workers. It is argued that since permission is difficult to obtain from the government, employers are unable to restructure their workforce in line with changes in technology and demand conditions, making them reluctant to hire workers. However, first, there has not been found any ‘break’ in the trend of new registration of such factories as would employ 100 workers or more, no matter whether that attracts the disputed clause of the ID Act. Second, as Figure 6 would reveal, the law *de facto* never came in the way of workforce adjustments whenever the employers felt for it, in the ‘new’ era.

The neoliberals who argue for free labour market often cite workers' right to strike (by Chapter V of the ID Act, 1947) as anti-growth and anti-private property right, as well. The Act of 1947 has remained the basis for industrial negotiation, conciliation, settlement and adjudication in India. However, the question that still unresolved: Is there a constitutional or legal right to strike? The matter came up time and again in the apex courts of the states as well as in the Supreme Court during the last five decades. But the issue of 'right' is still ambiguous (see Dhavan 2006). The autonomous space for decision making by the judges and the scope of judicial discretion intrinsic to common law, as opposed to codes, are most revealing as one finds court's decision varying across similar cases in various states, and over time.

Besides, often the employers violate the industrial relations system without court of law's reprimanding. During the 1980s, on an average, the frequency of lockout was 20 per cent of the total number of industrial disputes in Indian factories in each year. During the period 1991-2004, that has almost doubled. The number of mandays lost due to lockouts increased at an even higher rate. Of the total mandays lost due to industrial unrest, lockout alone accounted for more than 63 per cent. On an average, about 15 million mandays were lost per annum due to lockouts in the factories, during 1991-2004. And, about a million of workers in each year lost, on an average, two months' wages due to lockout and closure of factories during the period.²³

²³ Data compiled from GoI, Ministry of Labour and Employment, Labour Bureau, *Indian Labour Statistics*, various issues.

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