

**ECONOMIC
REVIEW**

Combined Issue

June/July 1992

James Petras
"A WAR

**OF ALL
AGAINST ALL"**

FROM CRISIS
TO CATASTROPHE

JAMES PETRAS

RESOLVING ETHNIC
CONFLICT IN ASIA

RIZAL BUENDIA

A People's Bank Publication

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OVERVIEW

In this issue we reproduce a news item which appeared in the International Herald Tribune, which begins with these words: "After nearly disappearing from American life, child labour has re-emerged and proliferated in the last decade." According to Federal Statistics "at least 4 million children aged 14 - 18 are legally employed", while "an estimated 2 million other children work illegally". The proliferation of child labour, generally regarded as a Third World phenomenon, something that the developed First World has put behind it, is perhaps the best indication of the extent of the structural crisis in the capitalist metropolis, the souring of the American dream, the third worldization of parts of the First World including the "Sole Superpower". This is also a signal that the much vaunted triumph of Neo Liberalism may well turn out to be a pyrrhic victory.

These are some of the main themes in James Petras's essay published in this issue: World Transformation Crisis and Challenge to the Left. He points out that today "we are at the beginning of a new transitional period; the unmaking of the neo-liberal counter-revolution, the unravelling of the emerging new world order and the unfolding of the total crisis: economic, social, ecological, cultural and political that crosses national boundaries." He refutes the point of view that with the collapse of really existing socialism in the Soviet Union and Eastern Europe, the Left no longer has any role to play...because the neo liberal

triumphalism "is built on sand". The task of the revolutionaries today is to oppose "the tides of irrationalism" - political, economic and military - and thereby contribute to the creation of a new order.

Rival Buendia deals in his contribution with a familiar and a very relevant topic - ethnic conflicts and the steps needed to solve these. He uses Indonesia, Malaysia and the Philippines as case studies. He points out that the rise of ethnic nationalism and rebellions is due to non recognition of peoples diversities. He emphasises the need for a "movement for political decentralization" to ensure that there's devolution of powers and authorities from "national centres to the lower governmental apparatus".

Gaston Peres's article questions the current orthodoxy that tax incentives is the way to attract more investment. He points out that there is no empirical data to prove or disprove the assertion that taxes influence investment decisions. He points out the need for more research on taxes and the role of tax incentives.

This issue also contains contributions by Ariya Abeysinghe on the role of Trading Houses in the current drive to increase exports; Tissa Jayatilaka on Farmer Training in Livestock development in Gambia; M. H. G. Shariff on Sharemarket strategies; Soerath Tennakoon on Impulsive Commercial Entrepreneurship; M. H. Goonaratne on the benefits of a national shipping line.

T. G.

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Readers Please Note

We have corrected two issues, (June and July 1992) in order to catch up on our backlog in printing which had risen through unforeseen circumstances. We assure all our subscribers, however, that the validity of their annual subscriptions would extend over 12 separate issues.

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WORLD TRANSFORMATION: CRISIS AND CHALLENGE TO THE LEFT

By
James Petras

James Petras is Professor of Sociology at the State University of New York, Binghamton. Among his most recent books are "Latin America: Bankers, Generals and the Struggle for Social Justice" and "The US and Latin American: Sacrificing Citizens to Save the State". He is also the best known Latin Americanist in the English speaking World.

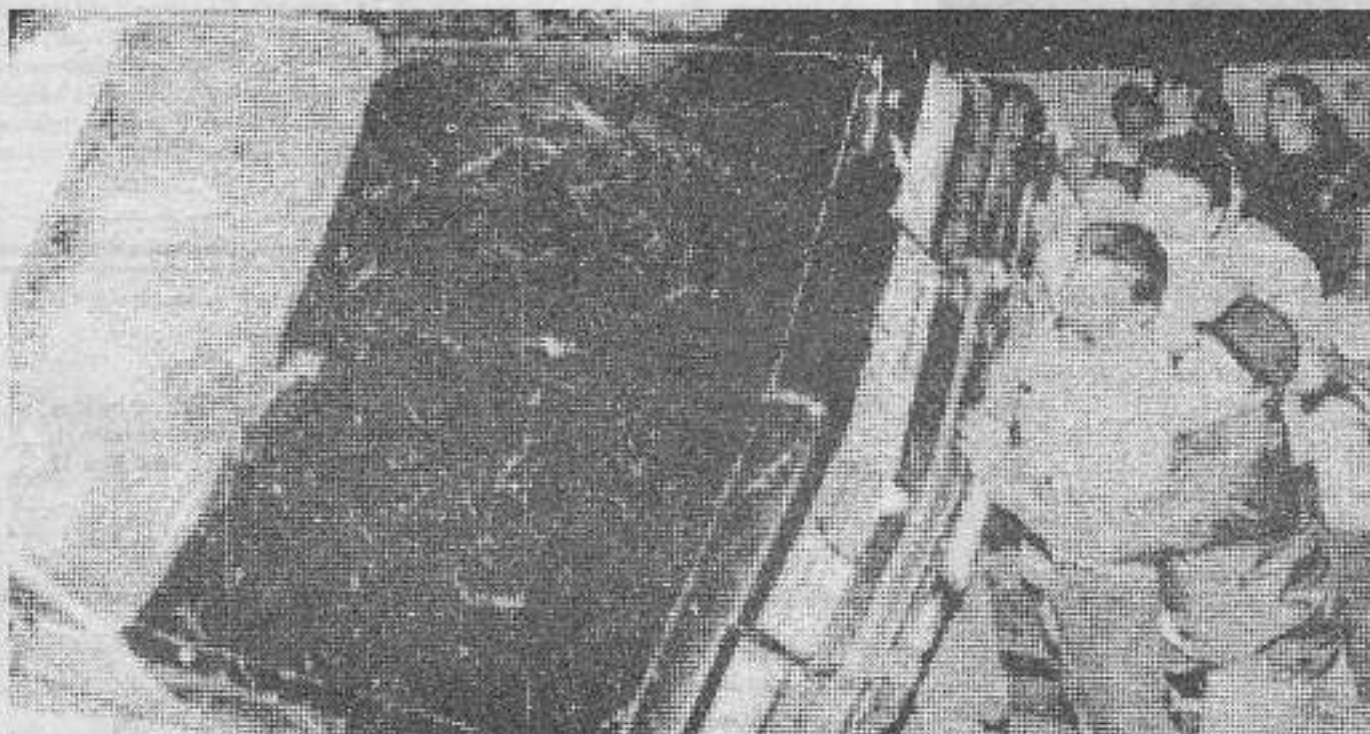
Introduction

World historical changes are taking place at an accelerating pace: the neo-liberal ascendancy and transformations of the 1970's and 1980's have created the conditions for a new round of

war, economic crisis and social upheavals in the 1990's.

Inherent to the changes imposed by neo-liberals was the logic of social polarization; over-expansion of finance and real estate speculation relative to productive activity, leading to crisis and

volatility of markets. Implicit in the uneven development of military and economic power between the rival imperial blocs was the likelihood of an attempt by the U.S. to impose its military supremacy. And the relentless application of free market capitalism in East Europe and the Third World opened the door to an



intensification of Western pillage, accompanied by a downward spiral with no end in sight. The inner tensions resulting from the transformations of the 1970's and 1980's is a world of heightened international conflicts, intensified global competition and deepening social inequalities, objective conditions ripe for a new round of social upheavals contingent on the emergence of new socio-political agencies able to insert themselves into the new explosive context and organize radical alternatives. In order for the left to successfully intervene, it must come to grips with the scope and depth of the world-historical changes of the past decades and identify the weak in order to break the chain.

Transformations of the 1970's and 1980's

The 1970's and 1980's were a period of the neo-liberal counter-revolution throughout the world. By machine guns and death squads in the South and by right-wing electoral regimes and constitutional repression in the North, public policies set in motion the process of reconcentration of income at the top, marginalization at the bottom and stagnation and impotence in the middle. New economic structures rooted in financial power and international corporations linked to each other through private electronic circuits, undermined domestic markets, shifted state subsidies from welfare programs to socializing private capital losses. Increasingly, capital turned from productive activities to speculation in the so-called services, pillaging the state and increasing wealth by devaluing labour and introducing electronic technology. The speculative so-called "post-industrial society" was, we were told by its spokespersons, a higher stage of capitalism, immune to the crises and cycles of earlier industrial societies.

Accompanying the neo-liberal counter-revolution and the ascendancy of speculative - finance capital was the increased race between the three major capitalist powers to gain competitive superiority, to carve out regions of imperial blocs and to penetrate and expand in markets of competitors. The revival of inter-imperial rivalries between capitalist countries replaced the bi-polar conflict between the U.S. and the Soviet Union. The world market became the battlefield of the rival imperial blocs by the mid-1980's.

The third transformation of the previous decade was the disintegration of Stalinism, the marginalization of the left-socialist opposition and the ascendancy of the neo-liberal regimes throughout Eastern Europe and many of the Soviet Republics. The demise of Stalinism had a dual effect of weakening the trade and agit opportunities for anti-capitalist movements in the Third World and opening up their economies to capitalist pillage and penetration; in a word, extending the domain of Western hegemony. The other side of the dialectic of Stalinist collapse, however, is the strategic opportunity to reassert the construction of new movements and visions of democratic collectivism against both the bureau-

The fifth transformation was a cultural transformation rooted in the practices and ideology of neo-liberalism: on the one hand, the belief that "greed was good" and upward mobility at any cost were the marching songs of progress; on the other hand, increases in the police to enforce the insulation and segregation of the wealth from the decaying life of the poor. The Third World was imported into the heartland of the west: massive illegal immigrants to be super-exploited at costs below the 'national levels' of reproduction; the growth of a class of homeless people as real estate capital became the center of capital speculation and wealth, closing industries and raising rents.

The transformations that took place in the 1970's and 1980's have left a deep mark on the structures of the state, classes, economy and culture; industrial workers have been transformed into self-employed or low paid service workers; industrialists replaced by financiers and speculators, engineers by investment advisors; the poor into street people. The state no longer defends capital by allocating expenditures to social welfare; its role is more directly tied to socializing capital losses and privatizing profitable public enterprises. Economy is increasingly floating on a mountain of debt and credit financed consumption.

cratic authoritarianism of Stalinism and the pillage and violence of the "free market".

The fourth transformation was the extension of electoral regimes to vast areas of the Third World and Southern and Eastern Europe previously ruled by military regimes and one party dictatorships. The process, dubbed by the mass media as "transitions to democracy", was largely inserted in authoritarian state structures and elitist neo-liberal economic systems that immediately and definitively defined the political economic agenda. The electoral regimes were designed to provide legitimacy to the neo-liberal model, Western pillage of the economies and the existing state structures.

The sixth transformation of the 1970's and 1980's was the world-wide ideological and political integration of the traditional social democratic and Communist Parties to the 'neo liberal project' and the conversion of many of the ex-leftists of the 1960's to the same process. From Southern Europe to South America, from Paris to Barcelona, Warsaw to Managua, 1960's ex-leftists joined the celebration of the market as the most efficient mechanism for organizing the economy — even as their countries were disintegrating under the hammer blows of the market. The integration and subordination of the traditional parties and the flight of the intellectuals from the movements to the institutes, strengthened ruling class hegemony and created a tremendous gap

between the political-electoral intellectual class and the mass of victims of neo-liberal economies.

The seventh transformation was in the area of personal values and relationships. The informing principles were derived from Hobbes: "war of all against all". Personal power became the supreme value of both elites and their supposed adversaries. Social solidarity was stigmatized, disdained or relegated to marginal groups. Privatization of life increased as public conditions were degraded and outsiders were brutalized. Personal interchanges and friendships were replaced by impersonal exchanges and instrumental relations; universal distrust became the higher wisdom. Calculation and manipulation replaced spontaneity and solidarity. The ideals of the ruling class speculators found expression at all levels of the society; drug dealers imitated speculators. The image of passive subjects at work, mindless objects in politics and spectators of media (sports, sex and crime) in leisure become the mass cultural reality of the 1960's.

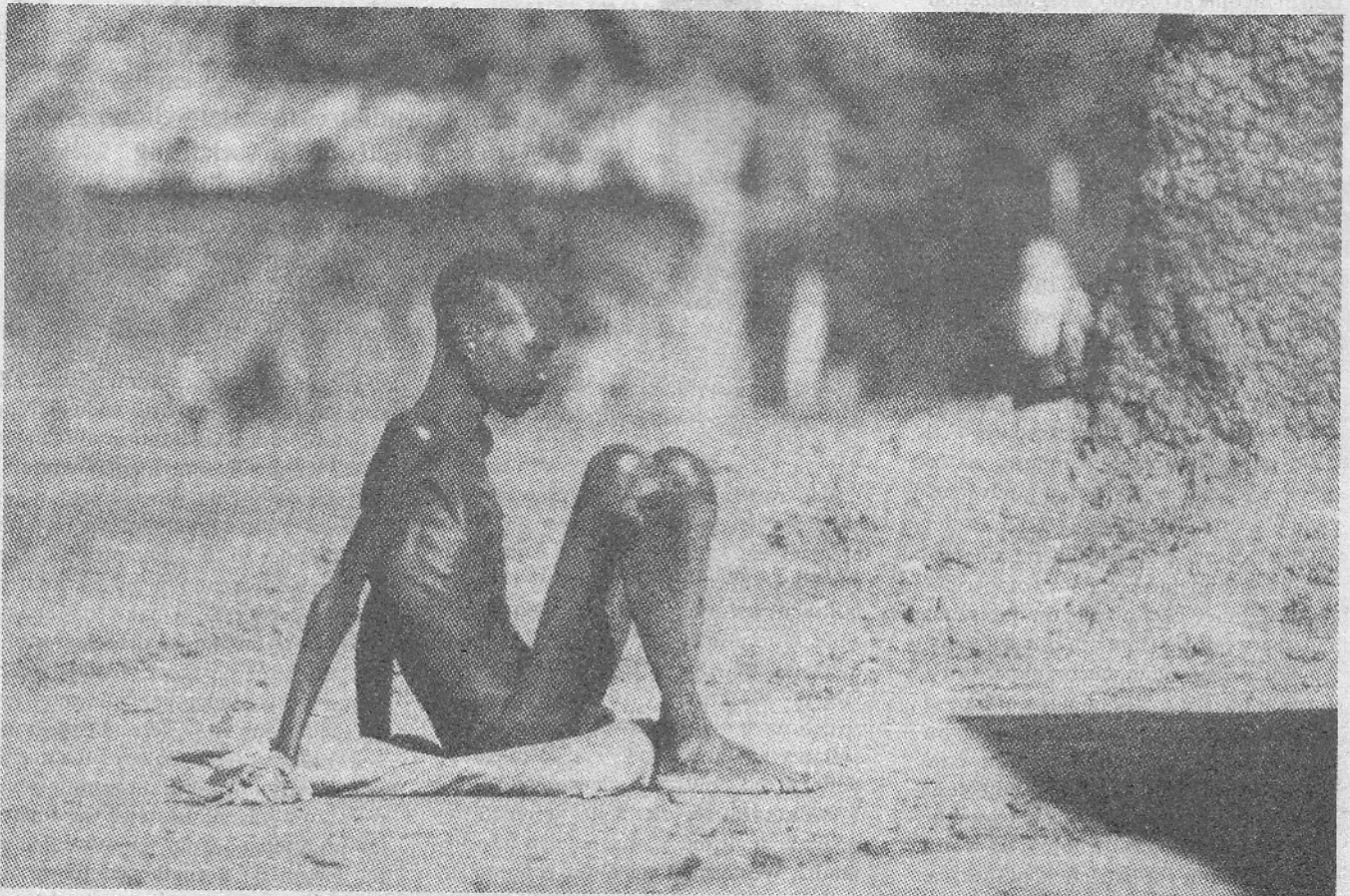
Love became sex, sex became exercise, exercise became fitness, fitness became food; all became commercialized. Freud was harnessed to Adam Smith: the drive for sexual expression was dissociated from a broader personal and social context; the ideal was isolation, physical power and affluent surroundings. Psychiatry turned to "stress control" instead of studying the stress controllers; the polluters of public places subsidized the managers of private feelings. Private feelings of frustration, impotence, frigidity were dissociated from the impersonal and personal forms of control, manipulation and trivialization. Depression became a way of life; and isolated, impotent routinized life devoid of spontaneous relations and authentic affection.

Crises and Transformations of the 1990's

These transformations of the 1970's and 1980's have, however, not ended history. On the contrary, they have set in motion immediately in their wake a new set of challenges, conflicts and crises that define the conditions for revolutionary

politics in the 1990's. In the subsequent section, I will proceed to identify and analyze the nature of each of the impending or unfolding crises and transformations and conclude with a discussion of the challenges and opportunities they pose for the left.

The transformations that took place in the 1970's and 1980's have left a deep mark on the structures of the state, classes, economy and culture: industrial workers have been transformed into self-employed or low paid service workers; industrialists replaced by financiers and speculators, engineers by investment advisors; the poor into street people. The state no longer defends capital by allocating expenditures to social welfare: its role is more directly tied to socializing capital losses and privatizing profitable public enterprises. Economy is increasingly floating on a mountain of debt and credit financed consumption. The class structure is increasingly polarized between an affluent 15 or 20% who operate through private circuits of education, health, communications and transportation and



Living standards in Africa — an all times low?

the rest which is increasingly dependent on disintegrating public services. The structural transformations wrought in the 1970's and 1980's have created a new set of violent contradictions and deepening cleavages for the 1990's. Today we are at the beginning of a new transitional period: the unmaking of the neo-liberal counter-revolution, the unraveling of the emerging new world order and the unfolding of the "total crises" economic, social, ecological, cultural and political that crosses national boundaries.

Just as it is clear that the structural transformation of the 1970's and 1980's were not confined to any particular locale, the new conflicts and contradictions will have world-historic impacts.

From Crises to Catastrophe: Post-Stalinist Neo-liberalism

The Stalinist stagnation crisis in Eastern Europe and the Soviet Union has not been remedied by the new neo-liberal regimes. On the contrary, the region has moved from crises to catastrophe. By almost all social and economic indicators, the region has experienced an unprecedented slide toward the abyss. Millions have lost their jobs, housing, social welfare, farms. In less than a year, hunger, homelessness and destitution has stricken the many and struck deeply. The new neo-liberal regimes have become virtual intermediaries of the policies of the IMF, World Bank and Western governments and banks. The degree of dependence equals or exceeds that existing prior to the capitalist restoration. In East Germany, the West Germans have taken over markets, forced closure of factories and threaten to idle half the labour force — in a fashion that resembles England's colonial conquest of India. The economic conquest, political dependence and social polarization is accompanied by the degradation of national culture: Budapest is known today as Bangkok East, with porno-capitalism featuring child pornography one of the few "growth sectors". The monumental gap between the neo-liberalism in power is the most obvious point of confrontation and crisis. Despite hostility to official communism and despite free market propaganda, the great majority of working people in the East retain basic socialist values — against profiteering and property privileges and

for full employment, social welfare and social services.

The socio-economic catastrophe unfolding under neo-liberalism erodes the legitimacy and hegemony of the free-market governing classes. The opening of a new round of class, ethnic, racial and gender struggles is emerging. The outcome of the neo-liberal catastrophe is not pre-determined. Nor is it inevitable that the class struggle advances; many outcomes, from emigration to further immigration, to chauvinist national wars to new dynamic social movements are possible, depending on the political intervention. I shall return to this point in the conclusion. For now, it is enough to note that last year's so-called triumph of "liberal-democracy and free markets" was premature. Historical events have already battered and tattered that vision, leaving regimes with declining legitimacy and, in the face of increasing discontent and disintegration, prone to seek authoritarian solutions.

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New World Order: Militarism and Imperialism Revisited

The declining global power of the U.S. has been accompanied by the escalation of its military intervention. The size and scope of the intervention and the human costs increase in geometrical progression:

- 1983: Grenada, an island of 120,000 by 20,000 Marines and hundreds of Grenadian casualties, school and hospitals destroyed.
- 1989: Panama, a country of three million by 20,000 soldiers combining air and ground attack with thousands of casualties, whole neighbourhoods destroyed.
- 1991: Iraq, a country of 17 million by 450,000 ground soldiers, tens of thousands of sailors and Air Force

pilots, hundreds of thousands of casualties and complete cities destroyed.

Several points need to be noted. In addition to the greater scope of military operations and the increase in the size of the country attacked, the timing of intervention has narrowed: between Grenada and Panama, six years elapsed; between Panama and Iraq, a year and one month. The U.S. is moving its intervention from symbolic marginal areas to centers of strategic significance for the world economy. The intervention in Grenada was to reassert absolute U.S. domination in its traditional area of imperial control (the Caribbean) and to weaken anti-interventionist sentiment in the U.S. (and to reinstall the notion that patriotism and imperialism are interchangeable). Panama's invasion was designed to reassert U.S. control over the Canal and more important, strengthen the U.S. economic blockade of revolutionary Nicaragua.

It was also intended to strengthen pro-interventionist Congressional and public opinion and to provide a testing ground for larger interventions elsewhere. The rapid military victories in these interventions desensitized public opinion to the larger imperial agenda. The growing "triumphalist" posture in Washington reinforced the conviction that military successes could be multiplied in other strategic regions and eventually could become the means for strategic power in the world; after Iraq — where the U.S. succeeded without costly losses who is next? The use of the huge military machine to launch a second Cold War against the Soviet Union using the pretext of the repression of the "independent republics" (Baltics, Ukraine etc.)? The use of military intimidation against Germany and Japan

to cover the costs of the war, to extract more loans, open up European markets etc.?

It would be willful blindness to ignore the relationship between U.S. economic decline and its increased military aggression; as it would be myopic to ignore the increased military escalation from periphery toward core countries.



racist,
exclusionist,
chauvinist Politics
Le Pen of France

Contrary to social democratic and Gorbachevian wishful thinkers, the end of the old Cold War has not brought about an era of "New Thinking" and peaceful cooperation. Rather, we are witnessing a period of growing militarization and escalating intervention, which comes closer and closer to major power confrontation: we are entering the passageway to larger and more violent confrontations.

For the left, the challenge of militarization is twofold; to resist the first wave of state-mass media induced mass chauvinism and to prepare for the second round of mass disillusion and discontent as the costs of war mount and as the confrontations come closer to home.

The issue of internationalism is crucial, the combined states fight today to defeat the Third World and tomorrow they fight each other over the plunder, costs and the new realignments of power.

As the post-industrial crises spread across national borders, so to the new wars cross borders and increasingly involve imperial conditions as well as rivalries. The international framework of crises and war can only be confronted by an international movement.

New World Order: Reassertion of U.S. Supremacy and Crises of the 1990's

The 1970's and 1980's, particularly after the demise of the Soviet Union as a global power witnessed the emergence of a trilateral power configuration anchored in the three paramount capitalist powers; Japan, Germany and the U.S. Increasingly, economic competition and conflict

centered hegemony, that links Third World rentier states (Saudi Arabia) and political clients dependent on its military forces to leverage and pressure Germany and Japan to finance U.S. deficits and disengage from markets. The U.S. vision of a military centered "New World Order" conflicts with German and Japanese visions of an economic based one; whatever the temporary coalitions and concessions, the differences in fundamentals leads to heightened conflict and cleavages between a declining, militarily strong but economically weak U.S. and the militarily weak and economically strong rising German and Japanese powers. As international competition intensifies between the imperial states, they heighten their exploitation of "their" respective regions; Germany exploits the East. In Latin America the U.S. promotes the free market doctrine to take over existing markets, trade debts for locally owned enterprises in a wholesale pillage of local resources. Japan intensifies its links with Asian markets and raw material suppliers, while transferring financial investments

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over global supremacy was becoming evident in trade negotiations, and the declining capacity of the U.S. to compete in world markets. The initial vision of a new world order of cooperation in joint exploitation of the Third World and Eastern Europe gave way to increasing competition and the gradual emergence of regional blocs; Asia under Japanese dominance, Europe under German; and Latin America under the U.S. But in this world of inter-imperial market rivalries the U.S. was in an inferior position; its "comparative advantage" was in its military and ideological apparatus, not its productive structure. The U.S. invasion of the Gulf is an attempt to transform the rules of global competition; to utilize its military superiority to reassert its political and economic domination of its economic rivals. Washington's vision is of a military

from the U.S. to Asia. The end of the Cold War between East and West is accompanied by the new inter-imperial competition intensifying North-South exploitation and conflict; anti-imperialism becomes once again a central issue - extending from U.S. military expansion to Japanese and German conquest of markets.

The third crisis growing out of the transformation of the 1970's and 1980's is the enormous discrepancy between the formidable military and ideological power of the U.S. and its economic incapacity to build viable client-economies. U.S. military power, influence and pressure was directly and indirectly involved in the violent seizure of power by the neo-liberal military regimes that seized power in Latin America. In Central America the

U.S. financed the death squad armed forces in El Salvador, trained the murder-machines in Guatemala and organized and directed the Contras. In Argentina, Chile, Uruguay and Brazil similar support was extended; neo-liberal states and economies were imposed by violence, not because nationalist Keynesian and Socialist policies failed. Likewise, in Eastern Europe and Russia the U.S. promoted arms race contributed to weakening these economies and with Stalinist mismanagement laid the groundwork for popular revolts and the elite restoration of capitalism.

The military-ideological capacity of the imperial state was effective in realizing the world-historical transformation, the fashioning of the neo-liberal counter-revolution. But U.S. capital and economic agencies of the imperial state have not been able to finance the economic development of viable capitalist economies. The contradiction between U.S. military-ideological and economic capacity is evident, even on a small scale; in Grenada the economy stagnates, unemployment reaches upward of 30% and no new investments flow. In Nicaragua and Panama, a similar picture emerges. On a grander scale, in Eastern Europe the U.S. "won" the Cold War and has lost the economic competition to its rivals. The gap between the military-ideological power to impose free market client regimes and the incapacity to sustain them means that the U.S. cannot convert military dominance into hegemonic power; it means that the ideological power of the U.S. to overthrow its adversaries is quickly eroded as its potential clients discover that there is no economic support behind it. This is clearly a crisis of the "new order" that is an effective opening for the left.

The fourth point of rupture of the 1990's is the crisis of the post-industrial economies, products of the "re-structuring of capitalism in the previous decades." For many years the ideologues of "post-industrialism" argued that capitalist crisis was a thing of the past, linked to industrial economies. With the advent of the so-called "service economy" and high technology would come greater diversification and balanced steady growth. The deepening recession of the early 1990's has

completely demolished all of these optimistic forecasts; as the economies in the West slide toward negative growth, millions of service workers, yuppies, investment and real estate brokers are thrown out of work. The bankruptcy of banks approximates record levels for recent decades. The vulgarity and instability of whole precious edifice of speculative capitalism has become obvious even to its usual supporters. The ideologues of post-industrialism completely ignored the degree to which "high technology" itself was dependent on financial speculation — and not an independent economic factor. They failed to realize that the "restructured capitalism" of "services" was still dependent on production of real goods and social services. Yet the ideologues' promotion of the expansion of speculative services on a narrower and shrinking

economy has no "cushion" to rest on — except the state, but a state which has been severely drained of income and one which is already heavily indebted by the artificial growth of the previous decade.

Post-industrial economies are not only subject to cyclical crisis, but the likelihood of a prolonged and deepening recession are thus much more likely than the earlier crisis of "industrial society". Moreover, the international links between the dominant financial sectors of all the major capitalist countries means that the crisis will extend on a world scale, forcing each capitalist on the state (principally Japan and Germany) to seek to erect barriers and constraints on the international effects of the crisis emanating from the most "post-industrial states", the U.S. and England. As the very classes which organized and promoted the neo-

Contrary to social democratic and Gorbachevian wishful thinkers, the end of the old Cold War has not brought about an era of "New Thinking" and peaceful cooperation. Rather, we are witnessing a period of growing militarization and escalating intervention, which comes closer and closer to major power confrontation; we are entering the passageway to larger and more violent confrontations.

base of production, in which eventually speculation fed on itself, bidding and buying and selling enterprises as commodities beyond their productive worth, while undermining the capacity of producers to consume and produce.

This crisis is the first post-industrial crisis and the first victims are the very nouveau rich, speculators, yuppie neo-liberals who earlier were responsible for driving the workers out of the factories, the low rent tenants out of their flats. It is ironic, indeed, that the very system that the neo-liberals created is devouring its children. More to the point, the crisis of post-industrial economies is much more profound and serious than the earlier crisis of industrial capitalism because the financial real estate-service economy has undermined the industrial basis for any recovery. The collapsing service

liberal structure and ideology fall as its latest victims, the basis of neo-liberal political-economy shrinks, even as its institutions (banks, finance, houses etc.) self hold a stranglehold on the economic policy of the government. As the middle class neo-liberal become "proletarianized" by the fall from grace, the diminishing prospects for 'recovery' of old positions penetrates their consciousness, a dual response is likely in the long run; a radical rightist turn which resists downward mobility and association with the poor in common organization and seeks out rightist groups promising a return to the "golden days" of neo-liberal affluence; or a shift to the left, a revalorization of social solidarity, public welfare and public restraints on the market. In the short-run, true to their background, the downwardly mobile yuppies will scramble individually, personalize their problem

and seek private solutions. Nonetheless, the crisis of post-industrial capitalism and the wide net of social classes affected adds bank depositors, homeowners, skilled technicians to the large numbers of former industrial workers, immigrants, minorities and women adversely affected by the privous of capitalist "restructuring". The crisis of post-industrial capitalism has created a very skewed polarization against itself; the breadth of the polarization, however, is also marked by the heterogeneity of the forces that make it up and the variety of sites in which the real or potential conflicts occur; work, housing, credit, (repossessed) consumer goods etc. The challenge for the left is to start with an understanding of the new classes created by the neo-liberal restructuring and the different points at which the conflicts emerge. The most difficult task is to fashion a program that brings together the victims of the first wave of capitalist restructuring with the second, the former victimizers turned victims.

The programmatic challenge is to fashion an alternative that avoids a return or recovery of the "service economy", as well as a return to previous high pollutant 'industrial society' one that links high technology of the post-industrial society with low pollutant productive industries of industrial society. The crisis of post-industrial society, at a minimum, has destroyed all the illusion about its stability and security; for the left, an historic

opportunity to pose an alternative has emerged.

The fifth crisis of the nineties is the declining legitimacy of the electoral regimes and processes on a world scale. The electoral regimes tied to neo-liberal global political economy have profoundly alienated voters everywhere, East and West, North and South. In the last Congressional elections in the U.S. only 36 percent of the voters turned out. In Hungary and Poland, the so-called new democracies, attract a minority of potential voters - as the socio-economic policies of the electoral elites inflict terrible punishment on the voters. In Colombia, less than 25 percent of the electorate vote, less than a third in the totally corrupt Mexican elections and similar trends are evident throughout the region, as the electoral

regimes betray the pre-electoral democratic promises through harsh IMF style austerity programs. Similar voter alienation is evident in Western Europe as the differences between the traditional left and the conservatives converge on the neo-liberal agenda and the Communist Parties shrink in the face of their incapacity to respond to the new conflicts and crises. Majorities everywhere have contempt for the bourgeois politicians who are correctly perceived as corrupt and responsive to the established powers; mass media campaigns to stimulate voter participation are ignored. The soccer matches attract more attention than political campaigns. They provide the distractions from the political deceptions, economic insecurities and hardships resulting from policies of the political elite.



The gap between the military-ideological power to impose free market client regimes and the incapacity to sustain them means that the U.S. cannot convert military dominance into hegemonic power: it means that the ideological power of the U.S to overthrow its adversaries is quickly eroded as its potential clients discover that there is no economic support behind it. This is clearly a crisis of the "new order" that is an effective opening for the left.



As voter abstention and alienation increases, the legitimacy of the political system is seriously eroded: who can believe in the representativeness of a Congress elected by a plurality of 18 percent of the voters (as in the U.S.). Clearly, the electoral abstention of the popular majorities exposes the elitist nature, the non-representative nature, of the electoral process. Even bourgeois social scientists "explain" that it "costs" 10-20 million dollars to elect a Senator to the U.S. Senate. With mass media, party financing and state regulations severely restricting electoral choices and party visibility in elections, it is clear to growing numbers, perhaps majorities, that electoral parties and campaigns are not the means to redress grievances, let alone bring about change. It is becoming more

and more common to read and hear people say that electoral regimes "are not the same" as democracy.

The future of popular based socio-economic changes does not pass through parliamentary elections, given the elitist structure and control exercised over the process. The gap between the electoral political class (and their media and academic publicists) and populace is widening, extending, particularly to young people who bear the brunt of the socio-economic effects and see no electoral parties speaking to their interests.

Emerging between the post-industrial crises, the militarization threat and the neo-liberal counter-revolution against women and the environment is a series of direct action movements. These movements extend rights of the excluded, make forceful claims of those rights on contested terrain of property, ecologists, to restrict the operations of the market in degrading the environment, women to reverse the neo-liberal offensive increasing their personal dependence, stripping them of social welfare rights and violating their collective identity by commodifying them on the porno-market.

The movements have resisted assaults and have carved areas of ecological and social reforms; but, as the eighties advanced under the neo-liberal counter-revolution, it became evident that movement changes in the system were reversible and, in fact, were reversed. The so-called democratic revolution in Eastern Europe revokes the maternity leaves, abortion rights and curacy centers as part of their projects of capitalist restoration and competition for Western investment. In the West, ecological constraints on energy exploitation are gradually phased out in the U.S. and the politics of ecological plunder return. Clearly, movement pressure politics are not enough; it was a good starting point, but it ignored the issue of state power. This point was brought home in the case of East Germany's Socialist Forum, which was incapable of converting the movement against Stalinism into a movement for taking power. In the end, the West German political machines moved in, marginalized the movements and took over the state.

The movements, at their best, contain the embryo of the new state power;

popular assemblies, direct elections and public debates. The movements of the left face an unprecedented opportunity and challenge; they have an opportunity to insert themselves in the gap between the

yellow fever, malaria and tuberculosis, all the nineteenth century diseases, multiply under the impact of the neo-liberal cuts of expenditures on health, welfare and infrastructure. The disintegration of

The programmatic challenge is to fashion an alternative that avoids a return or recovery of the "service economy", as well as a return to previous high pollutant 'industrial society' one that links high technology of the post-industrial society with low pollutant productive industries of industrial society.

new Third electoral class and the abjectionist alienated majority. The challenge is to fashion movements that create parallel organizations of political power to control territory, factories, community services, land; the road from direct action to state power passes through the multiplication of local popular assemblies adjudicating issues of direct interest to the people. The past movement politics linked to electoral campaigns has no future; nor does simple direct action in particular defense of local terrain; the future of movements is rooted in creating autonomous electoral power anchored and coordinated with regional or national movements of direct action, the dress rehearsals for the creation of a new state power responsive to civil society.

The sixth crisis and challenge of the 1990's is the disintegration of civil society, in some regions more advanced than others, but pervasive everywhere. In the Third World, the neo-liberal offensive has reduced living standards in Africa to

national health and the growth of mass epidemics in Peru, Brazil and elsewhere and the virtual silence in the Western media and states of their responsibility is part of a general problem: the deliberate de-sensitization of the Western world's responsibility for the plagues and mass murders that it hurls on the Third World.

The 1980's was the turning point; prior to that period, Western opinion at least paid lip service to military violations of human rights in Latin America, famine in Africa etc. In the 1980's, the Western public was gradually accustomed to mass killings by pro-Western (usually U.S. clients) regimes. In El Salvador the state murder of 75,000 people did not prevent four billion dollars in U.S. Congressional aid for the murders machines. In Guatemala, 100,000 deaths did not prevent Europe and the U.S. from pouring in billions of foreign aid throughout the latter 1980's. In Nicaragua, 30,000 people were killed and ten billion in property

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levels lower than on the advent of independence. In Latin America the decay is so palpable that one watches the millions of refugees uprooted by counter-insurgency wars and export agriculture crowded in the urban slacks, armies of poor invading the downtown streets and plazas. Cholera,

damage was done by the U.S. mercenary army, but that did not prevent U.S. and European aid for the mercenaries in power. The disintegration of Latin American society, whether from hunger, disease or death squads, is accompanied by silence and complicity in the West. As

mass murder machines become routinized under electoral facades, they become acceptable and legitimized in the Western media. For the electoral regimes far from dismantling the murder machines have provided it with a pseudo legitimacy and impunity for past and present crimes.

The moral disintegration of the West, its acquiescence in the crimes against humanity in Central America is the prelude to the mass media's active complicity in the mass bombings of the cities in Iraq.

The liberals, Social Democrats and Christian Democrats have abdicated their moral responsibility through their complicity in mass terror and state disintegration of the Third World. This moral vacuum creates an opportunity and challenge for the left; to inform the moral conscience of the people and to formulate new moral standards that destroy the techno-imperial myths. People everywhere sense they are being lied to about Central America and the Middle East, even if they cannot smell the bodies burning or see the eyes gouged out. They know the U.S. is not innocent when military officials on the U.S. payrolls murder Jesuits. They know that B-52 bombers drop bombs that destroy entire blocks of housing, not just military installations. The challenge for the left is to activate that moral conscience to renew sensibility to the crimes of the murder machines; to fight against the acceptance of bureaucratic routines of mass killings.

Social disintegration has spread widely and deeply in the U.S. and Europe. Homeless people proliferate everywhere. What a decade ago was seen as exceptional has now become routine. Entire generations of young people have "no future" in the dead end, low paid service sector, less in high tech industries. Entire neighbourhoods are condemned to drugs and crimes and early death or are taken over and demolished by rentier capitalism. Increasingly, the disintegration impinges on the middle classes, as they lose hold of their precious possessions, health and educational awards and their own employment becomes precarious. A deepening recession can become a great equalizer between the lower and middle classes.

But disintegration does not necessarily lead to leftist radicalization or the "inevita-

bility" of social upheavals. Downwardly mobile classes can resist their downward mobility by ever more clinging to their marginal status differences through racist, exclusionist or chauvinist politics; violent frustrations can turn inward toward the household and self; individual assaults are as likely as collective uprisings. As the neo-liberal model crumbles, the strategy of the ruling class is to 'insulate' itself from the rest of society; more police, prisons, judges, more security systems, private police and armies. The "bunker mentality" at the top, with its television towers, mass spectaculars and overseas wars to distract the masses or externalize their aggressions. But even here the dialectics of opposition emerges; the mass spectaculars turn into street wars; the consciousness of the returning soldiers to the ghettos harbour deep resentment after serving the rich and returning to poverty; the impact of media propaganda repeated too often, in too many contexts, loses its effectiveness.

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The world emerging from the neo-liberal model resembles less John Stuart Mills' liberal utopia than the Hobbesian world of "war of all against all". Contrary to Marx, the society of self-organized producers will not result from the "socialization" of existing capitalist economy. What relations do the millions of uprooted by speculative capital have with stockmarkets, leveraged buyouts and office buildings? Socialism will not and cannot grow out of capitalism that atomizes producers and destroys communities and breeds passivity and individual violence. Against the economy of pillage, there is little to build from to a new society. Its sites of economic activity are not the arenas for popular organization and

struggle. On the contrary, the organization and struggles begin outside in the streets, assemblies and communities that encircle the sources of pillage and prepare to take over and uproot the institutions of pillage and the "hot air" industries that surround it (lawyers, publicists, market and public relations experts etc.)

Marxism's relevance is built on the notion of class exploitations and class struggle. His 'scientific' discovery of the contradiction between social productions and private ownership became the basis for his dialectical notion that capitalism creates the condition for its overthrow in the very forces that it creates to reproduce itself. What I am suggesting is that the algebraic symbols, "classes" and "class struggle", are historically and socially determined and specific to each phase or type of capitalism. In the present phase, it is not only classes of workers and capitalists that occupy center-stage, but a mass of uprooted young people with specific

gender, age and racial content that confront a concentration of 'fictitious capital', that this "class conflict" takes place not at any particular productive site (the factory or industry) but throughout the society (in homes, streets, stores, culture etc. In which fictitious capital operates) and it is a total struggle in the sense that the survival and reproduction of fictitious capital does not depend on healthy, educated workers (as was the case under industrial capital), but in the continual and deepening marginalization and perhaps, in the most extreme case, their physical elimination (through disease, malnutrition in the South, through drugs, jails and local wars in the North).

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THE BENEFITS OF A NATIONAL SHIPPING

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A national shipping line is a useful requirement for any country. Developed countries which are mostly in the category of traditional maritime nations have conceptually a broader interest in national shipping lines than developing countries. The developing countries require a national line basically to lift their imports and exports and function as a stabilizer between stronger fleets of developed countries. National shipping lines have been recognised by international rules and conventions in deference to the greater social response to the cause of these lines.

The United Nations Conference on Trade and Development has already obtained world consensus on the effective role of national shipping lines with its far reaching policy of 40:40:20 cargo shipping rule in international trading between countries. This confirms the cross trading potential available to all lines in addition to the sharing of their own national cargo.

The developed maritime nations have been engaged in cross trading for a long time and their interest in national fleets is to sustain this interest and additionally provide employment to their nationals whilst catering to political and military interests. To this extent the interest in their national fleet is broader in concept.

The importance of a national line of a developing country is better illustrated in achievements than by theoretical presentation. This is a better yardstick to meet the criticism of certain self interested people who propound various theories against national shipping of developing countries.

It is proposed in this note to bring out the direct and in indirect benefits of the presence of the Ceylon Shipping Corporation to the country during the last 20 years of operation particularly recounting the vistas opened by the line and the contribution in the movement of Sri Lankan cargo competing with other lines. Shipping cannot be treated as a factory operation. There are many exogenous factors that affect an internationally trading line. The

rising cost of chartering, volatility in bunker prices and currency parities, the trade imbalances due to change of demand are examples of exogenous influences. The usefulness of national shipping therefore has to be evaluated in an entirely different perspective. CSC whilst confronting these had to struggle with local expenses. This was particularly evident in the delivering value of the Sri Lanka rupee against hard currencies. In 1986 US Dollar fetched Rs. 28.5 whilst in 1989 it was Rs. 40.0. The Japanese Yen commanded Rs. 0.18 in 1986 and Rs. 0.28 in 1989.

The start up of CSC under a system of cargo protectionism was not expected to be inimical to the economy. In fact developed countries still operate cargo reservation schemes to ensure cargo for their national lines particularly movement of aid cargo, military cargo and to ensure a versatile national crew a very valuable requirement to them.

It is understood that the French Government cargo is lifted in French bottoms and this is also so for certain German cargoes. In reality USA is one of the main proponents of cargo reservation in the world as 75% of all US food to developing countries has to be carried in US ships.

In the above circumstances developing countries are not alone in cargo reservation. In most fields developed countries provide the lead.

Freight rate policy of a national shipping line is of tremendous significance for the future prospects of exports and earning of foreign exchange for the line. On the basis of commercial principles a line is not obliged to lift any commodity below its marginal cost of operation. Promotional rates also should be above the marginal cost of operation but not at the highest end of the schedule of rates. When competing lines only prefer to lift high rated cargoes, the national line cannot bargain the future of low freighted cargoes. It is obliged to lift all cargoes for the sake of national interest.

Flexibility in rating policy is a condition

aspired by a national line for dedicated service to the nation. This could be only financial base of the line. If the lines are unable to ensure operational surplus a flexibility in rate structure cannot be expected. CSC however has a proud record of providing freighting opportunity for a wide range of products due to operational surpluses.

A National lines freight rate structure is a vital instrument of policy. Proper handling of the commodity liftings would enable her to divide the impact of freight rate increases between buyers and sellers. With regard to some commodities, the burdens of increase could be passed on to the buyer. This brings us to the concept of elasticity of demand which if properly handled with appropriate negotiations with seller could ensue considerable exchange earnings. The national line will provide this opportunity to sellers.

On the subject of freight rate it should be emphasized that National lines ensure net foreign exchange savings. Over the 20 year period under exchange savings CSC has a proud record saving a considerable amount.

At present there is a general tendency towards liberalisation of trade and services including shipping and withdrawal of subsidies and protectionism. This general tendency has been accepted by certain countries but certain others had not. If this is the position again the equation will be unbalanced. The effect of the Corporation's activities undoubtedly assisted the port in its modernisation programme.

After operating a conventional services for a decade in the 1970's the CSC was bounden to introduce cellular operations to be competitive in international transportation. When other shipping lines were reluctant to use Colombo for container operations CSC initiated such a operation with the Neptune Orient Lines of Singapore in the UK/Continental service. Of this initiated extension of the QEQ for container handling, CSC provided the port with assistance additionally in

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To be useful, Marxist concepts must recognize and incorporate the new realities of restructured capitalist class systems; its concept of class struggle must be deepened to look at the new sites of conflict and new organizations of combat. While trade unions and electoral parties grew out of a homogeneous industrial working structure, socio-political movements reflecting the greater social and cultural heterogeneity respond to the organizational needs of the new struggles. The concentration of political power in the executive cliche of government and their prompt and immediate responses to the needs of fictitious capital marginalizes parties and legislatures. When the real estate interests claim the land sites of the poor, the executives organize the army and police to precede the bulldozers. The politics of executive militant direct action can only be answered by collective direct action from the movements. By the time the new elections come around, the neighbourhood will be a parking lot; by the time the Congress investigates the issues, steel and glass office buildings and luxury apartments will already be in place.

The Marxist alternative to the Hobbesian world is built on three inter-related but tension-wracked pillars: socio-political movements of the uprooted and marginals (squatters) whose allegiance and interests can only be sustained by direct action; political parties and trade unions linked to industrial workers, public and private employees linked to industrial action and electoral politics; Internationalist movements of ecologists, women, gays and solidarity groups which combine and oscillate between the previous two

groups in the style and nature of their politics. The first has the most revolutionary style of politics, but it is difficult to sustain; the second has continuity and institutional solidity, but tends to become absorbed in routinized channels of opposition; the last has continuity, militancy, but avoids a comprehensive revolutionary strategy in favour of sectoral demands and pressure politics.

The challenge for the left is the struggle to transcend the inertia of the electoral parties, to build direct actions from the local to the national and international level and to bring to the social movements a revolutionary conception of power.

Why speak of revolution in a time of counter-revolution? Of neo-liberal triumphalism and super-power military conquests? Because the triumphalism to built on sand, as our previous discussion has taken cognizance of..... because the objective conditions are creating conditions for confrontation.... because the rising tide of irrationality must be stopped if we are to avoid being swept into the vortex of escalating militarism, intensified imperial competition, social disintegration using chauvinism and the everyday lies that saturate the mass media and therefore everyone of our everyday lives. Why 'revolutionary' and not 'reform'? Because it is not a local war, an occasional lie, a small time racist but deep structural forces that move across borders and define an historical period. We have seen them, seen all sorts of reformers, North and South, East and West, who impose energy controls in years of mobilization, to see them quietly and quickly reversed by executive decree the next; who refuse to

pay part of the foreign debt, or increase public welfare and who suffer the consequences of private capital flight; who promote welfare reforms in periods of capitalist expansion and dismantle them in periods of contraction. Reformers who fabricate illusions of cumulative improvements leading to liberal and/or social democratic utopias and who end up collaborating in wars against the Third World, pillage of annexed nations, and orders of expulsion against unwanted aliens. That is, of course, the best of the reformers: the SPD. And the others, the Walters and Haysels who have turned their countries into cruel laboratories for free market experiments of pillage and takeovers and soup kitchens for under and unemployed millions! Today, to be rational is to be revolutionary; to resist the rising tide of irrationalism, that talks of intelligent bombs that kill thousands; that pretends to destroy military objects while savaging cities; that finances death squad regimes to murder a quarter of a million peasants and workers in Central America in the name of defending Western democracy; that saturates its media with military strategies, military goals and military pundits militarizing the culture and turning millions into reflex flag wavers.

When crimes become respectable, the respectable become criminals. To resist this irrational wave that threatens to inundate us requires solidarity, movement, action and courage to sustain rationality; that is what it means to be a revolutionary today. The old order is dying and threatens to bring us down with it. The new order is struggling to be born.

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the form of equipment viz straddle-carriers for this momentous operation. These initiatives transformed the port much earlier for container handling and gave a lead to competitors. Today the port of Colombo has really discovered its locational advantage as an attractive transshipment port. CSC's initiative in this direction when operation was divided in promoting containerisation assisted her to increase her cargo shares to the UK/Continental destinations. This dramatic development finally compounded with CSC developing a lucrative trade route lifting sub-continental cargoes as well. Presently CSC oper-

ates five chartered vessels on this route and won twice the silver, awarded by the European Freight Publishing of the UK as shipping lines of the year on this route. These are indications of sound management policies. Shipping unlike any other industry tends to stand or fall by its own efforts rather than bad or good fortunes in the internal economy of its country.

CSC's presence in the maritime scene of Sri Lanka had ensured carriage of Sri Lanka cargo some of which were rejected by the other lines as non remunerative cargo. These included the carriage of mattresses, coconut shell, charcoal etc.

Sri Lanka's gradual transformation from an agricultural economy to a semi industrial country has no doubt been propelled by sound economic policies. However the availability of CSC's services for the carriage of Sri Lanka cargo provided impetus for the development of semi industrial products. Today the cargo mix is different to that of the 1970's and include many industrial products and garments. Shippers will recall with gratitude the incentives offered by CSC. CSC's presence ensured the widest coverage to most destination the shippers had orders in large or small parcels.

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ETHNIC CONFLICT AND THEIR RESOLUTION: CASES FROM INDONESIA, MALAYSIA AND THE PHILIPPINES

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Introduction

Ethnicity and ethnic conflicts have not only persisted over time but have transformed and re-emerged into a new life in the context of what is known as "ethnic revivalism". This revivalism is not only an internal phenomenon of Third World societies but an imbrication into the polity of developed and highly industrialized countries. Moreover, ethnic nationalism has manifested with renewed vigor both in capitalist and socialist societies. It transcends ideologies, politico-state boundaries and does not recognize socio-economic systems.

The revival of ethnic nationalism cannot be framed nor analyzed within any ideological concept – it is neither left nor right. It is a phenomenon whereby separate ethnic and identity groups seek autonomy within a wider system of relationship. It indicates people from "diverse ethnic groups have moved closer together with a persistent demand for recognition as a distinct group with a national make-up" (Asian 1989 : 56). In other words, ethnic conflicts are symptoms of lack of recognition and autonomy from a State which imposes unity on one hand, and ethnic groups which oppose homogenization and who opt to remain different from the rest of the population on the other hand.

Understanding ethnic conflict requires the discernment of the generic nature of conflict. Evidently, issues which relate to ethnicity, i.e. assertion of cultures, communal upsurges, revivalism of religions, movements of marginalized peoples, regions and nationalities, and the like, deal with deep ontological needs of people that cannot be compromised nor regulated and controlled by any authoritative third party. These essential and inherent human needs and developmental aspirations of the people have to be satisfied through constitutional or politico – structural changes and socio-economic cultural adjustments and accommodations. In as much as ethnicity refers to the human ontological factors, conflicts arising from cultural differences cannot be settled through coercive and authoritative measures. Nor can it be

contained, controlled and suppressed by mediation, arbitration, adjudication or any existing judicial processes at the disposal of the State but can be resolved only by the satisfaction of such needs (Burton 1991; 62-72).

Ethnicity represents the affirmation of peoples' diversities, authenticity of indigenous peoples movements against threats to their cultural survival, and ubiquitous minority struggles for self-determination. Their legitimate demands involve non-negotiable ethnic interests and cannot be compromised. The non-recognition of this phenomenon or its misunderstanding by and among the power elites has contributed to the exacerbation of ethnic conflict in various polyethnic nations and multi-national states.

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This paper is an attempt to explore the dynamics of ethnic conflicts, the actors involved, and issues raised by contending groups or parties in three countries, namely: Indonesia, Malaysia and the Philippines. Moreover, general recommendations were suggested varying from political, economic and socio-cultural measures. It is hoped that this paper would reflect the needs and demands of heightening ethnic and racial consciousness and the growing social diversity and cultural heterogeneity of the masses.

Commonalities and Differences of Ethnic Conflicts

The dynamics of ethnic conflicts in Indonesia, Malaysia and the Philippines can be characterized as problems of political integration of multi-ethnic societies in a nation-state. Conflict arises when the State, as a political unit and an instrument of socio-cultural cohesion, attempts to establish to modern and integrated politico-economic system, usually bourgeois and capitalist-oriented, in complete disregard of parochial parameters of the smaller self-identifying communities whose social formations are asymmetrical to the capitalist mode of production and where cultural differences persisted from that of the dominant culture.

The effort to consolidate and assimilate the diverse ethnic groups in these countries under their respective governments is one of the more formidable challenges facing the strivings toward nation-building. The problem of integration of these multi-ethnic societies is intimately linked with the conflict processes that have to be resolved at the roots rather than palliatively settled by accommodation.

However, cases from the three countries indicate that conflicts borne out of ethnicity and ethnic consciousness have been conveniently and effectively used by the ruling elites to perpetuate a narrow ethnocentrism and blind chauvinism serving their economic and political interests, thus sharpening the tense conflict situation in each country.

In the Philippines, the political elites of the Christian dominated government have used "developmentalism", as a modernizing project and ideology, to homogenize all the diverse cultures and identities to

give way to a totally secular social order defined within the parameters of capitalist development and progress. This created a uniform spread of commercial values and conspicuous consumption based on Western, specifically American, lifestyles and the hegemony of the market. It is assumed that the universality of the developmentalism, as a culture, serves the greater interest of "nation-building" and "national development".

It is further assumed that with the developmental paradigm, ethnicity and ethnic identities will wither away as an anachronism, self-destruct, and yield the diverse cultural terrain to the modern State and modernizing missions. In other words, secularism of the State is intended to remove all diversities and undermine

In Cordillera for instance, the attempt to construct four dams along Chico River Basin and Pasil River aimed at providing 1010 megawatts of hydro-electric power for electrification purposes of northern Luzon would mean the displacement of more than 100,000 people belonging to various ethnic groups, submersion of fertile agricultural lands, burial grounds, and ancestral lands. Moreover, the conversion of their ancestral domain into a logging area by virtue of a logging concession granted to a Marcos crony would disposes the Cordilleran minorities of their own resources.

The State's expression of ethnocentrism through its technocratic view of development denies respect to other identities, its culture, and ways-of-life. The process of

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allegiances of ethnic groups based on religion, language and culture and create conditions towards a post-ethnic consciousness.

The superimposition of development programs and projects conceived by the Christian majority, rather than accelerating the integration of the Cordilleran and Moro minorities of northern Luzon and Southern Mindanao respectively in the national polity, engendered a deep sense of alienation from the system, the State and the nation. The attempt to "modernize" the so-called primitive cultures of the minorities failed and instead ossified cultural and ethnic identities and provoked ethnic conflict and communal violence.

hastening development through straight jacketing and steamrolling all opposition to its own view of modernity is not only chauvinist but fascist. This process simply precipitates violence and ethnic conflict. It is to be noted, moreover, that in the process of subjugating Cordilleran identity and autonomy the Christian and acculturized Cordilleran elites managed to retain vast secular, both economic and political, power and control over vantage points in the State and economy. Ethnic conflict was used for the purpose of centralizing power to the elite class and eroding the effectivity of major indigenous institutions (*bodong* or peace pacts) in which the people can participate in decision-making affecting their own future and destiny.

In Muslim-dominated areas of Mindanao, also in the Philippines, conflict arose between the Christian majority and Muslim minorities when the State gave preferential treatment to the former in terms of political and economic concessions. For instance, the declaration by the government that Mindanao is a "Land of Promise" and appurtenant liberal policies it instituted in terms of trade, investments, and commerce encouraged foreign multinational corporations to encroach on the inherent property rights of the Moros on their lands. Moreover, the conversion of some areas of Moroland as resettlement area brought about the influx of Christian Filipinos from the Visayas and Luzon to permanently settle and acquire lands for themselves in complete disregard of the Moros' primordial birthright over their ancestral lands. These policies were legislated in the interest of "national development".

This situation explains the existing rift and prejudice between the Christians and Muslims. The latter view the former as landgrabbers and exploiters and responsible for the present sufferings and poverty of their people. On the other hand, the Christians point at the Muslims as responsible for creating the political and economic instability in Mindanao. Apparently, the present conflict which started as conflict over the ownership, control, and use of resources has been coloured with religiosity and interpreted to be a religious conflict.

Essentially, the religious conflict between the Muslims and Christians in Mindanao has a political and economic underpinning. Inasmuch as the Philippine unitary government is dominated and controlled by the Christians, the Muslims believe that it cannot represent their interests and aspirations nor understand their quest for political and economic autonomy. This assessment may not be entirely correct because there are a lot of Christian Filipinos who remain sympathetic to what the Muslims have been fighting for.

However, it is an undeniable fact that the government has been instrumental in allowing migrants, who by virtue of their religious affiliation are Christians, to

dispossess the indigenous people of Mindanao, who happen to be Muslims, of their lands. This "accident of religious affiliation" has been used by the government to maintain the rift between the Christians and Muslims and legitimize the use of force and State's military power to intervene over the internal affairs of the Moro people.

The negligence of the government over the economic and political welfare of the Moros does not necessarily mean the promotion of human well-being of the Christians in Mindanao. The plight of the Christians are equally neglected. However, the ethnic conflict which hinges on religion has been the convenient scapegoat of both the national and local political leadership for their failure to solve the impoverishment of the masses.

The dichotomy of *Bangsa* and non-*Bangsa* politics contributed to the prejudice and animosity among various ethnic groups in Malaysia. As the *Bangsa* groups assert their political hegemony, the non-*Bangsa* feel that they are discriminated in their own country. This identity crisis forms the basis of social conflicts — ethnic, religious, and class based.

In other words, the elite made use of the animosities between the Christians and Muslims to exonerate themselves from the responsibility of instituting economic and political reforms in the areas where Muslims and Christians thrive. Furthermore, the exacerbation of ethnic conflict became advantageous to the ruling elites as this promoted inter- and intra-ethnic conflicts and divisions, as in the case of the Muslim rebels and Christian opposition groups, and provides them the opportunity to consolidate their power in government.

In Indonesia, ethnic conflict is reflected between the Chinese migrants who control the Indonesian economy and the *Pribumi* who are predominantly Muslim. The latter believe that the domination of the economic and financial interests of the

country by the former has resulted in their marginalization and impoverishment, thus losing control over their own resources. The role of the elite, specifically Suharto, in maintaining inter-ethnic conflict in Indonesia has some similarity with Malaysia and the Philippines in the sense that the elite has conveniently used this ethnic differences in perpetuating itself in power.

It is to be acknowledged that in Indonesia, Suharto has treacherously connived with the Chinese capitalists and businessmen to promote his own economic interests. On the other hand, the Chinese have politically supported Suharto's regime in exchange for economic concessions and protection through legislations and policies benefitting the former's interests. This politico-economic

arrangement between the Suharto and Chinese capitalists has earned the ire of the *Pribumi*.

However, one political actor which remains a significant landscape in Indonesian politics is the military unlike in Malaysia and the Philippines, except the recent events in the latter. The military has traditionally performed an important stabilizing institution in the country. And Suharto has to satisfy the corporate interest of the military in order to remain in power.

The ethnic tension between the *Pribumi* and Chinese has to a certain extent threatened the stability of the State. This predicament, as far as Suharto is concerned, can be made an excuse for the military to intervene and thus, poses a

It must be noted, however, that the nature of internal conflict in Cordillera and Moroland are of different complexion although rooted in the same source – the political and economic disenfranchisement of the minorities over their own domain in their own indigenous way. For the Moros, conflict has been instigated and perpetuated by the national government through internal colonialism. Policies of the government which encourage Christian Filipinos to intrude and exploit the Moroland for the interest of the national government have been perceived as unreasonable and a form of colonialism.

On the other hand, the Cordillerans, who are in the process of building a nation of its own as a result of government's neglect over their welfare by virtue of their geographical location, perceive that the development efforts of the government are an affront to the indigenous peoples' socio-economic, political, and cultural integrity. In other words, the majority – minority dichotomy in Cordillera is largely a case of the super imposition of the national government's policy that serves the interests of the lowlanders rather than the highlanders.

For the Philippine case, the minority and other dominated groups are often at a disadvantage under the present arrangement and find themselves being made to conform with the requirements of the ruling ethnic majority or of its narrow elite component. Thus, in order to preserve their identities as distinct peoples, they espouse interests and values contrary to those of central government and the dominant elite classes. Issues such as the conflict between central and tribal legal systems, the preservation and development of indigenous cultures and utilization and control of natural resources, among others, have been long-standing problem areas.

On the other hand, inter-ethnic conflict in Malaysia was brought about not by the animosity between the indigenous and acculturized people like in the Philippines but the presence of large number of immigrants, especially the Chinese and Indians, who have acquired Malaysian citizenship. This caused tremendous psycho-

logical threats to the Malay indigenous population who wish to retain the Malay identity.

The multi-ethnic composition of Malaysia was a result of the indirect rule of the British who took advantage of the cheap labour resources of Asian peoples to work in Peninsular Malaya. The migration of the Chinese was encouraged in the late 19th and early 20th century after the economic upheavals in China. They dominated the lower levels of the planting, mining and merchantile sectors of the economy. On the other hand, large-scale Indian labourers were transported in Malaysia from Southern India to work in rubber plantations. The Malays, however, remain to live in an established feudal order with its own recognizable social, cultural, economic and political institutions. The Malay rulers continue to

dominance has always been seen as a threat to their economic position. The differentials in terms of economic activities and income distribution aggravate the already existing cultural differences.

On the other hand, psychological insecurity among the Chinese likewise existed in terms of education and culture. They fear that Malay political control will bring about an increasing degree of Malayization of Chinese education and culture. Thus, government efforts to promote Malay as the sole official and national language are seen as deliberate moves to undermine Chinese education. These perceptions are very important in reinforcing ethnic prejudices and fears.

Furthermore, Malays and non-Malays are differentiated between *Bumiputra* (Malay indigenous people) and non-

The devolution of powers and authorities from the national centers to the lower governmental apparatus would provide the various communities more space for self-governance and place their identity and pride within the larger human setting.

exercise dominion over their small sultanates but stripped of effective political control over the affairs of their polity in exchange for fixed stipends provided by the colonial master.

For the Malays, the feeling that the large number of immigrants, especially the Chinese who dominate the economy fear that they will eventually take over the nation's political power with the growing number of professionals and intelligentsia coming from the ethnic group. While the Indians have mainly tapped in the estates, the Malay remain as a backward group living in the rural areas.

The psychological factor which arose from the feeling of insecurity among the Malay population resulted in a rather tense situation. For the non-Malays (Chinese and Indians), the Malay political

Bumiputra (Malaysian citizens but having their link with the immigrant groups even if they were born in Malaysia). This dichotomy is a major consideration in almost all spheres of political life in the country and affects all forms of activity whether political, cultural, economic and educational.

Apart from the psychological factor which maintain the division of the population along ethnic lines, the introduction of the New Economic Policy (NEP) in 1970 further distinguish the *Bumiputra* from non-*Bumiputra* especially for legitimization purposes and for mobilization of the Malay masses by the Malay elites. The NEP promoted the interests of the Malay and non-Malay elites and consolidated Malay capitalist class in political circles rather than solving rural poverty within all ethnic groups.

great danger to Suharto's political power. Given this situation, Suharto has shrewdly used the cause of Islam in order to gain popular support from the Prihakis and the military and eventually diffuse the brewing tension between the Chinese and Prihakis without severing his economic ties with the Chinese capitalists.

Apparently, this political maneuvering of Suharto in essence has consolidated his power without resolving the ethnic conflict.

In the Malaysian case, ethnic balance is maintained by causing the alliance of political forces within the national institutional framework. However, the dynamics of ethnic bargaining reveals the potential conflict areas beyond the spectrum of power sharing among the elites.

The institutionalization of ethnic policies, by the ruling coalition consisting of UMNO (United Malays National Organization), MCA (Malay Chinese Association), and MIC (Malayan Indian Congress), facilitated the accommodation of ethnic interest at the elite level while political organization at the mass level was carried out along the same ethnic lines. Moreover, the unity of the elite was strengthened with the formation of the National Front which incorporated most of the other ethnically based political parties. This set the stage for greater ethnic consciousness in general and weakened other multi-ethnic or class-based political parties. In general, this led to a waning of all sorts of radical interpretation of political process, socio-democratic and liberal multi-ethnic trends in the society.

This process, apparently, maintain inter-ethnic competition in a subdued and controlled manner orchestrated by the elites in order to perpetuate themselves in power. In other words, the division of the population along ethnic lines served both the economic and political interests of the ruling and dominant ethnic group. Obviously, there is no intention or intention on the part of the government to alter such political arrangement. Thus, ethnic tensions and conflicts remain and are conveniently used by the ruling class not for the interest of national survival but for their own survival.

In all three cases, the role of the elites in using ethnic consciousness to perpetuate a narrow ethnocentrism and chauvinism as well as to maintain themselves in power is apparent. Obviously, the elites have no intention to resolve ethnic conflict but made it a convenient excuse for consolidating their power bases. Although the Malaysian case depicts a relative ethnic balance in the political scale, the ontological nature of ethnic conflict in all countries remains to be appreciated and understood. Unless this is done, ethnic conflict will continue to threaten the stability of the State.

Apart from the alluded similarities of ethnic conflict in three countries, their differences lie in the formation of ethnic groups brought about by the differences of their colonial history. Inasmuch as all

In the Philippines, the Cordilleran and Moro minorities in Northern Luzon and Southern Mindanao respectively speak of their respective common identity and consciousness which have been consolidated into Cordilleran and Moro nationalism, as a result of their continuing struggle against threats to their ancestral lands perpetrated by the Christian majority and foreign multinational corporations.

There has been an explicit recognition and acceptance among the Moros that they indeed live in a separate Nation which certainly has a common culture and distinct social system. The same is true with the Cordillerans who believe that the distinctiveness and peculiarities of their social system separate them from the majority's culture.

The sense of insecurity which grips the mind of the non-Bumiputras lead into a deep sense of alienation from the national policy. This in turn produces fanatics and fundamentalists who take on a more aggressive stance against the Bumiputras.

these countries were once colonies of Western powers, i.e. the Philippines under Spain and U.S. tutelage; Malaysia under the British, and Indonesia a former Dutch colony, ethnicity is expressed in different forms.

In the Philippine case, two major ethnic groups continue since time immemorial to assert their cultural identities from cultural hegemonism and internal colonialism foisted by the Christianized and acculturated majority. The majority-minority dichotomy in the Philippines is a creation of the colonial history, whereby the majority people are those who were subjugated and colonized by the imperial powers and thus adopted colonial culture as their own. On the other hand, the minority people are those who resisted colonialism and were able to maintain the indigenous culture of the Filipino forebears.

The general feeling of living in a separate nation from the majority people has been expressed by their aversion to one-sided "national integration" that would seek to remodel the Cordillerans and Moros in the ways-of-life of the Christian Filipinos. In other words, there is a prevalent sentiment of hostility to other groups, especially if this would threaten their separate national existence. Apparently, the institutionalization of a foreign-sponsored unitary system of government that is followed by the current Christian government to the present continue to pose limitations to the autonomy quest of the Cordillerans and Moros. The inherent centralism of the unitary state remains a threat to the fullest development and advancement of their national interests which is not necessarily the interest of the central government.

The dichotomy of *Bumiputra* and non-*Bumiputra* contributed to the prejudice and enmity among various ethnic groups in Malaysia. As the *Bumiputras* assert their political hegemony, the non-Malays feel that they are discriminated in their own country. This identity crisis forms the basis of social conflicts – ethnic, religious and class based.

The paranoia between and among ethnic groups in Malaysia strengthens the ethnic identities of each group. The sense of insecurity which grips the mind of the non-*Bumiputras* lead into a deep sense of alienation from the national policy. This in turn produces fanatics and fundamentalists who take on a more aggressive stance against the *Bumiputras*. The latter, on the other hand, matches the paranoia of the former that gives rise to majoritarian chauvinism. Apparently, it is this kind of psychic state of mind between the *Bumiputras* and non-*Bumiputras* that has been the continuing source of potential ethnic conflict in Peninsular Malaya. Unless the source of this brewing conflict is defused, any temporary alliance between ethnic groups welded by the elites will eventually collapse.

The Muslim-Christian conflict in Indonesia, on the other hand, is not a result of majoritarian chauvinism as shown in the case of Malaysia but a paranoia of the majority. The *Pribumi* Muslim majority invoked a sentiment of "threat to the unity of the country and Islam" the presence of the Chinese Christian minorities who have done better economically compared to the majority who continue to languish in poverty.

Although the Chinese comprise merely four percent (4%) of the population, the *Pribumis* foment a deep sense of alienation and discomfort as Suharto and the elites have maintained a strong umbilical cord with the former for its own economic benefit. The stress and insecurity of the indigenous people comprising the majority have been internalized by individuals, groups and entire social strata, thus leading to violence.

As the Muslim majority feels beleaguered by the minorities that are seen as having preferential treatment from the State in terms of economic concessions and support, the minorities do not suffer from "minority complex". Apparently, the Muslim-Christian conflict in Indo-

nesia is a creation of the majority as a result of privileges, favours, and patronage extended by the State to the minorities – the economic elites. However, what is narrowly seen as communal violence and conflict between religion is simply a reflection of deeper conflicts between a fragmented civil society and the State.

The Muslims do not simply see the Christians as excluding them but view the latter as the instrument of the State for disenfranchising them from meaningful participation in the economic and political affairs of the country.

As these vulnerabilities are created by the State, each time it intervenes to create social security, new fears are generated in peoples' minds that the State is merely acting to re-establish the hegemony of the minorities.

The concept of unity through diversity is inherently democratic and can effectively sustain a process of change without leading to alienation, justice without polarization, and a framework of peace that conditions self-affirmation of individuals and communities. It is through the recognition of ethnic diversities that conflict can be transformed as a catalyst for social change towards a more democratic and pluralist society.

Resolving Ethnic Conflict

General Recommendation

From the three cases, it can be concluded that ethnic diversity is a resource that must be built upon to create national unity rather than a problem that must be managed. It is a basic resource emanating from ontological human as well as natural orders. It is an essential characteristic of culture inherent in human history and therefore must be recognized as *it is* rather than altered.

Inasmuch as the issues besetting ethnic conflict border on the quest for political and economic power of ethnic groups and/or a more equitable distribution of power whereby these groups can have a better opportunity to define their own future, a movement for *political decentra-*

lization must be in place. The devolution of powers and authorities from the national centers to the lower governmental apparatus would provide the various communities more space for self-governance and place their identity and pride within the larger human setting.

Diversity would only endure on the basis of unity which is neither imposed nor passive but are rooted in mutual respect of various diversities, multiplicities, and co-existence and togetherness. Moreover, it must rest on a political system and structurally arranged where justice, equality and authenticity of diverse cultures and lifestyles are respected and promoted.

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The Small and Medium Export Sectors, and Development of Trading Houses in Sri Lanka

Ariya Abeysinghe

"We will broaden our economic structure, so that the whole population can enjoy the dividends of the liberalized economy. Those who are rich can use their riches to make others rich. The sphere of export can play a major role in this. We have now further liberalised the setting up of export-oriented industries anywhere in Sri Lanka, which will make the entire country an export processing zone. As exports grow, trade will replace aid. Then we will become truly independent" - President Rajasinghe Premadasa.

The Greater Colombo Economic Commission (GCEC) now provides a package of incentives for investment of less than Rs. 10 million in the target sectors of export-oriented agriculture and fisheries projects; handloom textiles, rural industries products and other handicraft items, trading houses for export of agricultural and fisheries products, handloom textiles, rural industrial products, handicrafts, management consultancy (investment promotion) and export-oriented computer software industry. In the case of Trading Houses a company could be 100% Sri Lankan owned or 100% foreign owned or a joint venture. The company will have to have a minimum capital outlay of Rs. 1 million inclusive of working capital. The company will have to export not less than 90% of its products purchased from local sources, supplied by approved purchasing centres under the Janasaviya Scheme, registered growers and/or manufacturers. It has definitely to be a new business and not a new model of a reconstituted existing business. Finally, the business should not involve the transfer of the assets of any existing business in Sri Lanka. The incentives granted to all eligible trading houses includes 5 year tax exemption, partial tax-credit (under Section 43 (A) of the Inland Revenue Act (1979), exemption from I.T.Ds and turnover taxes on plant, machinery, equipment, raw materials imported, right to have a foreign

exchange account, credit facilities from DFCC, NDB and local banks.

Since there is widespread recognition that small and medium enterprises offer considerable potential for exports, yet this potential has not been exploited fully.

Role of Export Development Companies

The role of Trading Houses in the export trade of the country, has not received its rightful share of recognition. According to a study in Canada, nearly 40% of the export trade of Canada outside the United States of America is contributed by trading houses. The role played by the general trading companies of Japan, Sogo-shushos, is also well known.

There are seven options available for small/medium enterprises in the form of export marketing channels.

- (a) A Trading house/export development companies;
- (b) An indigenous Manufacturer/exporter to whom the Small/Medium enterprises is an ancillary;
- (c) A multinational to whom the Small/Medium enterprise is support manufacturer;
- (d) A foreign buying agency;
- (e) A foreign manufacturer to whom the Small/Medium enterpriser is a subcontractor;

(f) A state trading agency;

(g) Direct exports by the Small/Medium enterprises.

In many developing countries, substantial direct exports by small/medium enterprises take place and most export promotion policies are geared to this class of Small/Medium enterprises capable of finding and sustaining export markets. Substantial exports of Small/Medium enterprises also take place through indirect export channels, including those listed above but adequate attention has not been given in many developing countries to provide a wider option to small/medium enterprises for their exports and to improve the service from available marketing channels.

Export merchant House could play a dynamic role on export business initiatives in developing countries in a variety of ways including:

- Tapping economies of scale in purchasing, marketing and distribution;
- providing competitive financing arrangements;
- Assuming a major part of the risks involved in exporting;
- Catalysing product development and product upgrading for exports of the products of Small/Medium exports enterprises.

In many developing countries, there are a number of public and private export houses functioning with varying features of organisation and functions and having different patterns of relationship with Small/Medium export enterprises.

Organization Framework for Small/Medium Export Enterprises

The international market is ruthless, selective and fiercely competitive. Selling manufactured products in highly sophis-

cated markets of the developed countries, which even the large business houses of the developed countries find difficult to penetrate, is not an easy task; one can understand the diffidence on the part of Small/Medium enterprises in the developing countries to enter the export market. Small and Medium enterprises suffer from a variety of handicaps inherent in their organisational structure even when attempting direct entry into the export field with products which are competitive in price and quality.

Lack of modern technical know-how and equipment, inadequate knowledge of the techniques of modern technical know-how and equipment, inadequate knowledge of the techniques of international marketing, poor facilities for quality control or attractive packaging all add to the problems of Small/Medium export enterprises. The absence of a well organised export cell with wide overseas contracts, limitations of finance and ignorance of the changing needs and tastes of the foreign markets all point to the necessity for an organisation which has the necessary capability to intervene in the international market and assist in the full exploitation of the export potential that exists in small and medium enterprises.

Various models of intermediary organisations exist to assist the small and medium enterprises in the developing countries to export their products. They are:

- (a) The multi-national, establishing a manufacturing company in the developing country to take advantage of its low wage structure and the policies of the government which encourages the establishment of such companies;
- (b) The large trading house, established purely for the purpose of trade as a result of aggressive government policies for export promotion.
- (c) The large manufacturing organisations, highly successful in the domestic market, setting up an Export House to take advantage of the policies of government that encourage formation of such Export Houses.
- (d) The Cooperative type of Export Houses
- (e) The state owned organisations mobilizing the handicrafts and cottage sector production.

The issue is which of these models is most suitable for Sri Lanka? Which model is likely to serve the interests of Small/Medium size enterprises in Sri Lanka best and assist them, not only in breaking into new markets, but also get a better price for their produce, improve their production process, and update their technology? The socio-economic conditions in Sri Lanka, in sub sectors of the economy, in various Provincial Council areas vary and it is difficult to identify any single model that will universally satisfy the needs of all the small and medium enterprises in Sri Lanka. However experience in other countries in the Third World has revealed that the Export Development Companies would be more suitable.

The international competitiveness of exports from Sri Lanka would depend not only on the cost advantages in the production of goods and services but also on the efficiency with which certain packages of services are provided to establish exports to take place. These packages of services comprises, generally the following elements:

- (a) Handling the product in the home country;
- (b) Export logistics;
- (c) Distribution, market research and product promotion in the importing country; and
- (d) Export financing.

The cost of producing the above services, which essentially represents the cost of exporting a particular product, is the value that is added to the product after it leaves the factory gate. These are the services that an Export Development Company attempts to provide to a domestic producer/manufacturer.

The services that are rendered by the export development companies, no matter by what they are referred to, are varied. The Japanese-Sago-Shoshas not only provide the classical services related to market development, product development, export logistics and finance but also in addition involve themselves in a wider spectrum of activities. These involves joint venture, training, product assistance, counter trade, off-shore trading etc. The United States Export Trading Company Act, a guideline for a United States entrepreneur to establish an export trading company, lists the services to be provided by an Export Trading Company as follows:

- * Consultancy
- * International Market Research
- * Advertising
- * Marketing
- * Insurance
- * Product research and design
- * Legal assistance
- * Transportation, including trade documentation and freight forwarding
- * Communication and processing of



foreign orders to and from exporters and foreign purchasers;

- * Warehousing
- * Foreign exchange, and
- * Taking the title to the goods.

The services that Export development companies have to perform for their small and medium enterprises in order to make them successful exporters, which in turn involve continuity of relationship with a number of production organisations, can be broadly classified into five categories as follows:

- * Input related services;
- * Technology related services;
- * Trade related services;
- * Supporting infrastructure related services; and
- * Finance related services.

Input related services — One of the major problems faced by Small/Medium enterprises is their inability to upgrade their production technology by import/-addition of new equipment. While financial inputs are a critical area for the Export development companies/Small and Medium enterprise relationship, if this area is subdivided the area of inputs to production merits high priority. An Export Development Company which has the capacity of grouping together the raw material needs (eg. packaging materials, ingredients, rattan, special timber, feed, yarn, metal raw materials, etc.) of the small and medium enterprises is in a better position to obtain lower rates for the raw material through bulk discounts, whether it is a local purchase or imported. If this reduction in price, even after charging the cost of procurement, is reflected in the supply of inputs to the Small/Medium enterprises, then the ultimate product becomes more competitive.

Technological backup — This is an important concept. A proper appreciation of the needs of the Small/Medium enterprises in this area, will create a lasting business relationship between the Small/Medium enterprises and the export development companies.

The three essential components in this field are —

- * Quality Control and Standardization;
- * Product upgrading; and
- * Product development (including design)

There are examples of export development companies which are evolutionary in character which have attempted to exploit the existing surplus capacity as well as those which have ascertained the market needs and tried to upgrade the existing products or create new products.

In the initial stages of any marketing effort, companies attempt to consolidate their strength. If an export development company finds that small and medium enterprises have a product which has a market, it tries to capitalize on that product. This in turn, creates the need for quality control. Once the export market has been penetrated, then the trade volumes increase. This requires Export Development Companies to bring in more small and medium enterprises and in addition requires to achieve standardization of the product so that it can be manufactured by a number of small and medium enterprises. Once the market has been consolidated with a product, the export development company's marketing team identifies new product ranges and then information is passed to the technology group for product design/development/production. This can be called the watershed stage in the evolution of an export marketing strategy. Therefore a long standing business partnership between a small/medium enterprise and an export development company cannot be developed and sustained unless there is a dynamic interaction on the technological front—from the stage of assistance in the better production of an existing product for which there is an export market to the upgrading of the product itself to meet different market needs, culminating in the development of new products. Thus, this indicates the need for a strong technical infrastructure in any Export development company, an area which is not often given the importance that it deserves, leading ultimately to an uneasy relationship between the export development companies and its associate small/medium enterprises.

Trade Related Services

Most of the export development companies tend to render a varying degree of services. All the activities of an export development company relating to trading are categorised under this head. The main operating divisions of an export

development company form part of the trade related services and hence, receive considerable amount of attention from the export development companies. Broadly the components of this category are:

- * Policy and planning;
- * Operational activities; and
- * Product promotion.

The policy and planning functions in an export development company is perhaps the most important of all, to establish a constant and ever growing relationship between an Export development company and small/medium enterprises. Policy and planning primarily concerns the whole management of the export activity (from the stage of planning for the export of a product to the strategy for selling the product in the export market). The coordination of the development and systematic gathering, processing, dissemination and evaluation of market intelligence for the company's total operations is the single most important subcomponent. This will depend on a good communications infrastructure. Unless an export development company possesses the basic organisational skill in this area, it cannot undertake efficient planning for export. Market intelligence and exchange of external markets are very valuable to small/medium enterprises and the ability of an export development company to provide these to small/medium enterprises will ensure that the relationship between the export development company and small/medium enterprises are dynamic and long lasting.

The evaluation of the market intelligence gathered should take into consideration the following:-

- * the corporate strategy of the Export development company
- * the existing products and market knowledge
- * the financial resources
- * the human resources
- * the corporate policy on business development.

The lesson of the Japanese Sogo-Shushas, is that they rely on market intelligence and evaluation very heavily. Therefore, in Sri Lanka, Trading Houses will have to commit more resources to this area of management. There is a lack of proper feasibility in Export develop-

ment companies which leads to delay studies in taking decisions. This is due to lack of delegation of powers, when the firm is large. This is an important contributory factor to the relationship between the export development company and small/medium enterprises. A major drawback for small and medium enterprises is their inability to deal with bureaucracies and they should not be required to deal with this at the export development enterprise organizational level.

The other aspect is the actual marketing of the products. The relevant basic capabilities are:

- (a) Geographic specialization;
- (b) Functional specialization;
- (c) Counter trade.

The main operational divisions of the Export development company form the primary attack force. This division executes the policy decisions of the management and converts the marketing strategy into reality on the ground. Simultaneously, they also provide much needed feed back to the company team which analyses the market trends and also to the technical back up team about the field reaction to their innovations. This division has to be in constant touch with the small/medium enterprises and also with the importers. Thus, it has a major role to play in the small/medium enterprises/-export development company relationship.

The marketing of existing product, leading to the eventual introduction of the product into new markets is but one chain of operations in export marketing. To progress through the successive stages of marketing, the "area desk" of export development companies must be active. These desks, specializing in geographical area, are a vital part of the operational division of the export development company and the future strategy of the company is dependent of this information base. The greater the accuracy of market intelligence gathered by these are desks (eg. Far East, ASEAN, SAARC, EEC, Australia, Middle East, North America) the more efficient are the company's operations and greater are the profits of the small and medium enterprises. This market intelligence leads the way to the next step in the export market development, its product development.

In order to succeed in exports and maintain supplies, it is necessary for export development companies to apply new techniques to export marketing. One such technique is counter trade.

Counter trading arrangements are assuming considerable importance. It is estimated that nearly 25% of world trade is conducted on the basis of counter trade, swap deals, off-shore trading or compensation trading.

Counter trading arrangements are assuming considerable importance. It is estimated that nearly 25% of world trade is conducted on the basis of counter trade, swap deals, off-shore trading or compensation trading.

More countries are stepping up their trading technologies to be in line with swap deals and the like, to increase their export earnings.

It may be possible for even Sri Lanka to give greater attention to this type of trading which can provide outlets even for difficult to sell items.

Most of the developing countries who are involved in counter trade do so on a government to government basis. The utility of an export development company involving itself in counter trade and third country trade has much scope even in SAARC region.

Another trade related service which an export development company has to carry out and which has a bearing on its relationship with small/medium enterprises, is product promotion. Marketing of the existing products and the upgrading of the products, designing and packaging are part of the same function. A small/

It may be possible for even Sri Lanka to give greater attention to this type of trading which can provide outlets even for difficult to sell items.

medium enterprise (say in cottage industry, handicraft, toys, handloom textiles, herbs, spices, essential oils, processed products, rural industrial products) will frequently approach Export development company or Trading Houses for assistance in export intelligence and export marketing for its pro-

ducts if it is able to market these products successfully in the domestic market.

However, success in export market involves standardization and quality control if the product succeeds, the export development company, will find that volumes are such that a single small/medium enterprise is not able to sustain the demand of the export market. An Export development/Trading House essentially works on low gross margins but large volumes. Consequently, the

product promotion concept, that also involves the introduction and popularization of new brand names, a common logo (say a "Sri Lankan Elephant", a "Peacock", a "Lion") in the export market. Once a popular brand name and a logo has caught the imagination of a particular export market, its spread to other export markets become easier.

While the small/medium enterprises expect the export development/Trading Houses to popularize their product in the export market by effective product promotion measures, these measures are extremely expensive. The entire cost of a promotion campaign for a product cannot be loaded on the product. Any campaign of this nature not only has elements of product promotion but also projects the image of the export development company/Trading house. Consequently, the apportionment of costs between the product directly and the marketing overheads of an export development/trading

house become complex and have a great bearing on the continued association of the export development/trading houses and small/medium enterprises.

Supporting Infrastructure Related Services

This is an area which is not given much attention but is important for develop-

ment. They include:

- * Management support;
- * Export documentation;
- * Warehousing; and
- * Communication infrastructure.

Managerial deficiency has been cited as one of the major bottlenecks in the development of export from small/medium enterprises. The Trading Houses and export development companies are expected to possess strong managerial teams. The export development/trading Houses managerial teams has to provide discrete support to the management team of the small/medium enterprises without giving the impression of interference. They expect the Export development companies/Trading Houses to assist them in resolving their problems and often the services provided to them will be utilised in the marketing of products in the domestic market.

One important area is training. The Export Development/Trading Houses should set up a Training Division to train staff members of the associated small/medium enterprises in different aspect of export trade. The training component will grow in size and importance with the increase in the volume of export development/trading house's export trade. It should then encompass not only managerial functions but other functions such as quality control, packaging, production technology and costing of products. If the export development company/Trading House and small and medium enterprise relationship develops sufficiently, the eventual training might cover almost all aspects of running a company. It also represents an indirect cost element.

Export documentation is another important area which small/medium enterprises expect export development/trading Houses to handle. Where the title of goods passes to the trading House in the home country, the export documentation is naturally handled by the Trading House; even if the title does not pass export procedures have to be handled by the Trading Houses. These services are provided free to the small/medium enterprises and the export product price is not usually loaded with the cost of these services.

Warehousing is another important and expensive support service that small/

medium enterprises expect from a trading House. As a part of an export strategy the Trading Houses may decide to offer a supply of material on short delivery terms, which invariably involves the establishment of a warehouse, which can be bonded, in the importing country. Export warehouses play a vital part in Marketing Strategies involving mail order sales and after-sales services.

Even in the home country, pre-shipment warehousing is an important export development/trading house activity. They also undertake variety of other operations such as sorting, printing of the cartons in the home country warehouse.

Communication is an important element in export marketing as evident from the success of Japanese trading companies. This is seen in the operation of Sogo-Shoshas in Japan.

The development of an effective communication system involves the development of both the hardware and the software. Both cost money. In terms of hardware, the system pre-supposes the existence of a good network of overseas offices which are then provided with communication hardware like facsimile, teleprinter, leased-lines etc. The base communication centre with matching hardware will be at the head office of the Trading House. The software involves the building up of an infrastructure to use the hardware and the training of personnel in the collection and transmission of data. An organization which possesses the right information at the right time has an enormous edge over its competitors. This is true in international trade.

There is a need to organize information in a functional manner and on a geographical pattern at the Trading House head office, since prompt data will have to be provided to small/medium enterprises.

Finance Related Services

This involves the negotiation of a good price for the product in the export market against perhaps very stiff competition and short/automatic payment of a remunerative price to the small/medium enterprise on its product. Export marketing is a low margin, large volume business. One of the major likely problem areas between a trading house and small/medium enterprises can be the costing of the product

for purchase by a Trading House. Training in costing of products is a service that small/medium enterprises expect from a trading House. They will use the knowledge gained to secure the best possible product price from the trading company. The Trading Company has many indirect costs and it would like to pay a price which takes into account the costs involved in these indirect export activities. In product costing the maximum problems arises from the methodology of costing. If the small/medium enterprises feel that the costing is not done fairly, it will move its business to another Trading House. International trade involves long term strategies and long-term investments. If there is no sustained business partnership then investments of the trading Houses are unprofitable. Therefore, in product costing, the Trading Houses will have to strike a balance between indirect and direct cost loading.

Every service a Trading House renders to small/medium enterprises look to the Trading Houses to support them financially from the stage of raw material purchase through working capital requirements to the maintenance of a finished goods inventory. In addition they expect trading Houses to pay for the product immediately on delivery in the home country and not keep them waiting for the payment of the products until the products have been sold and payment received from the foreign buyer. Thus the Trading Houses will have to act as a Banker. It is the banking role of the Sogo-Shoshas which has contributed so much to their success.

Part II

Government Policy Initiatives to Make Trading Houses more Effective

The National Export Development Plan: 1991-1994 records that floricultural products (cut flowers, live plants, cut leaves, propagatory materials) are expected to be increased by 25% per annum in real terms in export earnings over 1990-1994 period. The earnings have increased from Rs. 1.7 million in 1980 to Rs. 140 million in 1989 whereas the total world imports of floricultural products is US \$4360 million (1987). One constraint identified is limited production base from a mere 250 acres of the total estimated supply of 800,000 MT of fruits and vegetables available annually, local

consumption is 400,000 MT. Only 9000 MT of fruits and vegetables are exported. Where India exports about 40 types of fruits and vegetables, Sri Lanka exports only about 20 types of fruits and vegetables. Fresh fruits and vegetables exports brings in Rs. 137 million (1989) and processed fruits and vegetables Rs. 141.0 million (1989) compared to Rs. 1.4 million and Rs. 6.7 million in 1977 respectively. The main constraint is inadequate supplies. Spices, coming from a 33,000 ha. of small holders earns Rs. 924 million (1987) and here too production is a constraint. Essential oils earns Rs. 75 million and has much scope. Cashew of commerce earns the country Rs. 195 million (1987). Medicinal Herbs consisting of 535 native spices and 15 naturalised exotics earns Rs. 23.06 which is 0.01% of the world market for herbal plants which is US \$ 476 million (1980). Export of handloom products from Sri Lanka is Rs. 7.6 million (1989). These trends reveals, that the canvas before Trading Houses in the incentive package offered by the GCEC recently is quite interesting and challenging.

Some small/medium enterprises have the capability to export directly and they need to be further encouraged as revealed in the said statistics. But, in general the need for organisations which could act as a marketing intermediary between the importer and the small/medium enterprise, in order to exploit fully the export potential of small/medium enterprises has been identified. It was also seen that the nature and character of the normal organization, a trading house or an export development company has to be such that it does not merely survive in the highly competitive international trade arena but also has the flexibility and capacity to solve the multifarious problems inherent to the small and medium enterprises - small size, absence of financial flexibility, managerial inadequacies, pull of the domestic market, all of which tend to deter the small and medium enterprises from making that extra effort needed to compete in the difficult international market.

Nature of Policy Interventions

Sri Lanka has its own type of export promotion measures to assist manufacturer exporters or merchant exporters

in their export activities. The Trading Houses are expected to become the local points for organizing exports for investors below Rs. 10 million particularly for smaller manufacturers for whom it may not be practicable to embark on export marketing by themselves. They are expected also to match skills and strengths of the international trading houses to achieve excellence in marketing skills. In this cost-intensive, time-intensive and strategy-intensive operations there is a need for state to assist in administration and in finance, at least in the initial stages. There is also a need for a selective approach to Trading Houses and export development companies so that their number is kept low to enable them to grow and effectively serve the small and medium enterprises and the country. Therefore, it follows that the pattern of state intervention must cover both administrative and fiscal issues.

Administrative Policies

One of the first issues Sri Lanka has to consider relates to the criteria for according recognition to Trading Houses under the GCEC incentive package. The broad characteristics of a Trading Company could be:

- * Structure, financing and trading development programme of the Trading Company
- * Export performance in three years in the product categories specified, the number of small/medium enterprises assisted and functional and geographic coverage.
- * Import performance
- * Managerial capability including assessment of technological structure and capability
- * Financial base
- * Overseas establishment; and
- * Communication infrastructure.

If a Trading House in export development is to succeed it should have a minimum scale of operation which in turn requires an organizational structure of equivalent capability. These criteria can also be used to separate Trading Houses which are formed merely to take advantage of government's export promotion incentives from the ones which truly wish to establish export marketing as their main activity. A close examination of the trade development programme of

the company is also of assistance. In short, the primary objective is to encourage Trading Houses which has a minimum scale of operation.

Involvement in imports is also vital to succeed in international trade. Nearly 40% of the turnover of the Japanese Sogo-Shoshas are accounted for by imports. If import entitlements can form part of export incentives then efficient import capability will permit Trading Houses to supply raw materials to small/medium enterprises more competitively.

No amount of state intervention can sustain the continued relationship between a Trading House and the small/medium enterprises. The capability of a Trading House to develop a product, enhance a design, innovate a process and transfer them to small and medium enterprises, thereby procuring new markets and better returns, assumes greater significance. Therefore, before according recognition and approval to any Trading House, examination of its technical infrastructure will be a good indicator of its capability to assist the small and medium enterprises.

A minimum scale of capital base is necessary for a Trading House to secure the required financial flexibility. Large Trading Houses are capable of sustaining profitable export ventures despite difficult market conditions. Therefore, another criteria for approval of Trading Houses could be a sufficiently high degree of financial flexibility.

A strong communication infrastructure to meet intensive competition is necessary. International trade is strategy intensive. Therefore, the Trading Houses should have the capacity to service its importers through its overseas offices and also relax market responses to small/medium enterprises at the home base.

For a trading company, development of an export market is one of the most crucial aspects on which the success of its export efforts depends. This is not only intense but also has a long gestation. Therefore it needs very careful nurturing once the market has been identified and a product has been established. This is the critical area for administrative intervention. Therefore the policy initiatives of the Government can take four forms: (a) Market development assistance for export activities;

- (b) Market development assistance for product promotion/publicity;
- (c) Market development assistance for overseas offices, participation in trade fairs, exhibitions, etc;
- (d) Market development assistance for other activities essentially undertaken in Sri Lanka.

Market Development Assistance

International trade is a costly proposition. Trading Houses have to work on low gross margins. Therefore, apart from some fiscal measures, financial assistance for performing certain administrative types of export activities are essential. These export activities could be:

1. Marketing delegations - The state bears the cost of mounting an export delegation in most countries;
2. Sales Teams;

While giving additional incentives to exports of small/medium enterprises (including Janasavi enterprises), the government can provide extra weight to export performance of small/medium enterprises products. This will ensure that Trading Houses will make special efforts to export small/medium enterprises products.

Product promotion and commodity development is yet another critical input to the export efforts of Trading Houses. This will mean publicity in the foreign media, dissemination of information, collection of samples, design, building an image for a logo-for domestic development of products/design all of which need some kind of financial assistance. At the initial stage government will need to provide these assistance to carry out these activities.

The World Trade Centre established in the Transwales House is a setting up of show rooms for display of products for the benefit of foreign buyers. Apart from that the Export Development Board provides assistance to participate in exhibitions abroad. The most important is to create a network of foreign offices by the Trading Company as a part of its export promotion activities. These will also need to be subsidized in some manner as the product cannot bear the long term promotion expense, atleast in the initial years of the Trading House.

There are many other miscellaneous export activities which have necessarily to be undertaken in the course of market development. The costs involved in these activities are such that they cannot be built into the costs of the products. Yet Trading Companies can neglect such activities only at the expense of losing markets or of failing to penetrate them in the first place. State assistance should

- (b) Cover higher cost of transport within the country on perishables (eg. India);
- (c) Cover higher cost of additional labour involved in the manufacture of hand-craft items;
- (d) Cover supplies made to export projects within the country where sales could be considered as "deemed exports".



inter alia, cover the following activities linked with building up an export market.

- * Despatch of samples;
- * Import of samples;
- * Establishing warehouses abroad/ establishment of after sales services;
- * Quality control and pre-shipment inspection;
- * Product design and development;
- * Training; and
- * Provision of consultancy services.

Fiscal Measures

In terms of export promotion fiscal initiatives could be as follows:

- * Cash compensatory support;
- * Duty draw backs; and
- * Banking regulations.

Cash compensatory support for boosting exports is established to compensate exporters for those elements representing unrefunded taxes and duties paid on inputs required for the manufacture of the exported goods.

This can be

- (a) Used to offset the higher interest charges by commercial banks on export financing;

Drawbacks on duty are already refunded in Sri Lanka for import duties collected on imports to export production. Export financing requires Bank credit at a very low rate of interest. Commercial Banks needs to assist the Trading Houses with concessional financing for export activities much more than at present if the GCEC package of incentives are going to be of practical significance to investors in Trading Houses. In the USA, the Export Trading Company Act permits a bank to invest in an Export Trading Company in order to make funds easily available for export activity.

Another key area in export finance involves the problem of exchange fluctuation especially when Trading Houses negotiate long term payment contracts or deferred payment contracts. What's needed is for state intervention and assistance to Trading Houses and small/medium enterprises through simple and easy-to-administer programmes. But assistance schemes will come to naught if the procedures are cumbersome, when the intended benefits will not flow easily to the potential recipients.

More U. S. Kids at Work, and in Worse Conditions

Gina Kolata

New York Times Service

After nearly disappearing from American life, child labor has reemerged and proliferated in the last decade. Even the recession does not seem to have stemmed the tide, and investigators say many of the children are working in dangerous jobs.

Federal statistics indicate that at least 4 million children aged 14 to 18 are legally employed. But an estimated 2 million other children work illegally, either because businesses or family members pay them in cash to avoid taxes and minimum wages, or, more ominously, because they work too many hours, late hours, at hazardous jobs, or are under 14 and thus too young to be working at all except on farms.

No one knows exactly how many children work illegally. But evidence from the Labor Department's strike force, from the General Accounting Office and from states' investigations and emergency-room records suggests that children work illegally in the fields, in the garment industry, in fast-food restaurants, on construction sites and in mines, sawmills and gas stations.

On the job, they suffer amputations, burns, deep cuts and electrocutions. At least several hundred a year are killed, according to investigators at the National Institute for Occupational Safety and Health. Other children work late on school nights, in violation of state and federal laws, and sometimes fall asleep in class.

Jeffrey Newman, executive director of the National Child Labor Committee, a

non-profit organization founded in 1904, said he is seeing a return of child labor scandals reminiscent of those that occurred at the turn of the century.

"I see the same kind of exploitation that occurred then, in sweatshops, in the fields, in unscrupulous business practices that occur behind closed doors," he said. "It's very sad and it doesn't speak well to our understanding and commitment to children."

Dr. Philip J. Landrigan, chairman of the Department of Community Medicine at Mount Sinai Medical Center in New York, organized a recent conference on child labor. He linked the growth of legal and illegal child labor to three factors:

- More and more families slipped into poverty in the 1980s and early '90s, and needed income from their children's work.
- The number of immigrants increased sharply, with people often coming from countries in which child labor is routine, providing a pool of people ripe for exploitation.
- State and federal governments cut their budgets for inspecting workplaces, which made the discovery of violations less likely.

Mr. Newman and others stressed that a major factor in the increase in child labor has been lax enforcement of state and federal laws.

Federal laws prohibit children under age 16 from working during school hours

and limit the number of hours they can work after school and on weekends.

Some jobs, such as mining, logging and roofing, are prohibited for anyone under age 18. In agriculture, restrictions are less stringent; hazardous work is barred until age 16.

William Halperin, associate director for surveillance at the National Institute for Occupational Safety and Health, called the magnitude of illegal child labor "astounding."

He called the statistics gathered so far "the tip of an iceberg," because there is no systematic data collection and because many injuries and deaths are not reported.

One problem is simply discovering violators, given the relatively few inspectors the federal government employs for that purpose.

According to Dr. Landrigan, the Occupational Safety and Health Administration has 2,000 inspectors, and the Labor Department has 1,000 wage-and-hour workers, who are responsible for detecting illegal child labor as well as violations involving adults.

Jay Mazur, president of the International Ladies' Garment Workers Union, said that the safety and health administration had so few inspectors that 84 years would be needed to get around to inspecting all the workplaces for which it is responsible. It would take 25 years to visit every high-hazard workplace for a surprise inspection.

With such inadequate resources, he said, "we are fighting, to put it mildly, an uphill battle."

by -Courtesy, New York Times

FARMER TRAINING IN LIVESTOCK DEVELOPMENT : SHARING THE GAMBIAN EXPERIENCE

Dr. Tissa N. Jayatileka

Dr. Tissa N. Jayatileka is a Consultant in Livestock Development to FAO & Visiting Fellow ARRI and was the resource person for farmer training workshops & did several missions to the Gambia, to redesign project elements and provide recommendations to the GOTG, to achieve results.

The Gambia is a tiny country within the Sahelian Zone, along the West coast of the African Fly Belt (AFB). Trypanosomiasis, a fly transmitted parasitic disease including *Trypanosoma gambiense*, the cause of a sleeping sickness in man, is a fatal disease affecting all domestic animals. However the indigenous cattle, the "N'Domo" of the Gambia and the small ruminants, known as "Djallonke" sheep and "Fons Jallou" type goats, are well known for their natural resistance or trypanotolerance and constitute a major national resource. The productive base of this small ruminant population kept under traditional husbandry methods remains narrow and un diversified owing to high incidence of other diseases, high mortality and inadequate nutrition. The acute shortage of trained staff is a major constraint for the development of the small ruminant industry and the significance of trypanotolerance remains unexploited in the indigenous species of small ruminants, in The Gambia.

In recognition of the important role of sheep and goats in the rural socio-cultural economy, UNDP and the Government of The Gambia (GOTG) fielded a development project in May 1988, executed by FAO.

The Project strategy emphasized the need to provide sustainable mixed husbandry and veterinary packages by way of interventions which are simple, cost effective and easily acceptable to the traditional production methods of small farmers, where women, men and children actively participate in the production and marketing process from grass roots.

The project started in a district where there is a good concentration of small ruminants. 30 Contract Farmers from 10 villages are direct beneficiaries, of which half this number are women. The project took advantage of the

indigenous trypanotolerance of sheep & goats, while giving priority considerations on the socio-cultural standing of farmers, their perception and respective needs, to obtain the desired level of farmer involvement in the project activities on training, demonstrations and small group discussions. The project staff worked with the farmers to test the best husbandry management and health packages that can be given to their animals. Practical applications to improve animal nutrition was given priority, particularly in the dry season and during the height of the wet season, where animals lose weight from a lack of attention due to agriculture activities of farmers.

The effective use of crop residues, fallow lands and the integration of forage and rice legumes in the farming system was introduced, while testing the best cost effective Veterinary package to maintain animal health at the desired level. Establishing a demonstration unit at the village project centre, was another set objective in order to train both project staff and farmers on improved husbandry and veterinary techniques.

This was the first project of its kind where the rural farmers, together with livestock experts, conducted experiments to test methods to improve sheep and goat production in the Gambia.

In the past, rural farmers were unaware of the appropriate nutrition and health management practices for small ruminants and as a result animals suffered high mortality and morbidity due to bad housing, poor hygiene and nutrition. Today the project has greatly increased the awareness of the importance of improved husbandry and veterinary techniques and has significantly reduced the death rates of small ruminants. The project experience proved that the use of simple husbandry management methods, good hygiene and vaccinations against PPR (Peste des petites Ruminants), are the key factors to increase small ruminant productivity with year round accessibility to good natural pasture in the project area.

One of the projects significant accomplishment has been the level of farmer

involvement and the emphasis on the farmers conception and needs. The new methods introduced by the project have not been imposed on the farmer. The farmers are responsible for building their own animal sheds, proper feeding and collecting crop residues, to ensure that the farmer takes an interest in the welfare of the animals. The contact farmers directly involved by the project shared their experiences with other farmers to change some of their attitudes towards sheep and goat farming. Village farmers are of the view that the impact of the project has been great, especially for non participants, as they are able to compare the difference in the level of mortality between the respective participants and non participants. The difference in the health of the offspring and the increase in the number of births per year, as well as the increase in milk production, convinced the farmers to use the improved techniques offered by the project within their traditional methods of production.

Overall, the project has directly benefited some 3,234 sheep and 2,800 goats in 386 households, in 10 villages. Considering the small budget allocated to the project, UNDP views that a lot has been accomplished in a short period of time.

With the action research data developed, the GOTG was able to identify some of the important constraints against the development of this valuable breed to the AFB and how best solutions were found to improve production, by cost effective farmer training packages within their own environment. The participatory approaches and the democratic nature of the project interventions, requires to be highlighted.

The project experience provided priority considerations on the farmers own conception and needs. As determined by the action research data, the project optimised the use of available resources along with the natural resistance to a fatal disease, to develop sheep & goats. The farmers themselves participated to test and select husbandry and veterinary packages for their small ruminants, to improve cash incomes, alleviate rural poverty and the nutritional intake of their families.

TAX INCENTIVES

-Tools for Economic Development or Shots in the Dark?

C. Gaston Perera

(The author was formerly a Commissioner of Inland Revenue who retired to serve an assignment as Consultant with the Caribbean Community Secretariat in the West Indies. This article is based on a paper entitled "Tax Incentives v. Low Taxes" submitted by him to the First South Asia Regional Conference of the International Fiscal Association held in New Delhi in 1988).

The policy of a government expresses the aspirations of the people it serves and the society it operates in. Since economic development is the common aspiration of all countries, especially developing countries, the fiscal policies, budgets and tax systems of such countries derive their meaning and direction from these aspirations. It is with this objective of accelerating the pace of economic development that experimentation began after World War II in utilising tax laws to divert the flow of investment and wealth away from consumption and into activities desirable for investment. Since then tax concessions or, as they are variously called, tax incentives, tax shelters, tax subsidies, came to occupy a prominent place in the armoury of the fiscal planner. The trend in recent times however has been to look at tax incentives more critically and cautiously.

The techniques of tax incentives cover a wide range and takes a variety of forms. Many countries provide full or partial exemptions from customs duties. Many other countries provide for example exemption from property taxes, sales taxes, various licences and fees. Tax incentives are most common in the area of income tax and takes the form of accelerated capital allowances, investments credits, special deductions, full exemptions, full exemption for a limited period in the form of tax holidays or partial exemptions referred to as half tax holidays.

All tax incentives however, have one thing in common – they reduce the quantum of tax

ultimately payable and consequently increase the post tax income. The rationale of utilizing the tax system to mobilise and divert investments is based on this characteristic. It is based on the assumption that investment decisions are influenced to a major extent by two considerations, namely

- (a) the rate of return on the investment;
- (b) the length of the period during which the cost of the investment can be recovered.

As will be realised a higher post tax income will favourably influence both the above considerations. If there is a five year Tax Holiday and the tax rate is 50%, the post tax profits will be 100% higher because of the incentive. This would increase the profitability of an investment and reduce the "pay-back" period. Such considerations would undoubtedly be a powerful investment stimulus.

The main argument for tax incentives rests on the premise that tax considerations are paramount factors in investment decisions. Or to put it differently taxes constitute the main obstacle to investment and consequently the granting of tax benefits and concessions would induce domestic and foreign investors either to initiate activities which they otherwise would not have undertaken or to increase their investments in already existing enterprises. Accordingly the removal or minimization of tax obstacles to investment would encourage investments that would otherwise not be made. It is further argued that tax incentives make otherwise unpromising investments – high risk or pioneer ventures – attractive. Finally, tax incentives make available to an entrepreneur additional funds for re-investment in the enterprise or to meet the demands of liquidity problems.

Tax incentives are also said to generate certain spin-off benefits. These concern the image that is projected internationally of an open society that welcomes foreign capital and is favourably inclined to foreign invest-

ment. It is an advertisement of a desirable location and investment climate. Besides failure to offer advantages that other competing countries flaunt openly to the prospective investor would be a serious drawback that would result in diversion of investment to those countries.

Advocates of tax incentives look upon its administrative convenience as a further advantage. A government that would undertake direct expenditure to divert capital resources to a particular economic activity – in the form, let us say, of subsidies or interest-free loans – launches itself on a formidable administrative exercise. It has to organise and maintain a separate institution with all the attendant problems of personnel and financial management in addition to setting up and supervising procedures to achieve its objective and monitor its progress. Especially in a context where the administrative machinery is not noted for its efficiency, imposing added burdens could be an intolerable strain. Further direct government-based programmes have another disadvantage. The procedures are criticised as being full of bureaucratic red-tape, unnecessary interferences and delays. In that sense the administrative costs of tax incentives are much less. They do not involve either the administrative detail called for in direct government expenditure or the unpopularity associated with government activity. Like Adam Smith's "hidden hand" tax incentives are said to operate automatically. A related advantage they are said to enjoy is political invisibility – in that it does not attract the same glaring publicity that a direct government payment would to persons who are undoubtedly in the upper income brackets. This cheaper political cost is said to be one of the attractions of tax incentives.

Proponents of tax incentives have a ready answer to those critics who write off tax incentives on the grounds of revenue loss. They point out two relevant facts. In the first place they argue that it is wrong to talk of

revenue loss because, it was the incentive that stimulated the investment originally. But for the incentive there would not have been an investment in any case and therefore if no revenue is collected the status quo is not altered. In the second place they point out that since tax incentives ordinarily terminate after a fixed period of time, they will at the end of that period result in a net increase of capital stock and profit-making firms and consequently a net addition to the tax base and national income. Besides one should not overlook, in this connection, one important consideration. All new projects that benefit from incentive legislation—though their selves not contributing to tax revenue—generate taxable income from employment, sales taxes and so on. In this respect at least therefore they compensate in part for the revenue that is apparently foregone.

If that is the case for tax incentives, the case again is as strong or stronger. In the first place opponents of tax incentives criticize the fundamental assumptions on which the arguments for incentives are based. These assumptions, the fundamental argument to speak, is, as was mentioned, that tax considerations play an important role in investment decisions, that the role of tax is a critical factor in evaluating projects. Opponents of tax incentives question this basic premise. They say there is no such simple and direct relationship between tax implications and investment decisions. They doubt that tax incentives will alter economic behaviour or investment patterns to that degree as to justify the revenue loss. If these arguments are correct incentives degenerate into mere handouts conferring windfall profits on taxpayers who may have made the investment even without the stimulus of the incentive, in any case.

Unfortunately the lack of wide-ranging empirical data is one drawback that prevents a balanced assessment. Some studies that have been done, however, continue to seem to support the view that tax considerations are not critical factors in investment decisions. Ross and Christensen in their "Tax Incentives for Industry in Mexico" conclude that "tax exemption was not a decisive consideration for any firm and that most firms did not take it into account." Their survey showed that 14 firms would "definitely" have started the business without the exemptions; 9 would "probably" have started and only 1 would not have started at all. Paul H. Chen-Young, published the results of a survey of 55 Jamaican firms in his article on "A Study of Tax In-

centives in Jamaica" in the National Tax Journal, Vol. XX, No. 3, and found that only 2 of the 55 firms interviewed mentioned tax incentives as an important factor influencing investment in Jamaica. The same conclusion is arrived at in surveys done in the USA, Argentina, Costa Rica and Nigeria. All these studies however have been done between 1955 and 1965 and do not relate to this part of the world.

The broad view that has gained currency is that investment decisions respond much more to other factors. This view is best expressed in the account of a "Fiscal Survey of Panama" by Milton C. Taylor and others funded by certain American Banks.

"Unquestionably investment responds to a multiplicity of factors, such as the size of the market, the cost and availability of skilled labour and general economic and political conditions. ... Tax incentives cannot be viewed as substitutes for well-conceived promotional programmes, the availability of low cost financing, the development of economic infrastructure in the form of highways, water supply and power and the training of labour."

The only conclusion that one can come to therefore, is not that tax is the critical factor in investment decisions, as the proponents of incentive legislation would have it, but that the well-springs of investment decisions are but dimly understood and cannot therefore be reduced to simple terms. This is the conclusion of a study by the National Bureau of Economic Research, New York, on "Foreign Tax Policies and Economic Growth" where it is stated "much too little is known about the actual effects of specific tax measures on the savings and investment decisions of individuals and corporations."

Tax incentives are also criticized on the grounds that they offend the principles of tax equity. Tax equity as is well known embodies two concepts. On the one hand there is the concept of vertical and horizontal equity described by the statement "treating persons in similar circumstances similarly and in dissimilar circumstances dissimilarly". This concept is based on the notion of "ability to pay". On the other hand, the idea of tax equity is also associated with the concept of redistributive justice. The first concept emphasises the principle of equalising tax burdens; the second stresses the principle of reducing differences in post-tax incomes. Tax incentives run counter to both these concepts.

At the simplest level tax incentives discriminate in favour of a particular group of activity. They confer advantages by releasing or reducing tax burdens and thus violating the ability to pay concept. There is an inequity at a deeper level too. The demands of economic development have to straddle greater and greater strains on the tax systems of countries. These systems have been called upon to generate larger and larger amounts of revenue to finance the development projects of their respective countries. The exemption from or reduction of tax for one group of potential taxpayers means that others who do not enjoy that advantage must bear a larger burden of tax. The inequity of this situation is aggravated when the income levels are higher and the differences in tax burdens increase. Further the argument that economic objectives must have priority over equity considerations in the short run has little punch when as discussed earlier incentives are not effective in achieving such economic objectives.

A further criticism is that even within the parameters of tax incentives themselves there are inbuilt inequities. Firstly a taxpayer has to have a taxable income to benefit by these devices. If a taxpayer does not have taxable income because it is below the taxable limit or because of a loss, he receives no benefit, although he has diverted capital resources to a designated area as much as the investor with a profitable result. Secondly because the income tax is a progressive income tax, any exemptions or deduction will be taken off the higher slabs and the higher rates. Consequently the benefits a taxpayer in the higher income tax brackets derives from these incentives will be far more than those in the lower brackets. Where company tax rates have more than one slab this will apply to that area too.

The other limb of tax equity is the notion of re-distributive justice. In relation to this the charge against tax incentives is that they tend to concentrate wealth in the hands of fewer persons and so undermine the equalization of post-tax incomes. Support for this view has come from no less a person than a former Minister of Finance in Sri Lanka. His words are worthy of repetition. In his Budget Speech of 1975, Dr. N. M. Perera said

"So far the process of economic development in Sri Lanka has tended to give stimulus to capital accumulation in the hands of a few wealthy families who have in the main been the beneficiaries of the tax holidays and relief granted in terms of the present law. In a recent survey con-

ducted in the total investment in the industrial sector where capitalisation in undertakings is over Rs 1 million, it has been found that out of a total investment of Rs. 275 million as much as Rs. 205 million is held by only 11 family groups."

On all counts therefore tax incentives fail in the equity test.

Tax incentives have also been attached in relation to efficiency. The efficiency of a tax, as is well-known, is measured by the extent of its distorting effects on investments, on savings, on the price mechanism, on work, on effort. In this respect, critics charge, tax incentives have some disturbing side effects in relation to special circumstances prevalent in developing countries.

One such circumstance relates to the plentiful supply of labour in developing countries. Not only is the supply plentiful, it is also undkilled and, with high population growth rates, rapidly multiplying. The consequences are low levels of output, low marginal productivity, unemployment and under-employment. The impetus given by some tax incentives is not to meet and counter this challenge but rather to aggravate it. Accelerated capital intensive industrialization as opposed to labour intensive projects. Tax holidays whilst not aggravating the problem stay neutral. In 1976 the International Fiscal Association conducted a survey of 20 countries on the topic "Tax Incentives as an Instrument in Achieving Government goals". In their General Report on the survey, Surrey and Sunley had this to say of the Argentina experience -

"The Argentine Report provided a qualitative analysis of incentives to promote economic activity in the province of Tucuman, a province highly dependent on sugar cane production and characterised by chronic high unemployment. The incentives did induce additional investment in that province. However, the incentives had the effect of making capital cheaper than labour. As a result the new investment went into capital intensive projects with a low input of manpower. The report concludes that tax incentives for investment can worsen the problem of chronic unemployment".

Where capital is made cheaper this distorting consequence is bound to arise. In fact both qualitative and quantitative studies are necessary as Surrey & Sunley point out, to assess the ultimate impact of tax incentives. For

instance is it not possible that the real and ultimate beneficiary from a tax holiday for house or hotel building is the construction industry?

A somewhat related issue is concerned with foreign investments. Attraction of capital—both domestic and foreign—is the objective of incentives the quid pro quo for which is the tax benefit. In the case of a foreign investment, where there is a remittance of exempt profits or dividends, the foreign country may on the residence principle impose a tax on that income. In such a situation the ultimate beneficiary of the tax benefit is the foreign tax jurisdiction. The anomaly is aggravated where the home country is a poor, developing, capital-importing country and the foreign country is a rich, developed, capital-exporting country. The poor country would then forego its revenue which the rich country collects. The answer to this, of course are double tax treaties with tax sparing provisions.

Another charge often made against tax incentives is that of revenue costs. Tax incentives are erosive of the tax base and thereby reduce the quantum of revenue a government can receive. In the context of the increased demand for resources that arise from the accelerated development programmes this would be an intolerable situation.

Studies into this aspect of tax incentives were initiated by Stanley S. Surrey, Professor of Law at the Harvard Law School. He introduced the concept of "tax expenditures" in this connection. Tax expenditure are taxes foregone by a government and is defined as "an implicit payment of the government through a reduction of a specific tax liability". This approach focuses attention on an important aspect of tax incentive—that by foregoing revenue a government would normally collect through its tax system it is incurring expenditure as much as if it incurred the expenditure directly through funds voted through the Budget.

The most accurate approach to a study of this aspect and therefore the real revenue cost of tax incentive was, it was suggested, by the preparation of a "tax expenditure Budget". This was defined as "a test of the major respects in which the current income tax base deviates from the widely accepted definitions of income and the generally accepted structure of an income tax."

The study made in 1976 by Stanley Surrey and Emil Sunley through the Auspices of the

International Fiscal Association on "Tax Incentives as an Instrument for achieving Government Goals" was referred to earlier. This involved a survey of 20 countries and the preparation of tax expenditure budgets by them—*I.F.A. Studies, Vol. LXIa*. Two of the most illuminating conclusions they arrived at were the paucity of empirical data and the unsystematic approach to tax expenditure vis-a-vis direct expenditures.

On the subject of data, their General Report on the survey stated—

"With a few exceptions especially United States, Germany and Japan—the National Reports stated difficulties in providing reliable estimates for the tax expenditure item. The basic obstacle lies in lack of statistical data regarding these tax provisions. Where data are not available...then resort must be made to partial results and guesses...But it is recognizable that the obstacle is a lack of data..."

And as regards the lack of a systematic approach their observations are—

"On enactment of a tax expenditure little thought is given in most countries...as to whether the economic or social objective sought should be achieved through the tax route or the direct expenditure route..."

And again—

"In most countries there is a lack of awareness that a relationship exists at all and that tax expenditures and direct expenditures can be seen as alternative ways of spending Government funds..."

Finally, on the subject of monitoring the implementation of tax incentives their conclusions are

"Governments...present policy arguments and perhaps some data when a tax expenditure is first enacted. But after that it is left imbedded in the tax law...with only occasional contact with the government agencies directly involved...It is not to be reviewed periodically as are direct budget expenditure and no real data on its effects or costs are to be maintained".

These telling strictures would therefore suggest that the real criticism of tax incentives is not merely that they reduce tax revenues—as they obviously do—but that their unplanned and unmonitored manner of implementation must place an even heavier burden than is imagined.

Of course, a more accurate and realistic estimate of the economic cost of tax incentives would require a more detailed study of all their costs—not merely revenue cost—and assess these against their benefits through all their ramifications. Such a cost/benefit study was done by Paul H. Chen-Yung in the case of Jamaica. The results of this study was published in the *National Tax Journal* of September 1967 under the title 'A Study of Tax Incentives in Jamaica'. Taxes foregone were taken as costs while the economic benefits taken into account were investment, salaries and wages, employment and value added. His findings support the view that costs of tax incentives outweigh their benefits. He says

"When direct benefits and costs are compared, the net loss to the Government is 3,986 million with a benefit/cost ratio of 0.27. If taxes foregone...were excluded (on the assumption that tax incentives were necessary to induce these firms) the adjusted net costs would be 3,869 million with a net loss to the Government of 7,401 million and a benefit/cost ratio of 0.30".

That is a telling comment on the ultimate worth of tax incentives. The final argument against tax incentives is their administrative costs. I will summarise this argument by saying it imposes a threefold additional burden on a tax administration. Firstly it has to ensure that those who are not entitled to, do not become beneficiaries. To encourage new investment a tax holiday is available in Sri Lanka to export-oriented companies incorporated after a specific date. Existing companies seek to circumvent this bar by splitting up their company and re-constituting with the same assets a nominally new company or amalgamating with another company. Although prohibitory provisions are there in our law, policing this is an additional strain. Secondly where a company has more than one undertaking but only one undertaking qualifies for an incentive there is the ever-present possibility of "income shifting". Thirdly there is the possibility that the benefits obtained by tax incentives can be utilized for illegal purposes. Exempt imports or exports channelled in as the domestic black markets, trafficking in import or export licences, innocent investing for foreign exchange purposes are some of the devices resorted to, the policing of which imposes extra strains on administrations. It is these additional burdens that constitute the administrative costs of tax incentives.

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THE POLITICAL ECONOMY OF POVERTY ALLEVIATION IN DEVELOPING COUNTRIES:

IS SRI LANKA REALLY AN EXCEPTION?

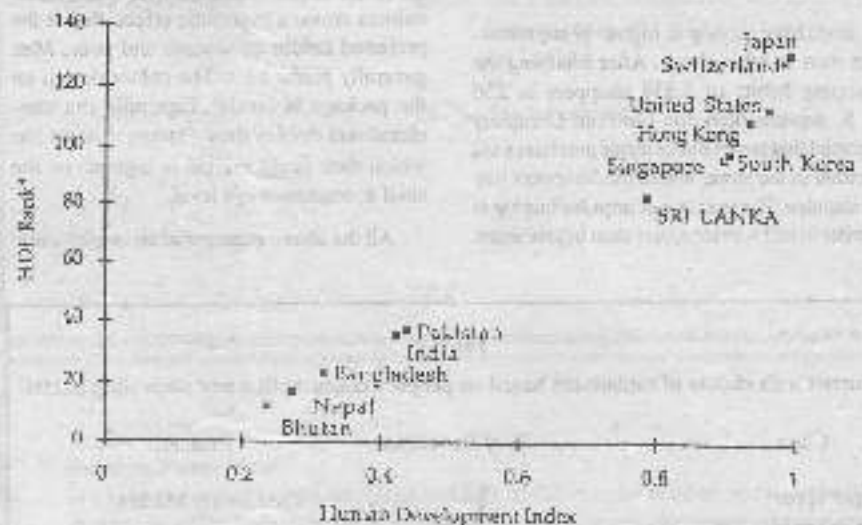
by Dr. Patrick Mendis, University of Minnesota, USA.

Abstract: The Human Development Index (HDI), developed by the UNDP, ranks Sri Lanka much closer to Western developed countries than to those of developing countries despite being a low-income country (Figure 1). Why does Sri Lanka demonstrate such an impressive position? How did Sri Lanka achieve higher life expectancy and literacy rates? A recent study from the University of Minnesota, Dr. Patrick Mendis describes a host of historical factors including social, religious, and cultural endowments which can be associated with the Sri Lanka's exceptional status among developing countries.

This study examines Sri Lanka's changing development strategies and how they impact on the welfare of people. Many aspects of human resource development are analyzed in light of equity-oriented policies to growth-oriented policies. The "Janasaviya" program, the first poverty alleviation scheme ever devised in the country in order to eradicate deprivation on a massive scale, is also investigated. The factors included in the HDI have been instrumental in explaining and describing the Sri Lanka's relatively success story.

A copy of following study is available for IIR readers from: The Librarian, Waite Library, University of Minnesota, Department of Agricultural and Applied Economics, 272 Classroom Office Building, 1974 Buford Avenue, St. Paul, MN 55108, USA.

FIGURE 1
Human Development Index and Sri Lanka's Relative Position Among Selected Countries



Source: Data from the *UNDP World Development*, (New York: United Nations Development Programme, 1990), pp. 7-11.

Note: *Of the 150 countries ranked, Bhutan ranks 1st as the "lowest" and Japan rates 135th as the "highest" in terms of human development.

Source: Mendis, Patrick (1992) *The Political Economy of Poverty Alleviation in Developing Countries: Is Sri Lanka Really an Exception*, Staff Paper 92-11, (Minneapolis: University of Minnesota, USA.)

IMPULSIVE COMMERCIAL ENTREPRENEURSHIP

Senarath Tennakoon

The 'network-effect' in commercial entrepreneurship collates managerial and cross-cultural aspects. Consumer weaknesses, demands, preferences and priorities are closely examined in a cultural setting. Modern technical know-how is exceedingly used to feed the impulsive desires of the consumers. The outcome is increased impulsive buying, that empties the desires as well as the purses of the consumers, while the business enterprises grow rich and strong.

Impulsive buying is very common in supermarkets, and the victims are mostly the husbands and children than the housewives. According to Warner's classification of consumers (Table 1), impulsive buying is most prevalent among the lower middle and upper lower social classes (65% of the consumer population). The white collar workers, traders and a few skilled workers are in the lower middle class while the upper lower class is mostly occupied by the skilled and the semi-skilled workers.

Impulsive buying is higher in supermarkets than in other shops. After studying the shopping habits of 3,338 shoppers in 251 U. S. supermarkets the Du Pont Company reported that seven out of ten of purchases are decided in the store, where the shoppers buy on impulse. The practice of impulse buying is greater in self-service stores than in groceries.

The supermarket is a place for multiple purposes including buying liquor, opening an insurance policy, a bank account, among others. Supermarkets are preferred by some consumers who are short of time and who wish to release emotional tension at the expense of the purse. People tend to be impulsive purchasers in a shopping environment of extravagance, and a free soft drink could foster impulsive buying.

The housewives buy more, off their shopping list being lured by the powerful advertising campaigns. The advertisers also carefully study the behaviour and attitudes of children and exploit their weaknesses by making them demand expensive electronic toys and exquisite confectioneries. Pungent, coloured foods, eye-appealing items and mouth-watering sweetened foods comprise the self-proliferating items in the list of impulsive buying purchases. The display of attractive colours play an important role in deceiving human senses for improving sales. Red and Yellow colours create a hypnotic effect. Red is the preferred colour of women and poor. Men generally prefer blue. The colour design on the package is crucial. Generally the merchandisers display their "splurge" items (in which their profit margin is highest) on the shelf at consumer eye level.

All the above managerial strategies come

under the approach called motivational analysis in engineering consumer consent to marketers' propositions.

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There can never be a final or definitive answer to the question whether the cause of development is served by tax incentives. It could be said however that two conclusions have emerged from this discussion of their relative merits.

As regards the first conclusion, I would quote the words again of Professor Stanley Surrey writing in the *University of Miami Law Review* -

"The concentration on tax policy...may lead to insufficient consideration of the aspect of the administration".

The proper administration of existing taxes may well make it unnecessary to adopt other policy measures for resource mobilization. Modernizing the tax administration, improving the prevailing standards, increasing the level of taxpayer compliance would increase confidence in the tax system. Exemption from tax or low rates of tax are of little avail if the fairness of the tax base is doubtful, and little value is placed on tax relief, if the income tax law itself is poorly enforced. It is only in a climate where tax laws are implemented competently and without arbitrariness that policy objectives have any possibility of realization. Such a climate may be as attractive to investors as one with incentives. The other conclusion that emerges is the greater need for empirical studies on which to base policy decisions. The case for tax incentives is based on a fundamental assumption that taxes or finance investment decisions. Empirical data is necessary to confirm this basis or reject it. There is a need for inquiry also in allied topics such as cost/benefit studies on incentives in developing countries, the total revenue involved in tax expenditure generally and so on. Policy decisions based on such studies would ensure that in the haste to progress the measures adopted are not shots in the dark.

Table 1

Warner's six classes of consumers based on people's consumption and sociability habits.

Class	% of Population	Features
upper upper lower upper upper middle	15	The Quality Market
lower middle		
upper lower	65	Middle majority (the darling of the advertiser)
Lower lower		
	20	The care free and relaxed few

(Source: Lloyd Warner's Social Classes in America)

Continued from Last Issue

SAARC: FROM DHAKA TO COLOMBO

Ariya Abeysinghe

of a greater volume of intra regional trade through dynamics of market forces, it is necessary and desirable to make a beginning in the direction of regulating the export-import trade flow in selected areas. Similarly it could be extended to primary and manufactured goods. Joint SAARC industrial projects could be in rice marketing, agro-processing, oil seed processing, feed milling, tea and coffee marketing, rubber based industries, cashew kernel processing, textiles, foundry products, food marketing, aviation, shipping etc. A SAARC Investment Bank, SAARC Shipping Service, SAARC Tourism Council, SAARC Airline Council, SAARC Dollar are two areas of possibilities for the future common economic approach could ensure harnessing and the optimising of the utilization of the regional natural resources, since SAARC forms a single ecosystem. The SAARC has a vast pool of human resources and trained manpower. These can be challenged to obtain optimum economic productivity by fostering horizontal link-

ages. Sri Lankan Poverty Alleviation Programme and its experience, the success in the Housing Programme could be transferred to other SAARC Countries and a SAARC Poverty Alleviation Programme and the Shelter for the Millions Programme could attract donors like the World Bank. Similarly the Bangladesh success story of Grameen Banks could be adopted in other SAARC countries with experts from Bangladesh. The success story of India in Milk Marketing and Livestock Development from Anand, Karnataka could benefit other SAARC Countries. Similar success stories from Pakistan, Nepal and Bhutan could benefit other SAARC Countries. Funds may be procured to exchange SAARC experts to help each other.

SAARC Summits

The SAARC Charter forbids official negotiations on bilateral and contentious issues at SAARC Summits in order to avoid acrimonious controversies at bilateral levels. It is now time for the pivotal power of the region, India, to

make a firm commitment to SAARC regional co-operation after 11 years of indecision. The degree of importance Sri Lanka attaches to the SAARC will undoubtedly be put to test in this year with the Chairmanship of the SAARC being held by Sri Lankan President, Excellency Anura Kumara Dissanayake. Sri Lanka assumed Chairmanship of SAARC at a time the "euphoria" over the creation of this body is over and the hard phase of "consolidation" has begun. It is not the glamour nor the platitude linked with the Summit that will judge Sri Lanka's contribution to SAARC. It will be the tangible manifestations of co-operation that are evolved under Sri Lankan Chairmanship of SAARC that will matter and be meaningfully remembered. Sri Lanka should focus its attention in the need for the SAARC to acquire an international image as a regional grouping by developing the ability to adopt common strategies on international issues. The collective identity could be shown at the UN, AID GROUPS, at international conferences or in dealing with EC or similar body. Whatever is done SAARC must enhance people-to-people contact. This will be the most effective guarantee for peace, harmony and unity in the SAARC Region.

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CSC's great interest in the development of Sri Lanka export diversification effort in a way balked the development of its commercial interests. Certain trade bills had to be made for the greater good of the country.

The National carrier is expected to bring economic benefits to the country providing freight opportunities at the minimum possible to a wide spectrum of exporters. CSC's presence in the international shipping scene ensured regular movement of Sri Lanka cargo on liner terms. In its absence serious distortions could have affected trade and commerce of the country. The conference system which was supposed to provide regular lines on set pre-arranged destinations on scheduled vessels had ceased to be an effective force with containerisation. CSC operating as an independent line filled the vacuum and made a great contribution to the nation. This enabled her to infuse stability into freight

rates for a long time. There has been some accusation of high freight levels and a justification of this view has to be evaluated taking into account the increase of freight. FOB values of the products subject to high rate levels. CSC popular support for its courage to lift certain low valued and un-tradable goods at less than the marginal cost of carriage.

In the aftermath of liberalisation, the reduction in rates for certain products and destinations were effectively masked by the CSC.

The competition rather now exists between lines and freight rates needs a moderating effect. CSC provides a moderating influence and forges ahead of other lines in setting rates and surcharges. CSC ensures fair policies and practices in freight rates and about any ailments by competing lines to profit from unusually higher rates. This was demonstrated recently when CSC gave the other lines with the encouragement of the current level of Banker Surcharge and War Risk Surcharge consequent to the increasing oil

prices in August when other lines could not only in announcing the correct level.

Finally of great importance is the role CSC will be called upon to play in the future when for various reasons the financial strength of the carrier decides on some other policy strategy. It is the free price that should prevail in order to safeguard the national flag today for its future role.

In future role as a regional shipping line will be of vital importance, particularly during the rise of regional air in the context of the growth in world trade. The enlarged European community, the growth of other trading blocks like ASEAN, SAARC are examples of regional blocs and the national line will have to play a dynamic role in trading. The presence of the national line has led to the growth of various other activities associated with shipping. The services of the Colombo Dockyard is used by CSC while in use of Sri Lankan technical and ship operating personnel would create a climate for local ship management companies which in fact gaining importance abroad.



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