

EDITORIAL

Withering Globalisation ?

Is the globalisation bubble bursting? There may be two opinions to that but a trend is clearly visible i.e. the World Capitalist Economy is in doldrums. It may not yet have reached the state of 'Great Depression' but it certainly is feeling the pressure of deflation. An article in the *Economist* of October 10, 2002, headlined "Of Debt, Deflation and Denial", warned that risk of falling prices was greater than at any time since the 1930s. So Deflation could be a serious threat in America, Europe as well as Japan.

The future directions of the global economy are decided by the three main players - the US, European Union and Japan. They together account for more than 70 per cent of world production. But they are, at the moment, facing serious problems. The Japanese economy shows no sign of breaking out of the stagnation that has gripped it since the collapse of the share market bubble at the beginning of the 1990's. The case of the Eurozone is little better but it is being dragged back by near-recession conditions in its largest economy, Germany, while the US economy is experiencing continuous ups and downs. The expectations of the Organisation for Economic Co-operation and Development are that the world economy will grow by only 2.2 per cent next year, after a growth of 1.5 per cent this year. And it is a common knowledge that a world growth rate of less than 2.5 per cent is regarded by many economists as marking the onset of recession.

Already the depressed state of the world economy as a whole and the lack of any sustained recovery in the US are prompting fears that Japan's decade of stagnation may not be an exception but could turn out to be the rule, for there is a growing fear that the continued slide in world stock markets and the heavy involvement of banks and other financial institutions with companies that have incurred heavy losses - especially in the telecommunication and high-tech industries could lead to a major financial crisis.

The growth figures in themselves are bad enough. In the IMF's World Economic Report, world growth for 2002 was projected at just 2.8 per cent, barely above the 2.5 per cent level considered to be bordering a recession. The growth estimate for 2003 has been marked down to 3.7 per cent compared to the 4 per cent that was predicted last April. Growth predictions for the major capitalist economies are even more significant. US growth was predicted to be 2.2 per cent for 2002 and 2.6 per cent for 2003, compared to earlier prediction of 3.4 per cent. For the eurozone, the growth rate prediction for 2002 was just 0.9 per cent and 2.3 per cent in 2003, with no marked increase likely in the near future. For Japanese economy, growth for 2002 was projected to be minus 0.5 per cent, rising to 1.1 per cent next year. Thus it is clear that the common belief that the shift towards globalisation has been a success, at least regarding growth, is shattered.

Global economy is not only faltering as far as growth rate is concerned, it is also increasing the gap between the rich and poor. The United Nation's Human Development Report says that in 1960, the top 20 per cent of the world's people in the richest countries had 30 times the income (in total GDP) of the poorest 20 per cent. This grew to 32 times in 1970, to 45 times in 1980 and to 59 times in 1989. By 1997 the top 20 per cent received 74 times the income of the bottom 20 per cent. A recent World Bank paper by Bran O Milanovic says that inequality trends were relatively flat from the mid 1960s to the early 1980s but for the early 1980s onwards inequality begins to rise significantly. Similarly, a study undertaken by the Organisation for Economic Cooperation and Development in Europe (OECD) says that differences in income in the developed industrial countries increased greatly between the mid 1970s and the mid 1990s.

But the report of a survey named *What the World Thinks in 2002* released on December 4, 2002 by the Pew Research Centre is an eye-opening document in a number of respects. Prepared by an establishment body, the poll survey reveals growing worldwide economic hardship and political discontent. "As 2002 draws to a close, the world is not a happy place", write the report's authors. Titled - '*Global Gloom and Growing Anti-Americanism*', the report says "in all but a handful of societies, the public is unhappy with national conditions. The economy is the number one concern volunteered by more than 38,000 respondents interviewed."

"In general", the report notes, "respondents to the global survey are more critical of US policies than they are of US values". There is a strong sense in most of the countries that American politicians serve to increase the gap between rich and poor. In France, Germany and Canada some 70 per cent say US policies "serve to widen the global economic divide". On the face of such criticism of US policies, is it not time for the developing nations to stop, ponder and say goodbye to the capitalist economy on whose principles the edifice of globalisation stands?

- Piyush Pant

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The Global Divide : Inequality in the World Economy

By Marc Lee

Global inequality, the gap between the world's rich and poor, is one of the most pressing issues of our time.

Inequality differences between people around the world could be discounted when most people's economic context was limited to what happened within their national borders. But the immense growth of trade and investment flows the development of standardized rules across nations and the globalization of production, distribution and marketing mean people in different nations are inter-connected as never before.

As a result, widening disparities between nations and individuals are cause for concern. If we are all global citizens now, most people would consider star inequalities to be a moral outrage. But even beyond this sense of our common humanity, wealthy countries like Canada need to address inequality out of enlightened self-interest: today's growing gap may be fuelling tomorrow's act of terrorism.

This brief looks at recent statistics and studies on growing global inequality and considers the role of the globalization—more specifically the orthodox ideological framework of globalization known as neoliberalism or the Washington consensus—as a driving force behind the change. The plight of the world's poor is now invoked regularly by politicians at international fora such as the Financing for Development conference in Mexico, the G-8 meeting in Kananaskis in Alberta and the semi-annual meetings of the IMF and World Bank. Unfortunately the “cure” emanating from these gatherings too often resembles the disease.

The Global Inequality Picture

The growth in global inequality stems from two factors: increased inequality between countries and increased inequality within individual countries. The long-term trend for global inequality is that of a widening gap with the exception of the “Golden Age” decades after World War II. Since the mid-1970s global inequality has resumed its upward trend.

Inequality between countries

Interestingly two hundred years ago the gap between the richest countries and the poorest was not very large. Economic historian Angus Maddison estimates

that the richest countries were about three times richer than the poorest countries in 1820 based on GDP per capita. This ratio rose to 15 to 1 in 1950 then dropped to 13 to 1 in 1973 before resuming its increase to 19 to 1 in 1998.

The UN's Human Development Report adds that in 1960 the top 20% of the world's people in the richest countries had 30 times the income (in terms of total GDP) of the poorest 20%. This grew to 32 times in 1970 to 45 times in 1980 and to 59 times in 1989. By 1997 the top 20% received 74 times the income of the bottom 20%.

A recent World Bank paper by Bran O Milanovic calculates gini coefficients (a standard measure of inequality) based on international rankings of GDP per capita. He finds that inequality trends were relatively flat from the mid-1960s to the early 1980s but from the early 1980s onward inequality begins to rise significantly.

Milanovic also estimates an alternate approach to inequality similar in methodology but based on population-weighted GDP per capita. Intriguingly this approach shows declining not increasing inequality. However this result is explained by the inclusion of China and India. China has experienced a rapid increase in inequality in recent decades while India has had relatively flat levels of inequality (though rising in recent years). But both countries have had fast GDP growth rates and because of their size (over 2 billion people between them) this fact biases the measure of global inequality. Dropping China from the list leaves inequality flat over 40 years; if India is dropped as well the pattern again shows an increase in global inequality.

Inequality Within Countries

Like the pattern for inequality between countries within-country inequality fell in a large number of countries during the Golden Age from the 1950s to the early-1970s. Since then however inequality has increased in most countries. Summarising the results of a large research project on globalisation and inequality Cornia and Kiiski (2001) note that inequality has risen over the past two decades in 48 out of 73 countries for which high quality data are available. These 48 countries represent 59% of the population and 78% of the GDP of the 73 country sample. Sixteen

Per Capita GDP by Region, 1820 to 1998

	1820	1870	1913	1950	1973	1998
	(1990 international dollars)					
Western Europe	1232	1974	3473	4594	11534	17921
Western Offshoots ¹	1201	2431	5257	9288	16172	26146
Japan	669	737	1387	1926	11439	20413
Asia (excluding Japan)	575	543	640	635	1231	2936
Latin America	665	698	1511	2554	4531	5795
Eastern Europe & former USSR	667	917	1501	2601	5729	4354
Africa	418	444	585	852	1365	1368
World	667	867	1510	2114	4104	5709
Inter-regional spread ²	3:1	5:1	9:1	15:1	13:1	19:1

Notes: 1. Western offshoots includes Canada, US, Australia and New Zealand.

2. Inter-regional spread is the ratio of the highest income to the lowest income for that year. For 1820 this is the ratio of Western Europe to Africa; for the remaining years Western Offshoots to Africa.

Source: Maddison (2001)

countries had constant levels of inequality while only nine experienced decline in inequality during this period (some of this latter 25 countries are suspected of higher inequality in the wake of recent financial crises but data are not yet available).

Inequality has some distinct regional dimensions. African economies have been in stagnation since the 1980s in terms of GDP with inequality on the rise. Latin America experienced a “lost decade” after the early 1980s “debt crisis” reversing declines in inequality during the 1970s. For Russia and the Eastern European “transition economies” the 1990s heralded a collapse of the middle class that drove up inequality. China has experienced an upsurge in inequality since mid-1980s (timed with its economic reforms) especially with regard to differences between urban coastal areas and the rural interior.

In the rich OECD countries rising inequality has been driven by greater disparities in market income (although this can be offset by decent minimum wages and collective bargaining). Inequality has been more pronounced in recent years due to regressive changes in tax systems, public services and income transfers. Canada, for example, experienced growing inequality of market incomes through the 1980s and 1990s but managed to keep the lid on after-tax inequality at least up to the mid-1990s. Recent federal and provincial tax cuts and spending cuts have been pushing up after-tax inequality.

There has also been a growing concentration of income and wealth at the very top of the distribution in most countries. Merrill Lynch’s World Wealth Report 2001 finds that an exclusive club of 7.2 million

“high net worth individuals” had financial assets valued at US\$27 trillion in 2000 almost the size of the world’s total GDP (\$31 trillion in 2000). Moreover the wealth controlled by a small cadre of “super-rich” is truly staggering. According to the UN the assets of the three richest people in 1998 were larger than the combined GDP of all least developed countries. And the combined assets of the top 200 richest people—more than \$1 trillion—are more than the combined income of 41% of the world’s people. Unfortunately the distribution of the world’s wealth (rather than income) has not been adequately studied.

Global Income Inequality

Milanovic (1999) puts together the two components of inequality within-country and between-country into an overall measure of “true” global inequality. His research compares 1988 to 1993 data for 91 countries. This analysis puts some numbers to the distribution of global income summarized in Table 3.

The global distribution of income is profoundly unequal and became increasingly so from 1988 to 1993. The top 5% captured one-third of world income in 1993 while the top 10% received just over half. The share of income going to the top increased in 1993 over 1988. In contrast the bottom 75% received 22% of world income, the bottom 50% received 8.5% and the bottom 10% received just 0.8% of world income.

There is no shortage of jaw-dropping statistics in this study. Milanovic adds:

Not only did the share of the bottom 5% drop but their real income decreased by one-quarter from 1988 to 1993.

Income Inequality Changes in 3 Countries from 1960s to 1990s

Inequality	Developed Countries	Developing Countries	Transitional Countries	Total
Rising	12: Australia, Canada, Denmark, Finland, Italy, Japan, Netherlands, New Zealand, Spain, Sweden, UK, USA	15: Argentina, Chile, China, Colombia, Costa Rica, Guatemala, Hong Kong, Mexico, Pakistan, Panama, South Africa, Sri Lanka, Taiwan, Thailand, Venezuela	21: Armenia, Azerbaijan, Bulgaria, Croatia, Czech Republic, Estonia, Georgia, Hungary, Kazakhstan, Kyrgyzstan, Latvia, Lithuania, Macedonia, Moldova, Poland, Romania, Russia, Slovakia, Slovenia, Ukraine, Yugoslavia	48
Constant	3: Austria, Belgium, Germany	12: Bangladesh, Brazil, Cote d'Ivoire, Dominican Republic, El Salvador, India, Indonesia, Puerto Rico, Senegal, Singapore, Tanzania, Turkey	1: Belarus	16
Declining	2: France, Norway	7: Bahamas, Honduras, Jamaica, South Korea, Malaysia, Philippines, Tunisia	0	9
All	17	34	22	73

Notes: The length of the time series and the number of observations varies from country to country. In the countries underlined very recent information suggests that income inequality may have risen from 1998-2000 i.e. in the wake of recent financial crises.

Source: Cornia and Kiiski (2001)

The ratio between the average income of the world's top 5% and world's bottom 5% increased from 78 to 1 in 1988 to 114 to 1 in 1993.

The richest 1% in the world (50 million people) receive as much income as the bottom 57% (2.7 billion people).

The richest 10% of the US population (25 million people) has total income equal to the total income of the poorest 43% of people in the world (almost 2 billion people).

In a more recent study Milanovic (2001) confirms an increase in global inequality over the 1988 to 1993 period based on two alternative indicators of inequality (gini coefficient and theil index). The increase is primarily due to between-country increases in inequality (75 to 88% of the increase depending on the measure). He identifies three main contributors to the rise in inequality: the slow growth of rural incomes in Asian countries relative to OECD countries; the pulling ahead of urban China relative to rural China and India; and the "hollowing out" of the middle class in Eastern Europe.

What's Going on Here?

Getting to the bottom of rising inequality is a complex

question, a full treatment of which is beyond the scope of this paper. However several recent studies have contemplated this scope and suggest some broad strokes that explain much of the story.

How the West Grew Rich

Over a longer time frame, the increase in inequality between nations is the result of the "take-off" of economies in Western Europe and North America. Maddison (2001) argues that three broad and interactive forces explain the shift:

Conquest and settlement—Colonial systems persisted from the 16th Century to the 1960s. They revolved around the extraction of natural resources (for example gold and silver extraction from the Americas during this period was worth US\$36 billion valued at modern prices) agricultural production for export (e.g. sugar and cotton) and the exploitation of slave labour (some 10 million slaves "exported" from Africa). Mass immigration to the Americas in the wake of native populations decimated by European diseases was also a major factor. The legacy of the colonial period has modern echoes in the persistence of inequality within countries and the variation in economic performance between countries.

Global Income Distribution, 1988 and 1993

Percentage of world's population	Percentage of World Income		
	1988	1993	Difference, 1988-93
Top 1%	9.3	9.5	0.2
Top 5%	31.2	33.7	2.5
Top 10%	46.9	50.8	3.9
Bottom 10%	0.9	0.8	-0.1
Bottom 20%	2.3	2.0	-0.3
Bottom 50%	9.6	8.5	-1.1
Bottom 75%	25.9	22.3	-3.6
Bottom 85%	41.0	37.1	-3.9

Source: Milanovic (1999)

International trade and capital movements—Trade flows played a substantial role in the rise of Venice (as a city-state), Portugal, the Netherlands and the United Kingdom as dominant maritime powers in their respective eras. Each expanded and consolidated trade networks (through coercive force if necessary) in a manner that provided markets for European producers while importing items that were not locally available.

Technological and institutional innovation—Advances in Western technology vis-à-vis the rest of the world in terms of military might, shipping capacity and industrial production contributed to the ascendancy of the Western powers. Since 1820 technological change has advanced at a much more rapid pace than ever before. Institutional structures such as banking, credit, property insurance and corporate forms of organisation also played a significant role in the growth of capitalist economies.

These factors in part attest to the dynamic of capitalist development but also highlight a significant role played by the state in facilitating internal development and colonial expansion. From Crown financing of early Portuguese “trade missions” in the 15th century to countless infrastructure projects to the role of government in the advance of the Asian tigers this has been the case. Non-market institutions such as legal structures and central banks have also played an important role in economic development.

From Golden Age to Neoliberal Order

The post-war period is the most relevant for policy-makers in assessing the patterns of global inequality. The Golden Age from 1950 to 1973 was a period characterised by faster rates of economic growth around the world than any other period of history.

The only exception to this is the Asian economic “miracles” that achieved very fast growth rates in the post-1973 period.

The Golden Age also saw falling inequality within most countries. Domestic policies were infused by the ideas of Keynesian economics that focused on creating “full employment” and high levels of aggregate demand via low interest rates and demand-side policies (such as unemployment insurance and income assistance). These domestic policies were in a supportive international context based on stability and cooperation through the creation of new institutions (the United Nations, the IMF, the World Bank and the GATT). This period was also one of “decolonization” with efforts by new states to develop through industrial strategies and import-substitution policies.

In contrast the post-1973 “neoliberal order” has seen much slower rates of economic growth amid rising inequality. Cornia and Court (2001) reporting on the results of a project on international inequality find that “traditional” sources of inequality - land concentration, urban bias, inequality in education do not explain the rise in inequality over the past two decades. They find that rising inequality is strongly lined to neoliberal policy reforms adopted in industrialized transitional and developing countries alike. In particular they highlight:

Tight fiscal and monetary policies - IMF adjustment programs to stabilize inflation and reduce budget deficits have generated recessions and poverty surges. Cutting public spending to reduce deficits is a drag on growth especially when the needs of the poor are not taken into consideration. High interest rate policies to curb inflation and maintain the confidence of foreign investors also adversely affect the domestic economy.

Financial liberalization—Opening up to international capital flows has caused growing volatility in the form of financial crises particularly since the mid-1990s (i.e. major financial crises in Mexico, East Asia, Russia and Brazil).

Privatization of industrial assets : Ill-conceived privatization programs have in many cases led to the concentration of former state assets in the hands of former managers and a small financial elite.

Changes in labour market institutions - Reduced regulation and employment protection, erosion of minimum wages, restrictions on collective

bargaining, lower public sector employment and reduced public education expenditures have led to more informal employment a declining wage share of GDP and a growing wage gap between skilled and unskilled workers.

Tax and transfer systems—Tax systems have become more regressive through greater reliance on sales taxes while public expenditures have become less redistributive.

Comparing the 1960-1980 period against the 1980-2000 period the Washington-based Center for Economic and Policy Research looked at changes in economic growth plus health, education and other social indicators for 116 countries. After sorting countries into five groups based on common starting points they found that economic growth rates for all five groups were much lower in the second period than the first period. Indeed the poorest group went from average per capita GDP growth of 1.9% per year from 1960-80 to -0.5% per year from 1980-2000. The second lowest group dropped from 3.6% per year in the earlier period to less than 1% in the later period. The study also found that progress in health and education indicators was reduced for most countries. This empirical result is an indictment of the period of globalization of the past 20 years heavily characterised by the imposition of liberalisation, privatisation and deregulation via IMF and World Bank structural adjustment programs. The authors note that this presents “a very strong prima facie case that some structural and policy changes implemented during the last two decades are at least partly responsible for these declines. And there is certainly no evidence in these data that the policies associated with globalization have improved outcomes for most low and middle-income countries.”

The Empire Strikes Back

Recently the World Bank has gone on the offensive to demonstrate that its brand of market liberalisation is good for the poor and does not contribute to inequality. Bank economists David Dollar and Aart Kraay write that a group of “globalisers” have outperformed the “non-globalisers” in terms of GDP growth and that globalisation is good for the poor. The group of “globalisers” selected is based on increased trade to GDP and reduced tariff barriers. For each indicator the top 24 out of 73 developing countries are chosen (but only nine countries make both lists). In a critique of this paper Rodri (2001) argues that Dollar and Kraay’s selection process is biased and finds that a “clean” sample using the same

dataset provides results that do not support the conclusion that the “globalisers” did significantly better.

A number of shortcomings suggest that Dollar and Kraay are exaggerating their findings in ways that are misleading. They report growth rates of 3.5% per year for the globalisers in the 1980s and 5.0% per year in the 1990s but these numbers are pulled upwards substantially because they are weighted by population. Among the globalisers are India and China the two most populous countries on the planet both of which have had very fast growth rates in recent decades. Based on an unweighted average the globalisers’ performance looks less spectacular: 0.5% per year in the 1980s and 2.0% per year in the 1990s.

Moreover China and India are not exactly text-book cases of globalisation at least the sort promoted by the IMF and World Bank. China and India have had an export orientation but have also moved slowly and strategically and both still maintain quite protected domestic markets. China does not even have a convertible currency. Similar remarks can be made about other “globalisers” such as Malaysia, Thailand and Brazil. Indeed this is the lesson of the Asian “miracle” economies all of which protected domestic markets and had substantial government industrial policies while pursuing export markets.

This is in contrast to the experience of many Latin American and African countries that Dollar and Kraay seem to write off as “non-globalisers.” Through IMF and World Bank structural adjustment programs, these countries have:

- had their import markets forced open thereby undermining local industries;
- been coerced to sell off their water, electrical and telecommunications utilities to foreign investors leading to unequal access and higher prices;
- been pushed to slash funding for social programs and implement user fees for health care and education; and
- had to implement macroeconomic “stabilisation” measures that jacked up interest rates.

In other words the adherence of countries to structural reforms designed explicitly to increase their integration with the world economy has in most cases been a failure. Yet Dollar and Kraay argue that these countries actually need more global integration.

Dollar and Kraay also conclude that “globalisation is good for the poor” based on their finding that on average the incomes of the poorest quintile grew by

as much as the per capita growth of income. The authors are again over-reaching in making such a sweeping conclusion. That economic growth raises the incomes of the poor is not particularly contentious among economists although there are also many cases where this has failed to be the case. Even at face value this study finds that growth has no impact on income distribution, a contentious finding. Whether globalisation and more specifically, IMF and World Bank policies lead to growth is simply assumed to be true. This has not been tested.

The evidence above suggests that rising inequality comes in the wake of adjustment programs and financial crises and that the middle class might take the biggest hit as part of rising inequality (the poorest do not have much to begin with). Thus measures that focus on the bottom quintile may be missing the real action in terms of rising inequality. Other aspects of neoliberal reforms have led to rising expenditures in the form of user-fees, higher utility bills and regressive taxes, factors that clearly hurt low and middle income people more but that are not as easily captured in the statistics.

Conclusions

What is clear from the evidence is that global inequality is growing and that in the context of a global economy this is undesirable. Research indicates that higher levels of inequality are associated with higher levels of crime and political unrest and with lower levels of human capital development and civic cooperation. Moreover, many studies find that countries with greater equality grow faster, other things being equal.

Redistribution from rich countries to poor countries needs to come to the forefront of the agenda of the G-8, the IMF and the World Bank. To date “aid” is synonymous with loans often tied to purchase of goods and services from the donor country. Increasingly private sector investment is being touted as a panacea as rich countries fail to live up to commitments of allocating a mere 0.7% of their GDP to overseas development assistance. Governments need to get serious: aid-budgets should be increased, grants should

replace loans and IMF style conditionality should be eliminated. Moreover debt cancellation would free up billions of dollars in resources currently allocated to payment of interest to Northern creditors.

Policy makers would also do well to heed the lessons of the post-war Golden Age that combined national industrial policies with an international framework to promote economic development, full employment and stability. The result was high rates of growth, low unemployment and falling inequality.

Instead, the past two decades have moved in the opposite direction. Globalisation has been premised on the expansion of unregulated markets, privatisation and free capital flows. Worse still these policies have been imposed on countries that need loans in order to service foreign debt and stay solvent with regard to the international financial system. The IMF and to a lesser extent the World Bank essentially set economic policy in poor countries leaving them dependent on export of primary commodities and light manufacturing in maquiladoras, neither of which leaves much income in the hands of the poorest.

WTO rules go further by locking in neoliberal reforms preventing countries from taking measures for industrial development and building public sector services and enterprises—measures that played an important role in the development of already industrialised countries. But even rich countries have abandoned these measures in favour of the neoliberal policy fashion. **All over the world, inequality has been growing as an inevitable result of a free market system.**

Rectifying the situation calls for radical measures as radical as the post-war Bretton Woods system was in that time. In the wake of the Asian crisis, a great deal of thinking occurred about a new “international financial architecture” but proposals for reform have since fallen off the table. A fundamental rethink of international institutions—the IMF, World Bank and WTO in particular is still in order. If not another aspect of globalisation—the globalisation of protest and resistance will continue to grow in accordance with rising inequality.

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Courtesy : Canadian Centre for Policy Alternatives, Ottawa

The Rise of Global Corporate Power

By John Cavanagh (Director) *and Sarah Anderson* (Fellow), Institute for Policy Studies

There are 40,000 corporations in the world whose activities cross national boundaries. These firms ply overseas markets through some 250,000 foreign affiliates. Research by the Institute for Policy Studies (IPS) indicates that the top 200 global firms account for an alarming and growing share of the world's economic activity.

Two hundred giant corporations, most of them larger than many national economies, now control well over a quarter of the world's economic activity. Philip Morris is larger than New Zealand, and it operates in 170 countries. Instead of creating an integrated global village, these firms are weaving webs of production, consumption and finance that bring economic benefits to, at most, a third of the world's people. Two-thirds of the world (the bottom 20% of the rich countries and the bottom 80% of the poor countries) are left out, marginalised or hurt by these webs of activity.

The IPS has conducted detailed analyses of the changing nature of global corporate power for over a decade. This new report uncovers an alarming acceleration in corporate concentration in individual sectors and in the overall power of the largest corporations in the world, and new data on the job-destroying activities of large firms.

The most alarming finding is that as corporate concentration has risen, corporate profits have soared, yet workers and communities are getting a shrinking piece of the growing pie. Figures from *Business Week* chronicle the explosion of corporate profits and CEO salaries between 1990 and 1995 in the face of stagnating workers wages. The Economic Policy Institute's newest *State of Working America* reinforces these findings: median family income fell over 1% a year between 1989 and 1994 after four decades of expansion.

Top 10 Findings

1. Of the 100 largest economies in the world, 51 are corporations and only 49 are countries. Wal-Mart- the number 12 corporation - bigger than 161 countries, including Israel, Poland and

Greece. Mitsubishi is larger than the fourth most populous nation on earth: Indonesia. General Motors is bigger than Denmark. Ford is bigger than South Africa. Toyota is bigger than Norway.

2. The combined sales of the world's Top 200 corporations are far greater than a quarter of the world's economic activity. Our calculations indicate that the Top 200's share of global economic activity has been growing rapidly over the past decade. In 1982, the Top 200 firms had sales that were the equivalent of 24.2% of the world's GDP. Today, that figure has grown to 28.3% of world GDP.
3. The Top 200 corporations' combined sales are bigger than the combined economies of all countries except the biggest nine. That means, they surpass the combined economies of 182 countries. If you subtract the GDP of the big nine economies: the U.S., Japan, Germany, France, Italy, the UK, Brazil, Canada and China, the combined GDPs of the other 182 countries is \$6.9 trillion. The combined sales of the top 200 corporations is \$7.1 trillion.
4. The Top 200 have almost twice the economic clout of the poorest four-fifths of humanity. The world's economic income and wealth remain highly concentrated among the rich. Indeed, according to the United Nations, some 85% of the world's GDP is controlled by the richest fifth of humanity; only 15% is controlled by the poorest four-fifths. Hence, the poorer 4.5 billion people in the world account for only \$3.9 trillion dollars of economic activity; this is only a little over half the combined revenues of the Top 200's \$7.1 trillion.
5. The Top 200 corporations have been net job destroyers in recent years. Their combined global employment is only 18.8 million, i.e., less than 0.033% of the world's people. The world has just over 5.6 billion people. Of these, around 2.6 billion are in the workforce. Hence, the Top 200 employ less than 0.75% of the world's workers. Of the world's top five employers, four

- are U.S. (General Motors, Wal-Mart, PepsiCo and Ford), and one is German (Siemens). If one includes the public sector in these calculations, the U.S. Postal Service is the world's biggest employer, at 870,160, roughly 160,000 more workers than GM's 709,000 workers.
6. Not only are the world's largest corporations cutting workers, their CEOs often benefit financially from the job cuts. A total of 59 of the Global Top 200 are U.S. firms. Of these, nine laid off at least 3,000 workers in 1995 (AT&T, Boeing, Lockheed-Martin, BellSouth, Kmart, Chase Manhattan, GTE, Mobil and Texaco). Even worse, the CEOs of these nine made millions of dollars in the increased value of their stock options after announcing the layoffs. Indeed, on the day that the CEOs of these nine firms announced the layoffs, the value of the stock options of their nine CEOs rose to \$25,218,819.
 7. Japanese corporations have surpassed U.S. corporations in the ranking of the Top 200. Six of the top 10 firms are Japanese; only three are from the U.S. Of the Top 200, the 58 Japanese firms account for almost 39% of total sales, while the U.S.'s 59 firms account for only 28% of total sales. The vast majority (186) of the Top 200 are headquartered in just seven countries (Japan, the U.S., Germany, France, the UK, the Netherlands and Switzerland). South Korea and Brazil are the only developing countries to break into the Top 200.
 8. Half of the total sales of the Top 200 are in trading, automobiles, banking, retailing and electronics. The concentrated economic power in these and other sectors is enormous. In autos, the top five firms account for almost 60% of global sales. In electronics, the top five firms have garnered over half of global sales. And, the top five firms have over 30% of global sales in airlines, aerospace, steel, oil, personal computers, chemical and the media.
 9. When General Motors trades with itself, is that free trade? One-third of world trade is simply transactions among various units of the same corporation. This figure has remained steady for the past few years, and is higher in certain countries. Two-fifths of Japanese exports, for example, are intra-firm. For manufacturing exports from Brazil, the figure is 44%.
 10. The Top 200 are creating a global economic apartheid, not a global village. The top eight telecommunications firms, for example, have been expanding global sales rapidly, yet over nine-tenths of humanity remains without phones. Television ads for AT&T and GTE give the impression that the telecommunications giants are bringing the world closer together. And yet while the top eight firms in this sector enjoyed sales of \$290 million in 1995, 90.1% of all people live in a household that is not connected to a telephone line. Likewise in the financial sector, when banks boast of the new ease of global banking, they fail to mention the difficulties most of the world's people face in obtaining even a tiny loan. Close to 4.8 billion of the world's 5.6 billion people still live in countries where the average per capita gross national product is less than \$1,000 a year. Only a handful of these people have access to credit from transnational banks. This is despite the fact that the 31 banks in the Top 200 have combined assets of \$10.4 trillion and sales of more than \$800 billion.

Conclusion

These findings offer a clear picture of the rising inequalities in the U.S. and the world between those who benefit from expanding corporate activity and those who are being left behind. This inequality, fueled by accelerated corporate concentration, deserves to be a central issue in the political debates of this period. This report stands as a challenge to both major political parties to address growing inequalities and the economic forces behind them.



From New Economy to Siege Economy: Globalization, Foreign Policy, and the CEO Agenda

By Jeffrey E. Garten

We tend to think of United States foreign policy as the result of a formal process - the product of diplomatic rounds, bilateral discussions, and official negotiations. But a substantial part of U.S. foreign policy always rests on the overall milieu in Washington at the time.

In the 1990s, that environment was heavily weighted toward commercial interests. There was the push for the North American Free Trade Agreement, the establishment of the World Trade Organization, a blizzard of other trade agreements, an emphasis on strengthening relationships with emerging markets, and a vigorous effort to prevent financial crises from spreading beyond local economies. Most of Washington's economic assistance to other nations was designed to bring about liberalizing economic reform. In short, the U.S. had created a global, outward-looking foreign policy environment.

This liberating spirit became synonymous with the term globalization, and U.S. multinational companies were partners with Washington in promoting this variant of globalization. Corporate leaders sided with the administrations of George Bush (the senior) and Bill Clinton. Backed by a majority of the U.S. Congress, they fought together to level the playing field for global business, waging successful campaigns for greater liberalization of trade and finance, more deregulation, and increased privatization of state-owned enterprises.

Now, the fight against terrorism will dominate American foreign relations for the rest of the Bush administration, and probably beyond. It will influence everything from domestic civil liberties to economic policy to our choices for allies abroad. This new focus represents a sharp discontinuity from the outlook of the last decade. Washington will likely back a different kind of globalization - one focused less on the opportunities for expanded commerce than on addressing the many holes and vulnerabilities in an open economic system. Instead of knocking down barriers, our new war, of necessity, will place more controls on banking, movement of people, and technology exports. The emphasis will be not on reducing the control of government, but on enhancing it in a wide variety of ways. "Homeland security" says it all - domestic-oriented, restricted, more closed than at any time since World War II. In place of an ethos of liberation will be a philosophy of control. In place of a spirit of opportunity will be a feeling of

vulnerability. Not long ago we talked about a New Economy. Now we are looking at the possibility of a Siege Economy.

The geopolitics of anti-terrorism will substantially alter the prospects and paths of American corporations. For most chief executives of American companies, the new crisis presents issues never before faced: a halt to the headlong, liberating globalization of the past two decades; more regulation of company activities, at home and abroad; and the reintroduction of military and other noncommercial considerations into American foreign policy.

Chief executives of American multinationals would seem to be perfectly placed to team with Washington and the other governments of the free world in reinventing globalisation to address the challenges ahead. Within their own organisations, they have had to address many of the social, economic, and geopolitical issues that we used to relegate to government. Their companies have been increasingly reliant on diverse, global work forces. Their profits depend less on extracting raw materials than on mining and sharing knowledge among educated populations of workers and consumers. Understanding the limits of command-and-control management in decentralised organisations, corporate leaders would appear well positioned to become the kind of "business diplomats" the world now needs, as it seeks to develop coalitions to fight a war that takes place on a myriad of physical and virtual fronts.

Unfortunately, CEOs of American multinationals have shown themselves unwilling and unable to shoulder these new responsibilities. In interviewing some 40 chief executives for my recent book, *The Mind of the CEO*, I discovered that while most of them wanted to play a more statesmanlike role, they felt they had neither the time nor the mandate to do so to any great extent. They felt under too much pressure to meet quarterly earnings targets to do much besides focus on their knitting. Now, however, they have no choice. September 11 - and ensuing events - are rebalancing the relationship between the public and private sectors, forcing a negotiation of interests unlike any seen since World War II. Having spent the last decade and more attempting to make the world safe for globalization, multinational CEOs must now participate in a broad, ongoing effort to make globalization safe for the world.

The Changing Context

Once the initial burst of patriotic fervor subsides, there is a risk that the direction of U.S. foreign policy and the interests of American multinationals will diverge. At a minimum, much more tension will exist between the two than existed before. During the last few decades, American companies have internationalized more than is generally acknowledged. Their production, supply systems, sources of finance, work forces, and management are increasingly global. Many Fortune 500 companies now derive more than 50 percent of their revenues from abroad; for most of the rest, global diversification remains an important objective. The Bush administration, though, is riveted, quite reasonably, on national interests. U.S. CEOs will naturally try to align themselves with the administration. But they will not be able to completely match actions with rhetoric, given their need to balance interests in the U.S. with those outside its borders. The fact is, companies have much more interest in an open world economy than in one focused on increasing regulation.

The trend away from economic openness and liberalization will manifest itself in numerous ways. Among the initial contextual changes CEOs can expect is the increasing politicisation of international economic policy. The U.S. will pressure the International Monetary Fund (IMF) and the World Bank to pump funds into countries whose anti-terrorism goals are compatible with American goals. The World Trade Organization (WTO) is likely to admit new members, such as Russia, more quickly, even if they have not met the policy prerequisites that China and other nations have had to achieve.

It is a certainty, as well, that Uncle Sam will promise economic inducements to nations that cooperate in the fight against terrorism - incentives that may not have strong linkages to sound economic policies. The large-scale aid packages promised recently to Pakistan and Uzbekistan - countries that were in disrepute with Washington just several months ago - are harbingers of what's to come. The U.S. is also bound to provide trade preferences for countries in the coalition (again, absent the policy reforms that in past years were a quid pro quo for most-favored-nation status), just as it has done recently for Columbia and other Latin American nations as a reward for fighting drug lords.

Other differences between the interests of multinational businesses and those of the government are likely to surface. There is a danger that, in its campaign against terrorism, Washington may not be

able to sustain adequate attention to macro-economic problems that affect the world economy, to the detriment of U.S. firms that have gambled so much on a strong and open international economy. As we enter a global recession, for example, a number of emerging-market economies in Latin America and Asia are in trouble, including Argentina, Brazil, and South Korea. Because they are not on the front lines of the war against terrorism, these countries may not receive the attention they need. Yet if history is a guide, the failure of one or more could become contagious, especially against the backdrop of a rapidly weakening global economy. Short-term debt relief and intervention in the capital markets will go only so far in propping up these faltering economies; long-term direct investment in emerging markets is slowing down, too, indicating that the perils they pose to global economic stability will exist for a long time.

These are not the only global economic challenges brewing. The exchange rate system is more precarious than it has been in a long time; the dollar is overvalued, the yen is being held down by major Japanese intervention that cannot last, and the euro is still to be tested. Japanese banks are in increasingly bad shape, putting more pressure on the global banking system.

Trade tensions loom, too. Japan is looking for a depreciating yen, but the U.S. and other countries are not able to take a flood of imports from Tokyo. China's entry into the WTO isn't the end of the China trade problem. There will be many challenges to China's policies within the WTO, and China will also play a powerful political role in championing the causes that developing countries have pushed, not very effectively, for several years. (See "Profits and Perils in China, Inc.," First Quarter 2002.)

America's ability to lead the global economy out of such quagmires may well be compromised by the war on terrorism. The G8, readily persuaded during the 1990s toward liberalization by the strength of the U.S.'s hyper-strong New Economy, could well begin to dismiss any new efforts as disingenuous attempts by Uncle Sam to offset the costs of America's campaign against terror. It's one thing to share intelligence information; it's another to change budgetary and monetary policies.

Costs for Companies

These and other changes in the global economic environment will affect American firms directly and indirectly. Companies will get less support from U.S. government economic agencies, whose activities will be distorted by the fight against terrorism. The Treasury and Commerce departments, which led the

successful battles for commercial diplomacy and trade liberalization, will begin to focus more on monitoring and surveillance of finance and trade with terrorist networks. The Export-Import Bank and the Overseas Private Investment Corporation will be preoccupied with helping frontline states in the anti-terrorism campaign, largely by gearing their lending and guaranty programs to companies integral to U.S. foreign policy priorities, not global trade and investment in general. It is hard to believe that these and other agencies will have the time and energy to pursue normal commercial goals.

The probable remilitarization of U.S. foreign policy may also prompt a political backlash against the United States, which could undercut corporate activities abroad. The situation may be similar to that faced by American firms overseas during the height of the Cold War, when many embassies were the object of political attack, and military-to-military links counted more than commercial connections. The stationing of military forces in Central Asia, the increasing interaction between the Pentagon and its counterparts in various countries, and the need to build up clandestine intelligence capabilities all point in this direction. If we align ourselves with repressive regimes abroad to achieve our ends, we would be opening the U.S. and, by extension, its companies to hostility of significant proportions.

We should not underestimate the problems all of this can cause for American firms. Even before September's terrorist attacks, in many quarters "globalization" was synonymous with "Americanization." To many, this had a positive meaning; both terms connoted openness, opportunity, and a market orientation. But to others, "Americanization" implied a harsh form of capitalism, one dismissive of local needs, environments, and traditions. **With the U.S. pursuing a high-profile military policy around the world, identification with "Americanization" is unlikely to help U.S. firms, except in those nations that also find the very fabric of life threatened by actual terrorist assault.**

At the least, American companies will bear real costs. High on the list will be the cost of security. U.S. companies are prime targets for terrorism overseas - and it shouldn't be forgotten that Wall Street and the very idea of world trade were specific targets of September's attacks. Firms will need to increase protection of their physical facilities (including the building of redundant capabilities), their communications infrastructure, and their people. They will need to vastly enhance security checks of all employees. American executives will have to take

more care in traveling. All this is expensive, and will cause U.S. companies to stand out in ways that can only impair their competitiveness. (See "Security and Strategy in the Age of Discontinuity," First Quarter 2002.)

Competitiveness against corporate rivals from other nations with less foreign policy baggage could be further hindered if the U.S. imposes economic sanctions on other governments based on the needs of its anti-terrorism campaign. American companies could, for example, be prevented from operating in certain markets, or they might find trade in certain goods and services curtailed. Conversely, companies might be pressured by Washington to help with the economic dimension of building up weak states that breed terrorism - an activity that companies have shied away from, since they see few commercial benefits.

Crisis-Bred Opportunities

Lest the commercial consequences of the war on terrorism seem unduly dire, remember that crises can be catalysts for positive changes. Chief among them are the opportunities corporate America and Washington now have to build a stronger global system.

Business and government should collaborate on ways to re-energize global trade negotiations, taking advantage of the new spirit of cooperation between the U.S. and the European Union, the two largest and most powerful trading areas, which can make or break the talks. It was heartening to see the beginning of world trade talks in mid-November 2001. But starting them was the relatively easy part. Making them succeed is another matter.

Surely, this is a time for a trade round that is aimed foremost at integrating developing countries into the global system. These negotiations must be mounted quickly, have a simple agenda, and work on a tight timetable. Now is the time for concrete progress that will boost the world economy, not a five-year marathon.

Even if steps toward extending the benefits of an open global economy into the developing world prove hard to accomplish, American multinationals are so enmeshed in the global marketplace that they have a great stake in working to prevent a rollback of the economic liberalization that has been achieved in the last 10 years. Perhaps the current crisis can be a wake-up call for those who grew complacent during these last several years of prosperity, thinking they need do little more than ride the waves of globalization.

On the one hand, American multinationals have to

push harder for liberalization of trade, finance, and immigration, even as the political headwinds grow stronger. If they don't do this - if they do not champion globalization - no one else will.

But on the other hand, multinationals will have to work with governments to achieve the best balance between openness and security. Business and the public sector can collaborate, for example, on harmonizing important rules of global commerce, such as antitrust regulations or intellectual property rights. Improving the condition of communities in which they operate ought to be an integral feature of businesses' strategy, not out of altruism, but out of self-interest in promoting an environment that at least lessens the chance of becoming a political target.

For government and business, there is a very compelling case for collaborative action. Without underestimating the life-and-death importance of successfully combating terrorism, we should not forget that economic development and progress - and the economic ties among nations that reinforce them - are at the heart of what most societies care about. A long war against terrorism that ignores or undermines that will be counterproductive and probably unsustainable. If economic conditions do not improve for most of the people of the world, the kind of global capitalism that has allowed industrial nations to prosper will cease to exist.

We are closer to that breaking point than we have been in a long time, given the diversion of efforts toward rooting out terrorism around the world.

A Cooperation Agenda

Government-business collaboration can take many forms, from the grand to the particular. There are, for example, some technical fixes that can help keep the global commercial system from unnecessarily grinding down. CEOs and government officials ought to join forces to streamline enhanced customs inspections, to impose as few obstacles as possible in the global commercial logistical system. They can do this with certain embedded technology that allows government officials to inspect cargo long before it crosses borders.

Executives and officials also should cooperate on security issues relating to the nation's information infrastructure, an area where national security, commercial interests, and such social concerns as privacy all overlap. The entire policy of homeland security, dependent as it is on taking into account the workings of the national economy that we so frequently take for granted - the system of transportation, communications, the public health infrastructure, etc. - also needs to be a collaborative

effort between the public and private sectors.

CEOs and top government officials should put their heads together to develop a strategy for economic development that isn't simply a series of short-term political payoffs, but builds a solid foundation for market economies to take advantage of the global system. There is a lot to do to strengthen international institutions like the IMF, WTO, and World Bank, as well as to develop new rules for cyberspace and stronger systems for public health - to take the most obvious examples.

Two immediate measures can be enormously helpful. First, because foreign investment in developing countries will fall as companies and institutional investors shy away from all kinds of risk, we need to develop more mechanisms to provide political risk insurance - something that used to exist but was being whittled away as the world seemed to be getting safer and as the role of governments was diminishing in finance. Second, there ought to be an acceleration of efforts to strengthen corporate governance of all kinds - from implementing sounder accounting to protecting investors. In an atmosphere of risk, such mechanisms enhance investment flows, and every little bit will help now.

Washington needs to be prepared to make considerable new investments in multilateral institutions, a departure from the more aloof stance the administration evinced during much of its first year. American businesses ought to be not just highly supportive of but involved in this effort; for example, providing ideas about how they and the World Bank can work more closely together to get effective investment into developing countries.

Both business and government should rethink their political approach to globalization, aiming to add a more humane element to it, with more emphasis on environmental cooperation, education and training of non-U.S. work forces, and the creation of social safety nets in less-developed countries. These policies - descendants of the Marshall Plan programs we supported in Europe after the close of World War II - will not by themselves eliminate terrorism. But the harsher capitalism that has been spreading around the world is not compatible with the need for political support for globalization. At the heart of everything is the need to build a system of commerce that makes as many people as possible feel they have a chance for a better life within the system that is evolving.

Let me try this another way: Some three weeks after the September 11 attacks, the Financial Times editorialized that "the ills of the world's poor resulted from too little globalization, not too much." This is not

completely right. Globalization is not an end in itself; sustainable globalization is. CEOs and developed-world officials alike would be remiss were they not to acknowledge that certain effects of globalization have clobbered emerging markets time and again in the last several years. Even before mid-September, increasing attention around the world was paid to the downside of an integrated world economy. There is no question that globalization has widened the gap between rich nations and poor nations, and between rich and poor within countries. The troubles of today - and tomorrow - will be concentrated in those segments of the world that are falling further and further behind. It was tragic enough from a social and moral perspective to live in a world of these widening disparities. But now it holds a tangible security dimension, as well.

So more attention must be given to the impoverished, and a better way of helping them move up the economic ladder, than has been to date. Anti-globalization demonstrators highlighted the problem; because many of them were avowed anarchists or freelance troublemakers, it was easy to dismiss their concerns. But the fact is, many Third World governments were becoming increasingly troubled, too, even before September 11. Their concerns cannot be addressed by either government officials or corporate leaders acting in isolation.

American CEOs further have a role to play in pressing Washington not to neglect policies that were strengthening globalization before September 11, and that are still crucial for the future. A major case in point is our relations with Mexico, much of which were turning on more cooperative ties regarding people flows. It is hard to envision political support in Washington for more liberal immigration policies today. But sooner, rather than later, we will need to have them, even in the context of stepped-up vigilance. We may need to take some detours, to be sure, but we have to get back on the right road.

We must continue the effort to shore up the global banking system, well beyond the new push against money laundering. Similarly, we can't forget the need to rethink intellectual property laws in the context of changes wrought by information technology (Napster-type issues), new global diseases (pharmaceutical issues), and the human genome (who owns the secrets of life?). In other words, the fight against terrorism, as important as it is, cannot subsume the multitude of thorny questions that must be resolved if a global economy is to operate efficiently and humanely.

CEOs in the Siege Economy

The changing context for economic activity - government-business cooperation, globalization

rethought and revised, a U.S. foreign policy broadened beyond commercial considerations - raises the question of what specific role American global CEOs ought to play in today's marketplace and society.

In *The Mind of the CEO*, I underscored the intense competitive pressures under which corporate leaders operate, and the difficulty they themselves identify in undertaking broader roles of leadership in society. In the wake of September 11, this tension has become even more acute. The economic climate has deteriorated badly, putting excruciating pressure on many companies' performances. Business leaders' first concerns will be how to manage their operations in a sharply different global environment. They might conclude that even under the best of circumstances, the war against terrorism will be a long one, and that the uncertainty created will require serious adjustments in their operations. Aside from the immediate security concerns, they may rethink everything from the management of their global supply chains (is it wise to rely on just-in-time inventory deliveries when the global logistical system is subject to disruption?) to the pace of their global diversification (should it be slower or faster?). They will need to reevaluate their ability to assess political risk and to engage in contingency and scenario planning, as well as their competence to deal effectively with a government that is edging into a wartime footing (to be sure, companies' Washington offices will become more important).

The public framework for globalization, however, is at a delicate crossroads. It is tempting to say that the job of shaping a sustainable form of globalization belongs to the world's governments. To an extent that's true, but governments alone cannot do the job. They don't have the long-term global perspective, talent, or experience - nor do they touch people in every facet of their daily lives. As the leaders of companies that help shape how people live, what they buy, and what they think, business executives can and should help in the conceptualization of a new paradigm of globalization - and in the execution of policies predicated upon it. CEOs would do well to remember that they are the major champions - perhaps the only true backers at this time - of globalization. If they are not out front supporting a revised, sustainable globalization, no one else will be.

In the short term, President Bush may need a business council, made up of the country's most enlightened CEOs, to meet with him and his cabinet to discuss these kinds of ideas before patterns are too far along to reverse. The administration, focused on the step-by-step escalation of the war on terrorism, cannot do

the necessary planning as well by itself. In the end, moreover, a successful foreign policy will require significant cooperation from American firms. They are, after all, the instruments of economic production, investment, and employment, and the source of technological innovation. When it comes to such issues as the environment, labour standards, and human rights - key components of foreign policy these days - the objectives of the U.S. cannot be fully achieved without the reinforcing actions of American companies.

A Different Kind of War

That broader conceptualization of the war against terrorism ought to begin now. During World War II, everything was naturally subordinated to winning the military contest. But even as the war was waged, a parallel effort was made by the U.S. and Great Britain to lay the groundwork for a strengthened global economy. And when the war was over, attention was turned to building what became the Bretton Woods system. More than a billion people now live in peace and prosperity on four continents because of the foresight shown by those leaders in the throes of war.

Today we are fighting a different kind of war. Although today's world economy has not been nearly so disrupted as the 1940s economy was, the anti-terrorism campaign will create a host of new and as-yet-unforeseen complications. This may well be the time for the Bush administration to take the lead in launching a rethinking of the ways that the global economy can be strengthened. In this effort, the participation of a number of America's best CEOs ought to be central.

The case for a new model for the world economy rests in part on the reality that economic systems do not exist in a political vacuum. In the 19th century, Britain ruled the seas, and its capital markets and free-trade stance were the linchpins of the world economy. In recent years, the U.S. has been the world's sole superpower, and it too has wielded disproportionate clout over economic globalization. But this latter system was fraying, even before September 11. Something is wrong when we have so many recurring financial crises around the world. Something is wrong when so much seems to depend on the unpredictable spending patterns of American consumers. Now, a new political alignment seems to be emerging. There may be a new recognition that America cannot always act alone. New coalitions

are developing among states. New coalitions could be formed among other nonsovereign actors, too - between corporations and environmentalists, for example. An essential aspect of any rethinking of globalization is to factor in the new politics.

Other longer-term issues exist for corporate America, in particular. At a minimum, to contend with the newly recognised pressures of globalization, corporate strategy, leadership development, and management training need to be revised along the following lines:

Schools and businesses must focus on producing broad-gauged leaders who can run companies that are profitable and progressive agents of change.

Undergraduate and graduate schools must train business leaders who can understand geopolitics as well as finance and marketing.

Corporate governance must be reformed to become less CEO-centric, in order to manage the extraordinary and growing complexity inherent in multinational companies today.

I know that there are many views about how long and deep the American campaign against terrorism will be. Many people express skepticism that the U.S. can sustain this unprecedented kind of war. They say that we will be back to near normal in six months or a year. I don't think so, but we are in the realm of conjecture.

Whatever happens, however, we will look at globalization through a different lens. The same channels of transportation and communication that opened the global economy to trade and investment have opened it to terrorism of different forms. We are vulnerable, and vulnerability unchecked will create uncertainty that can undermine economic progress. Unless it can be overturned, an overpowering sense of exposure impedes the spread of democracy, because societies under threat lean away from liberty toward security.

So the big issue is not whether globalization will proceed; it is too powerful to stop. The big issue is, What kind of globalization? What should be the new paradigm, because, one way or another, there will be one? Can we make it safer? Can we make it more humane and hence more attractive to a broader variety of countries? American government and American business leaders both have an enormous stake in the answers.

(Jeffrey E Garten is Dean of the Yale School of Management. He was the Under Secretary of Commerce for International Trade in the first Clinton Administration. He also writes a monthly column for Business Week.)

Privatisation's Tidal Wave **IMF/World Bank Water** **Policies and the Price Paid by the Poor**

By Sara Grusky

In July 2001, the World Bank approved a new \$110 million structural adjustment loan for Ghana. Before disbursing the loan, however, the Bank forced the government of Ghana to implement seven “prior actions,” including a requirement to “increase electricity and water tariffs by 96 percent and 95 percent, respectively, to cover operating costs.”

The effort to attain “full cost recovery” is a prerequisite to privatization. Private companies want to operate systems where consumers meet the expenses of running the systems and pay enough for company profits, too.

Pressured by the World Bank, the government of Ghana planned to lease the Ghana Water Company to two multinational water companies to provide urban water service. The World Bank included water privatization as one of many conditions that determined the extent of Ghana’s access to the portfolio of loans in the World Bank’s Country Assistance Strategy (CAS).

In May 2001, a broad coalition of groups in Ghana responded by forming the National Coalition Against the Privatization of Water (National CAP of Water), which is committed to conducting a broad campaign to ensure that all Ghanaians have access to safe and affordable water.

Rudolf Amenga-Etego of the Integrated Social Development Centre and one of the founders of the National CAP of Water, says most people in Accra do not earn the minimum wage of less than US\$1 a day, while a significant number have no regular employment. In April 2001, the average price for a bucket of water, which used to be 400 cedis, was raised to 800 cedis (US\$1 equals 7,000 cedis) to comply with the Bank’s required “prior action” for accessing the structural adjustment loan approved in July.

Cost Recovery and Privatization

The Ghanaian case is representative of an increasingly common policy recommendation of the World Bank, along with the International Monetary Fund (IMF), to increase consumer fees for water

and sanitation and to force privatization of water utilities.

The Bank argues that developing country governments are too poor and too indebted to subsidize water and sanitation services. World Bank structural adjustment loans and water and sanitation loans routinely include conditions requiring increased cost recovery, full cost recovery or “economic pricing” for water services.

These requirements mean that user fees paid by water consumers must cover all water system costs, which usually include the costs of operation, maintenance and capital expenditure, and sometimes the cost of servicing past utility company debt.

However, increased consumer fees for water can make safe water unaffordable for poor and vulnerable populations, however. As water becomes more costly and less accessible, women and children, who bear most of the burden of daily household chores, must travel farther and work harder to collect water — often resorting to water from polluted streams and rivers. Families are forced to make trade-offs between water, food, schooling and health care.

The World Bank and the IMF often impose increased cost recovery conditions in order to improve the economic viability of water utilities so that they will be more lucrative for private sector investors. In many countries, World Bank officials have concluded that public sector ownership of the water utilities is too costly and inefficient while the sale of water utilities and other public enterprises can provide quick resources to service developing country debt.

“Effective water resource management requires that water be treated as an economic good,” the World Bank asserts on its website, explaining that “private participation in water and wastewater utilities has generally resulted in sharp efficiency gains, improved service, and faster investment in expanding service.”

Structural adjustment loans and water and sanitation loans contain conditions requiring privatization,

including service contracts, management contracts or leases with private sector “international operators.” The multinational corporate water sector is highly concentrated, including such large companies as the French companies Vivendi, Suez and Bouygues, and the Texas-based Enron. Of the five companies who bid for Ghana’s water system, two of them, Suez and Bouygues/Saur, have annual sales figures significantly larger than Ghana’s 1999 gross domestic product.

The Price Of Access To Water

World Bank officials argue that increased cost recovery and privatization will actually expand access to clean water and sanitation. “Where public delivery fails, the World Bank Group supports private entry,” Bank officials explain in their policy paper on urban water and sanitation. “We advise and assist countries in developing regulatory frameworks and in designing viable, clean transactions that reconcile the interests of investors and consumers, and recognize the needs of the poor.”

In many developing countries, large proportions of the population are outside the limited “grid” of the piped water system. Expansion of the infrastructure is a key need. In the meantime, neighbourhoods, villages and communities are dependent on other sources for clean water such as private water tanker trucks. Buying water from tanker trucks generally costs more than paying fees for piped water, often much more. Those who cannot afford treated water must depend on streams, rivers, lakes or shallow hand-dug wells. Some households or communities develop “illegal” hook-ups to the piped water system.

The World Bank contends that, with higher payments from consumers, private companies will have an incentive, as well as the revenues, to extend pipes to those relying on water trucks or unclean sources.

“In many countries, middle-class consumers pay subsidized rates that shift the financial burden of the water they use — and often waste — to the government,” argues John Briscoe, head of the World Bank’s global water unit. “Public sector providers waste water, too, typically losing 40 to 50 percent of their volumes through leaks and theft. Costs are inflated, as utilities often employ more than twice the staff of an efficient operation. This bleeding of money leaves governments unable to expand

services to urban slums, small towns, and villages. Indeed, the poorest urban dwellers, whose plight is cited as a reason to keep water in the public sector, get no service at all from subsidized utilities. Many must buy water at a high price from private tanker trucks.”

But privatization critics say the Bank’s calculus is flawed on numerous grounds.

First, higher prices for water mean the poor have to use less or go without. In Ghana, for example, price increases have already forced many poor people to cut down drastically on their use of water. People often go to public places to fetch water for free or for a token fee, and children spend a lot of time fetching water and carrying it back to their parents.

The University of Ghana, which has adopted the philosophy of “struggle alongside the people,” permits community members to use the university’s water. People travel from all parts of Accra to the university to fetch water.

Public health officials recognise that serious health risks are imposed by the lack of access to clean water, including transmission of water-borne diseases such as guinea worm, cholera and other diarrheal illnesses. The World Health Organization estimates more than 2 million deaths annually from diarrheal diseases due to lack of access to adequate water and sanitation services.

In South Africa, water charges imposed in 1999 forced some poor people in Kwagulu-Natal to rely on polluted river supplies for their water. Public health officials trace a 2001 cholera outbreak, which has killed dozens, to the water pricing policy.

In Latin America, cholera has returned to the continent after being absent for nearly a century.

In addition, increased consumer fees for water may also hurt those who are not even part of the formal water pipe system. In many countries, private tanker truck operators buy water from the public water utility. Increased wholesale water prices trickle down to the poor.

What is often referred to as “leaks” include illegal hook-ups and other informal survival strategies used by the poor. Thus, World Bank policies to reduce “leaks” can actually reduce poor people’s access to water, since households with “illegal” hook-ups may end up having to pay for services.

Finally, there is little evidence of the multinational water companies' commitment to expanding service, especially to poor communities where the ability to pay increased fees is limited. Instead, the multinationals, which have only recently started their major moves into developing countries, have quickly racked up very poor social and environmental records. In Indonesia, Suez and Thames Water have both been charged with tampering with water pricing. In South Africa, protesters claimed that Suez was taking excessive profits, grossly overcharging for its services, and leaving the municipality unable to pay its workers a living wage. Saur (a subsidiary of Bouygues) is alleged to have made the largest of 12 bribes that are the subject of various investigations into corruption and political pay-offs in the World Bank-funded Lesotho Highlands Water Project [see "Falling for AES's Plan?" Multinational Monitor, June 1999]. There are many other cases.

World Bank officials and citizen groups in developing countries would probably agree on one point, however: Water sector reforms are needed. Current water management systems in many developing countries, especially centralized national water utilities, have not been able to provide safe and affordable water to the population. However, the World Bank's proposed solution, increased consumer fees and privatization, responds more to concerns about fiscal deficits and foreign debt than to citizens' need for safe, affordable water, say critics. Citizens' groups like the Ghana National Cap of Water propose alternative solutions such as decentralized community/municipal partnerships, continued government subsidies as well as innovative financing schemes, and citizen involvement and oversight in locally managed water systems.

The Water Privatization Push

Despite reason for skepticism about water privatization and increased cost-recovery schemes, the World Bank and IMF are pushing full-steam ahead for these measures.

A review of IMF loan documents in 40 countries reveals that, during 2000, IMF loan agreements with 12 borrowing countries included conditions imposing water privatization or cost recovery requirements.

In the division of labour between the IMF and the World Bank, it is the Bank that has primary

responsibility for "structural" issues such as the privatization of state-owned companies. In countries where IMF loan conditions include water privatization or cost recovery requirements, there are usually corresponding World Bank loan conditions and water projects that are implementing the financial, managerial and engineering details required for "restructuring" the water sector. But IMF structural adjustment documents are more often publicly available than those from the World Bank, making it easier to search IMF documents, despite the Bank's lead role in this area.

In general, it is African countries and the smallest, poorest and most debt-ridden countries where loan documents reveal IMF conditions on water privatization and cost recovery. Water privatization or cost recovery provisions are attached to loans to Angola, Benin, Guinea-Bissau, Honduras, Nicaragua, Niger, Panama, Rwanda, Sao Tome and Principe, Senegal, Tanzania and Yemen.

The IMF has different categories of loan conditions with corresponding degrees of leveraging power. Performance criteria are the most influential IMF conditions in that loan disbursements (known as tranches) can be withdrawn or allowed to proceed based on compliance with performance criteria. The IMF water privatization conditions are primarily structural benchmarks. Structural benchmarks influence the overall "grade" the IMF attaches to a country's performance, but they are not, in-and-of-themselves, conditions for withdrawing or advancing a loan disbursement.

For the countries on the receiving end of IMF water mandates, crucial decisions about water privatization and cost recovery may be made by Fund officials negotiating with key government leaders behind closed doors and without the knowledge or consent of citizens. Neither the IMF and the World Bank nor borrowing governments are obliged to publicly disclose information during loan negotiations. Once a loan agreement is signed and approved by the IMF's Executive Board, some of the loan conditions are made public in "Letters of Intent" posted on the IMF's website. The World Bank is currently revising its information disclosure policies. Presently, the conditions attached to World Bank structural adjustment loans are rarely publicly disclosed.

Eager, and sometimes desperate, government leaders will often adopt IMF policy

prescriptions in order to secure the resources necessary to avoid an immediate financial crisis.

In March 2001, the IMF announced that it would streamline the scope of its conditionality and withdraw from the area of public enterprise restructuring and privatization. The IMF claims that, in the future, water privatization will rest in the domain of the World Bank and other multilateral development banks. This may reduce opportunities for public input even further, as most structural adjustment documents for World Bank loans remain secret.

But the institutional division of labour notwithstanding, the policy mandates are unlikely to change. World Bank loan documents show increased cost recovery requirements for water services imposed in loans to Tanzania, Mozambique and Uganda.

Fighting For Water And Democracy

Struggles against the privatization of water supplies have already erupted in a number of countries. In Bolivia in 1999, the government responded to structural adjustment policies of the World Bank by privatizing the water system of its third largest city, Cochabamba. The government granted a 40-year concession to run the debt-ridden system to a consortium led by Italian-owned International Water Limited and U.S.-based Bechtel Enterprise Holdings. The newly privatized water company immediately raised prices. Although the minimum wage stood at less than \$65 a month, many of the poor had water bills of \$20 or more. Water collection also required the purchase of permits, which threatened the access to water for the poorest citizens.

Mass local opposition in Cochabamba coalesced in the Coalition in Defense of Water and Life, known as La Coordinadora, which demanded the water system stay under local public control [See “The Fight For Water and Democracy,” *Multinational Monitor*, June 2000]. After weeks of intense protests, in April 2000, La Coordinadora won its demands when the government turned over control of the city’s water system, including its \$35 million debt, to the organization and cancelled the privatization contract. La Coordinadora achieved the first major victory against the global trend of

privatizing water resources.

Ghanaians have also mounted protests against the World Bank’s water privatization push in their country. Public outcry over alleged bribes that influenced the bidding process forced the Ghanaian government to deny an initial contract to Enron/Azurix, and start the bidding process all over again. National CAP of Water observers say the bidding process continues to be closed off from public scrutiny, however.

Information from World Bank officials suggests that the Government of Ghana, acting under the advice of the IMF and the Bank, has decided to lease the Ghana Water Company to two different multinationals and has demarcated the districts that will comprise the markets of each of the corporations into project “A” and project “B.” Project “A” has received four bids so far while project “B” has received five bids. However, four out of the five corporations have bid on both projects, which means that a total of five transnational corporations have placed bids to date. National CAP of Water has vowed to mobilize public opposition to the privatization plans. The coalition is planning a national march against water privatization in Accra, Ghana on November 10.

Meanwhile, allies of citizen groups such as the Coordinadora in Bolivia and the National Cap of Water in Ghana are working to block a continuation of the Bank and IMF’s water privatization frenzy. In the United States, groups like Results, the 50 Years is Enough Network, Globalization Challenge Initiative and Essential Action (a project of Essential Information, the publisher of *Multinational Monitor*) are developing draft U.S. legislation that would obligate U.S. representatives to the IMF and World Bank to oppose any loan that mandates increased costs to poor consumers for clean drinking water.

A version of the legislation, which is modeled after similar enacted legislation restricting user fees for primary health or education, is expected to be introduced in Congress soon.

Turning the tide of the water privatization trend is essential, says Rudolph Amenga-Etego of Ghana.

“Water issues are too important to be left to decisions by government and foreign creditors like

the World Bank,” says Amenga-Etego.

Countries must be permitted to find their own solutions and to keep water provision and sanitation in the public sector, he says.

“We need to develop a national response to the contractionary policies of the IMF and examine new options for financing our water sector reforms in an equitable and socially responsive manner,” Amenga-Etego says.

“With abject poverty and the lack of employment opportunities that characterizes Ghana and many other developing countries, it is not in the national interest to privatize water. Water should be regarded as a social service with government bearing the primary responsibility for its provision.”

Double Standards And The Boomerang Effect

The United States and other industrialised countries have long recognised that government investments in water and sanitation services yield substantial benefits to public health, social equity, the environment, and the economy. **Wealthy countries provide a range of government subsidies for water and sanitation services. In the United States, the federal Clean Water Act and the Safe Drinking Water Act mandate subsidies for water and sanitation services.**

But U.S. and other rich country representatives on the boards of the IMF, World Bank and other multilateral development banks often push contrary policies on developing countries, forcing them to accept reductions in government subsidies for water and sanitation, increased consumer fees for water, and corporate privatization of water utilities.

Recent examples include:

In Nicaragua, a 30 percent increase in consumer

water fees was enacted in June as a result of IMF and Inter-American Development Bank policies.

In May, IMF and World Bank policies mandated a 95 percent increase in consumer water fees in Ghana.

In Tanzania, a World Bank water project proposes: “enhancing” commercial water operations by “gradually raising [the] water tariff to a level that compares with the long run marginal cost.”

Now, similar policies appear to be beginning to creep into the industrialised world. Recent tax cuts and growing needs make it unlikely that water and sanitation infrastructure will receive the public subsidies sufficient to maintain operations and hold the line on water charges. According to the U.S. Water Infrastructure Network (WIN), an additional \$23 billion per year investment — over and above current expenditure levels — is needed in the United States to meet environmental and public health mandates, and to replace aging infrastructure. Relying just on utility rate increases will cause consumer bills to double or triple, according to WIN.

As a result, cash-strapped municipal, county and regional water system managers will likely have to face hard choices, including the temptation to sell the utility to private corporate investors.

Meanwhile, new rules proposed for the World Trade Organization services agreement may help private investors access government subsidies and may help to ease the entry of foreign private corporate investors in the water service sector.

The policies of water privatization and increased cost recovery faced by citizens in developing countries may soon begin to hit home in the United States and other countries.

(Sara Grusky is co-director of the Globalization Challenge Initiative, which supports citizen's groups in developing countries struggling against undue interference from foreign donors and creditors, particularly the IMF and World Bank.)

Courtesy : CorpWatch India

Water Profiteers

By Anjali Kamat

Chennai--Mathur, a village in Tiravallur district in North Chennai, is the site of a 15-year struggle against rapacious groundwater extraction. The perpetrators are private companies supplying drinking water to the water-starved southern city of Chennai. The Chennai-based State Ground and Surface Water Resources Data Centre has declared that the groundwater in the Mathur area has already been 'overexploited.'

Chennai, though, remains perennially thirsty. It was not always this way. Historically, the city's water security was ensured by a network of tanks that stored rainwater and recharged the groundwater aquifers that serve as the primary sources of water for the city's 6 million people. This network has long since fallen into decay. Most of the watersheds and waterbodies have been built upon. What remains has been turned into cesspools of garbage, sewage and plastic wastes.

According to the Central Ground Water Authority, more than 80 percent of the city's groundwater resources are already being tapped. The water scarcity in the metropolis reaches crisis proportions every summer. For the multimillion dollar packaged water industry, though, this situation is what rings in the profits. Over the last several years, water-starved Chennaiites have paid nearly \$10 million (Rs. 500 million) to private water companies for 3.7 billion liters of potable water each month to augment the inadequate supply delivered by the state-run MetroWater.

More than 200 legal and 400 illegal water packaging units operate in the city and its surroundings, according to the South Indian Packaged Drinking Water Manufacturers Association (SIPDWA). By sinking deep borewells running powerful pumps in their small plots of land, water packaging companies have managed to willy-nilly privatize entire aquifers of common groundwater resources. Communities until recently self-sufficient for water are now on the edge of desperation as their water security is being compromised to serve the interests of the consumers in cities like Chennai.

The State Response

In 1987, the Tamilnadu Government legislated to conserve what's left of the metropolitan areas

groundwater. The Madras Metropolitan Area Groundwater (Regulation) Act applies to areas notified under the act. In these areas, free extraction of groundwater is permitted only for domestic uses. Extraction for any commercial activities requires a permit from the competent authority. Because this Act failed to check groundwater exploitation, legislators have introduced a new bill aimed at strengthening the Act and widening its scope to cover more villages.

Water Business Thrives Amidst Scarcity

The all-India market for packaged water is between \$145 million (Rs. 8 billion) and \$21 billion (Rs. 10 billion) and is growing at the rate of nearly 40 per cent per annum. Even though it accounts for only 5 percent of the total beverage market in India, branded bottled water is the fastest growing industry in the beverage sector.

While the single largest share in the mineral water market might still belong to an Indian brand -- Parle's \$52 million (Rs. 2.5 billion) Bisleri brand has a 40 percent share -- multi-national corporations are not far behind. Nestle and Danone are vying to purchase Bisleri, and Pepsi's Aquafina and Coke's Kinley brands have been extremely successful in edging out many of the small and medium players to buy-outs and exclusive licensing deals. In less than two years since its launch, Aquafina has cornered 11 percent of the market and Kinley has almost a third of the market. News reports indicate that other MNCs like Unilever are also eyeing the market.

Currently, Kinley is being manufactured in 15 bottling plants across the country and according to Coca-Cola India President and CEO Alex von Behr, Coke had invested Rs. 4,000 crore in India between entering the market in 1993 and December 2001. Behr says that Coke expects a significant portion of our turnover to be accounted by pure water business.

However, as non-governmental sources observe, despite the inherent weaknesses of the Act, it is not the act but the lack of political will to implement its provisions that has resulted in the collapse of the city's water supply. Violators are seldom brought to book, and almost never punished severely enough to discourage them from mining common groundwater resources again.

Take the Mathur village, for instance. In 1990, Mathur was listed as a notified area under the amendment to the 1987 Groundwater (Regulation) Act. That meant that all commercial activities requiring groundwater would need to secure permission from the competent authority. Several mineral water companies, including brandnames such as Polo, King and Acqua, which operated borewells in Mathur were required to obtain a permit from the competent authority to continue extracting water for their bottling units. Despite protests from the local communities, the companies took no action and continued to illegally extract groundwater.

In 1995, M.P. Palani, President of the Mathur Village Residents General Welfare Association, sued the bottlers for illegal extraction of water and demanded compensation for the depleted groundwater resources. By the time the case was taken up in 1999, more than 60 private companies supplying water by tanker trucks had sunk additional illegal wells in Mathur.

Subsequent to a court order prohibiting groundwater extraction for commercial purposes in the area, the bottled water companies shut down. But illegal extraction by other operator continues unchecked. According to Palani, 30 private companies supplying water to Chennai by tanker trucks continue to operate from Mathur.

Palani has filed yet another case against the tanker companies for illegally drawing and selling groundwater from Mathur. The proposed amendment to the 1987 Act may strengthen the act, but the steps taken by the Government to check the water crisis are too little and too late, villagers say. "The authorities can easily control this kind of illegal extraction even under the existing law if they really wanted to. . . They are just not trying hard enough."

Precious Water Wasted

Independent observers say that the permit system for licensing commercial activities involving extraction of water is fundamentally flawed because no means exist to independently verify the quantity of water drawn by companies. Even worse, in the absence of accurate data as to who is drawing how much, it is virtually impossible to ensure efficient usage of

water and minimize wastage.

Engineers from the Tamilnadu Pollution Control Board concede that under the circumstances, figures reported by the industry are likely to be gross underestimates. Even the conservative figures declared by the industry indicate that packaged water units waste anywhere between 15 and 35 percent of the water they draw from the ground.

Coca Cola, for instance, sources a bulk of its Kinley brand of bottled water from MVR Mineral Water, a contract bottler with a factory in Athur village, 40 kilometers from Chennai. The bottler reports that 132,000 liters of groundwater are extracted each day. Of this, only 100,000 liters are used for bottling purposes. The remainder -- at least 25 percent of the water drawn -- is discharged as effluents or lost to other processes. Virtually every packaged water company has externalised its costs to communities such as those in Athur and Mathur--communities that have been forced to contribute to the profits of these companies by involuntarily compromising their water security.

Chennai's Water Market

- * 5 million quarter-liter packets at 2 cents (Re. 1) each
- * 75,000 1-liter bottles at 20 to 25 cents (Rs. 10 to Rs.12) each
- * 100,000 12-liter cans at 38-63 cents (Rs. 18 to Rs. 30) each
- * 25,000 20-25 litre bubble-top containers from 80 cents (Rs. 38) upwards
- * 10,000 water tankers carrying 12,000 litres each at \$15-\$19 (Rs. 700 to Rs. 900) per tanker.

(Source: South India Packaged Drinking Water Manufacturers Association)

Rather than restore the community's access to their groundwater resources, state governments across the country are succumbing to pressures from the World Bank and other agents of globalization to get urban and rural consumers to pay the real costs even for drinking water. Meanwhile, companies like Coca Cola, Pepsi, Parle, TEAM and Nestle seem likely to have unhindered access to free water from the ground.



Asia

Sri Lankan Hospital Staff Launch Sick Note Campaign

Over 25,000 attendants, lift operators, cooks, cleaning workers and other ancillary staff in Sri Lanka's public hospitals called in "sick" on December 17, demanding a 7,000-rupee (\$US70) uniform allowance, improved training, and permanent positions for 5,000 casual workers. Thousand of workers joined a lunch-hour picket outside the Health Ministry head office in Colombo.

Some surgery was postponed and cleaning, food supplies and other hospital services were affected by the protest. The hospital workers union may call a nation-wide strike if the government does not meet its demands.

Pakistani Teachers and Medical Professionals Demonstrate Against Privatisation

Teachers, students and medical professionals demonstrated on December 12 outside the Sindh Provincial Assembly building in Karachi against government plans to deregulate health and tertiary education. The provincial government has established 'governor boards' to operate hospitals and universities, a move expected to lead to austerity measures and job cuts.

Retired Teachers Demonstrate in China Against Wage and Pension Cut

Around 100 retired teachers demonstrated on December 11 in Pizhou, Jiangsu province, against a 20 percent reduction in public servants' wages and pensions. Recent changes in policy require the Chinese government to only cover 80 percent of the payments, with local authorities responsible for the remainder "if and when" their budgets permit. The Pizhou local government claims it cannot meet the expense.

The demonstration is the first report of opposition to the recent sweeping restructure of public servants' wages in China.

Australia and the Pacific

Australian Shop-fitting Workers Picket Over Entitlements

Two hundred and sixty five workers sacked by Melbourne shop-fitting company, 'Trollope, Silverwood and Beck' began protest action on December 16 to demand payment of their entitlements. Employees established a picket outside

one director's home when it became clear that the company was not going to pay any of the \$5.5 million owed to sacked staff. The firm has been placed into receivership with debts of more than \$20 million.

Workers claim the company traded, despite its insolvency, by using accumulated staff entitlements. Those employed for more than 20 years stand to lose between \$40,000 and \$75,000 in outstanding holiday pay, long service leave and other benefits.

Queensland Construction Workers Strike After Worker Dies

Building workers in Brisbane and the Gold Coast walked off the job after 27-year-old scaffolder Darren West plunged five floors to his death on December 16. The accident occurred on a construction site at the University of Queensland's St Lucia campus. Initial investigations indicate that too much weight was put on a swing stage, causing the scaffolding to collapse. Workers are demanding safety harnesses to be provided for work on such platforms.

Garbage Collectors Strike Over Safety

Seventy garbage collectors in Brisbane struck work on December 17 over safety concerns. One worker was recently trapped inside a garbage truck for over 30 minutes when the pickup arm of the vehicle hooked onto an overhead power line which then fell across the truck.

Brisbane City Council signed an agreement with a new garbage contractor (Environmental Solutions) in 2002 and introduced a new line of trucks. While the vehicles can collect recyclable and non-recyclable material, the pickup arm is longer than on the older trucks. Since they were introduced, the new trucks have become entangled in power lines more than a hundred times, threatening workers with electrocution. There were only 16 such incidents in five-and-a-half years with previous vehicles. Workers held a rally to discuss the issue and then marched to the city council chambers.

Paper Mill Strikes Ended

Production workers at the Kinleith pulp and paper mill at Tokoroa returned to work on December 12 after a two-day strike. The 292 workers had walked off the job for 48 hours over a collective employment agreement and company restructuring plans that will slash the 730-strong workforce by half.

The Engineering, Printing and Manufacturing Union (EPMU) announced that it has agreed to consult with management on the job cuts.

The EPMU later filed a case at the Employment Court on December 19, claiming the first group of 48 workers who have received redundancy notices had been treated unfairly.

Europe

German Public Sector Workers Hold Strike Over Pay

On December 17 public-sector workers in Germany took nation-wide strike action in an ongoing dispute over pay. Workers have held sporadic strikes since December 5.

The action involved members of the Public Service Workers' Union, Verdi, and has affected targeted services such as public transport, education and refuse collection. The industrial action led to the cancellation of hundreds of flights and long traffic jams. Kindergartens, hospitals and rubbish collection services were also disrupted.

UK Firefighters Union Threatens Further Strikes in Pay Dispute

Firefighters in the UK will hold two further 48-hour strikes in January and February 2003 in their ongoing dispute over pay. The union said that the delay would allow for talks to continue between themselves, the employers and the conciliation service ACAS.

The FBU originally called for a pay increase of 40 percent in order to bring the basic pay of a fully qualified firefighter up to £30,000 a year. The employers and the government outrightly rejected this demand, leading firefighters to go on strike twice in November 2002.

The announcement by the union follows the release of the Bain Inquiry into the pay and conditions of firefighters. The review has been widely condemned by firefighters, as it claims that any pay increase has to be self-financed by a slew of changes in working practices.

Railway Conductors in Northern England to Continue Strike Action

Railway conductors employed by 'Arriva Trains Northern' will continue their strike over the ongoing pay dispute following the breakdown of talks between the Rail, Maritime and Transport Union (RMT) and the company.

The conductors have been involved in the dispute for virtually the whole of 2002 and struck work on December 21, 23 and 24, followed by another strike on New Year's Eve. Conductors employed by 'Arriva' are today the lowest paid in the country.

Africa

Zambian Hotel Workers Take Action Over Salary Arrears

Zambian hotel workers at the Chainama Hotel sealed off the gate to the hotel on December 16 demanding payment of their salary arrears. The arrears since 1997 exceed K300 million (\$US61,220). Former Lusaka Province deputy minister, Sonny Mulenga, owns the hotel.

Acting chairman of the staff union, Davies Mulenga, said the workers had sued Mulenga over the arrears, but he failed to honour the court order. The staff union then appealed to the labour office, which issued a directive to Sonny Mulenga in October 2002 to pay the workers within three months.

Speaking of the failure to follow up on these directives, Mulenga said, "we want to know if Sonny Mulenga is above the law." He said the hotel records for February-October indicated that the hotel had made K485,140 million (\$US99 million). "And only last week we had a function and K78 million [\$US15,900] was realised as down payment but still he can't pay us," he added.

Gambian Medical Research Workers in Sit-down Strike

Members of the Medical Research Council Workers Union (MRCWU) in Gambia began a sit-down strike on December 12, following the suspension of union leaders by the MRC management. Barring the outpatient clinic, security and the laboratory, work came to a standstill in all other departments at the Fajara headquarters.

The dispute began when the MRCWU protested against the ban on cooked food being taken into MRC wards by patients' relatives. The management then suspended the union leaders, for organising a protest that was labelled an "intervention in matters of clinical and professional judgement." Meanwhile, similar sit-down strikes were taking place in other MRC branches across the country.

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