

U.S. Senate passes foreign takeover security bill

The U.S. Senate has passed a bill that would strengthen scrutiny by the government and intelligence services of foreign takeovers of U.S. firms on national security grounds. The bill was drawn up in the wake of the furore in Congress sparked by a \$6.9 billion investment by Dubai's DP World of six U.S. ports.

Challenges of financial inclusion

Suggested practices are not new but the environment has changed

There is plenty of interest in the subject of financial inclusion, not only in India but in developed countries too.

The terminology may be new and the rationale for its adoption rooted in today's socio-economic thinking, but for the Indian financial sector it is hardly original. Nor has this sector wilfully shunned inclusive practices, whether directed by policy makers or by market forces.

FINANCIAL SCENE

Financial Inclusion (FI) means extending the reach of the financial sector to sections of the society as well as to geographical regions that were neglected in the past.

Recently the Deputy Governor of the Reserve Bank of India, Usha Thorat, provided some interesting statistics (RBI website).

The percentage of the Indian adult population having bank accounts is one common measure.

On an all India basis, only 59 per cent have bank accounts. The share of the rural population is significantly below that of the urban population. Only 39 per cent of rural adults have access to accounts while in the urban areas the percentage rises to 60. Access to bank credit is significantly less. Only 14 out of 100 adults have loan accounts on an all India basis as well as in the rural sector. In rural areas it is just 9.5 per cent.

The financial sector's relative neglect of the rural sector can be rationalised though not justified. Mainline finance in India is urban-centric: an overwhelming majority of its staff are city bred. Equally important, the cost of running a branch bank has historically been high.

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Numerous attempts at evolving a low cost business model for rural banking has not been totally successful. Thus, despite the well documented achievements of Indian public sector banks in spreading the banking habit for two decades since bank nationalisation, large sections — as Ms.Thorat records, these are the vulnerable sections of the society as well as geographical areas such as the Northeast — face financial exclusion to a greater degree than the rest of the country.

Use of technology

A number of non-traditional routes are being explored to increase coverage of the financial sector. Increased use of technology (to obviate the need for uneconomical branch expansion) and licensing low cost entities to undertake basic banking functions are being thought of. While inclusive practices are not new to the mainline banks, what has changed is the environment. 'No-frills' accounts that are being popularised may not be different from the Rs. 5 savings bank accounts of the 1970s.

Yet in the context of much tougher guidelines for opening bank accounts (brought about by know-your-customer rules) it is a challenge to open such accounts, still make money and prevent benami accounts.



TRADE DEADLOCK: Union Commerce and Industry Minister Kamal Nath addressing the media in New Delhi recently after returning from Potsdam (Germany). — PHOTO: V. V. KRISHNAN

Post Potsdam blues

The failure of the G-4 countries — the U.S., the EU, India and Brazil — at Potsdam (Germany) to break the deadlock in certain critical areas of the Doha development round was not unexpected. Agricultural trade related issues continue to be intractable.

India's well-known position of protecting its small and marginal farmers by retaining its tariff walls (one of the highest in the world) and through special products provisions was not up for bargaining. Commerce Minister Kamal Nath who dramatically walked out of the meeting seemed to suggest that the impasse was there to stay, never mind that the latest failure to reach an accord brings the entire Doha Round

to the brink of collapse.

However, as the dust settles down, questions are being raised over the appropriateness of India's strident stand. Can the inherently complex negotiations be expressed in stark terms as "Them versus U.S., the prosperity of farmers (in the U.S. and the EU) versus livelihood issues of Indian farmers? Besides, even the veneer of a united approach by all developing countries seems to be wearing thin. There has been some criticism in Brazil to siding with India.

It has been pointed out that China, with exports of over one trillion dollars and a 10 per cent share in world trade, has opted to be an interested spectator rather than grab a leadership role which it is entitled to. India's merchandise

exports are at \$150 billion and its share in world trade is slowly creeping up to 1.3 per cent. India's well-known strengths are in IT and other services exports. That would suggest that the policy on multilateral trade should be more flexible to reap some benefits such as in the movement of personnel.

After Potsdam, the prognosis for the Doha Round looks grim even as trade negotiations continue at Geneva. A breakthrough, however improbable, will strengthen the WTO and multilateral trade. Potsdam was probably the last chance for a smaller, but influential group of countries, to come up with an acceptable framework for an eventual wrap-up.