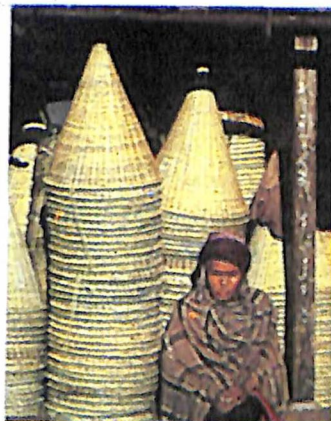
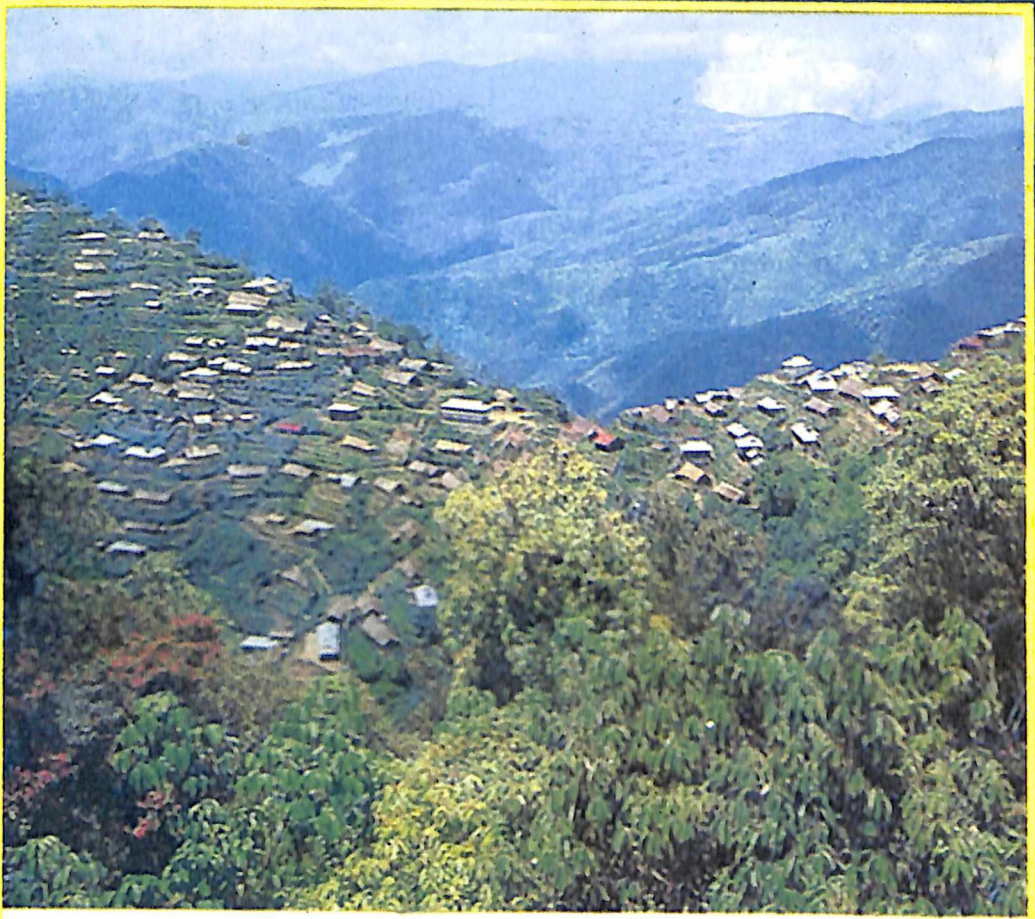


# *Liberalization and India's North East*



Authors : Gurudas Das R. K. Purkayastha

# LIBERALIZATION AND INDIA'S NORTH-EAST



**GURUDAS DAS**  
**R.K. PURKAYASTHA**  
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## FOREWORD

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It is with pleasure that I write this brief foreword to the book "Liberalization and India's North-East" edited by Gurudas Das (Department of Economics) and R.K. Purkayastha (Department of Political Science), both of whom are known for their interest in matters concerning the North-Eastern region. The book contains the papers presented at a national seminar on this theme organised by the College.

Although it is going to be a decade since the formal launching of the programmes of economic reforms in our country, no attempt has been made to study the implications of liberalization for the North-Eastern region. This book is the result of an effort to fill this gap.

Ever since independence, the North-Eastern region has remained a place of perpetual concern. Problems of underdevelopment, infiltration, misgovernance, cultural autonomy, ethnic identity, insurgency have agitated the minds of millions, caught between the dilemma of tradition and modernity, poverty and resourcefulness, integration and protection of group identity, insulation and openness.

The structural transformation that India is engineering will only be meaningful for this region when its special characteristics are adequately attended to in the process. What will be the likely implications of the programmes of liberalization for the North-Eastern region? Will they mean a better deal and better life for 'the sons of the lesser gods'?

Several eminent scholars on the North-East have applied their mind and contributed thought-provoking ideas in this

book that seeks to answer these and other related questions. Though one may not agree with all the observations made by the different authors in this volume, yet the ideas articulated by them are certainly going to enrich our understanding of the local impact of a national and global event.

We hope that this book will be of benefit to those who are interested in India's North-East and concerned with its developmental problems and possibilities.

**Fr. Stephen Mavelly SDB**

*Principal*

St. Anthony's College

Shillong-793 001

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## PREFACE

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This book finds its origin in a seminar on "Liberalization, Ethnic Identity and Economic Development of India's North-East" held at, and organized by, St. Anthony's College, Shillong, on April 25-26, 1997. One of the main inspirations for the seminar was the paucity of literature on the impact of economic reforms—the so-called programmes of globalization and liberalization—on, and their implications for, under-developed regions, like India's North-East.

The North-Eastern Region (NER) is known for its richness in natural resources. A question often asked is : In spite of relative abundance of resources, why does the region fail to accrue the benefits of liberalization? The imperfection of the market forces is often cited as one of the major causes of economic backwardness of the region. How the forces of globalization and liberalization are going to affect the industrially backward areas like NER? Will they be helpful in eliminating the market imperfections for which the region is supposed to have remained backward? Or, are they going to add to the duality that has developed under controlled regime? As the programmes of liberalization intend to reorient the economy in favour of market forces, what will be the role of the state in relation to the backward regions as well as lagging communities under the liberalized regime in the long run? As the task of maintaining 'ethnic identity', as it is perceived by the different ethnic groups in the region, not only involves the preservation of cultural symbols, but also the maintenance of group monopoly over the resources of their habitation, can ethnic identity and economic development

go together in post-liberalized regime? Or, do the forces of liberalization make them incompatible? These are some of the issues which need to be attended and addressed to in their proper perspectives.

The seminar intended to provide an opportunity for debating on these issues involving individuals cutting across academic disciplines as well as professional boundaries. This seminar, as far as we know, is the first of its kind since the formal launching of the programmes of liberalization in India in 1991. Hence, many of the observations and inferences made by the contributors are impressionistic, conjectural and hypothetical in nature which call for further examination.

To study the implications of economic reforms for NER is to analyze the local impact of a global event as well. This has been attempted here at three levels. Contributors like R.L. Walli, Apurbananda Mazumdar, B.S. Butola, Mahesh Lalwani, Abhijit Choudhury and B. Datta Ray referred to global experiences of the reforms, general process of the world capitalist development, and mechanisms and institutions through which the process works. In the light of the insights gained from the operation of the world capitalist process, inferences have been drawn on the likely implications of this global change for the backward areas like NER. The approach, in a way, looks into the issues from above.

An opposite approach has been adopted by the contributors like Gurudas Das, H. Srikanth, R.K. Choudhury, Sujit Sikidar and Devadas Bhorali, Ranjit De, C. Joshua Thomas, L.S. Gassah, Debasish Bhattacharjee and Sadhan Sengupta. They have studied the different aspects of the socio-economic structure of the region, its resource potentials, the nature of relationship of the regional economy with its national counterparts as well as the cross-border trade potentials of the region. On the basis of the experience of local issues and local processes of growth and development, attempts have been made to assess the likely implications of the economic reforms for the region in the post liberalized era. Contrary to the approach of the first set of contributors, this approach studies the issues relating to the liberalization and economic development of NER from below. The mutual complementary

nature of these two approaches, no doubt, helps in better understanding of the concerned phenomena.

Apurbananda Mazumdar's attempt to categorize the present phase of global core-periphery relation as 'super colonial', P.R. Bhattacharjee's attempt to specify the implications of Michael E Porter's theory of Competitive Advantage for NER and Gurudas Das' endeavour to apply the core-periphery model of world-system variety to parts (NER) internal to a country (India) are no doubt provocative. In spite of their tremendous analytical importance in understanding the implications of economic reforms for underdeveloped regions, the application of these theoretical perspectives in the context of NER leaves much room for future debate.

Contributors like P.M. Passah, Rakhee Bhattacharya and Debjyoti Bhattacharyya followed a third approach. Highlighting the present infrastructural and industrial conditions of the region as well as the causes of slow growth of these key sectors, attempts have been made to prescribe as to what is to be done to tune up the regional economy to the challenges of liberalization. However, these prescriptive studies have not been undertaken, as part of a pre-planned scheme, as a necessary corollary of the first two approaches as, perhaps, it should have been. Obviously much is left in this area to be worked out in detail.

Contributors like Samir Kumar Das, M.N. Karna, M.M. Agrawal, and S.C. Daniel have taken up issues relating to ethno-social and ethno-cultural implications of economic reforms besides their economic ramifications for the ethnically sensitive NER. The ethnic identity being the dominant criterion on the basis of which people are mobilized in the region, attempts have been made to look into the socio-economic aspects of identity formation and interrelationships of identity, culture and development. Based on experience of ethnic situation in the NER, attempts have been made to explore the scope of compatibility of the various ethnic movements with the global economic reforms and to search for the role which probably the different culture groups could play in transcending the developmental reality created out of globalization.



The seminar and this volume owe much to many persons and organizations who contributed in countless ways in making them a success. We gratefully acknowledge the financial support received from the Government of Meghalaya, University Grants Commission, North-Eastern Regional Office, North-Eastern Council, Indian Council of Social Science Research, North-Eastern Regional Centre and the Rapsang Group of Industries.

We would like to express our gratitude to Fr. Stephen Mavelly, Principal, and Fr. J. Nellanatt, Vice-principal, St. Anthony's College, for their constant support, guidance and encouragement without which the seminar and this volume would not have been possible.

We are also thankful to our colleagues, office staff and our beloved students of St. Anthony's College for the logistic support they provided in making the seminar a great success.

We wish to thank Rangan Dutta, N.K. Sarkar, H.W.T. Syiem, Basil Koikara, T. Subba and Basab Roy Choudhury for their invaluable support to this endeavour. We also extend our sincere thanks to B.R. Verma, of Commonwealth Publishers, for undertaking the publication of this volume.

Finally, we owe an apology for our inability to include the keynote address to the seminar by B.P. Misra because of a technical fault in the audio-visual used to record the relevant proceedings of the seminar.

**Gurudas Das**  
**R.K. Purakayastha**

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## INAUGURAL ADDRESS

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—*M.M. Jacob*

It gives me great pleasure to be here with you this morning in the inaugural session of the National Seminar on Liberalization, Ethnic Identity and Economic Development in India's North-East'. I congratulate the authorities of St. Anthony's College, Shillong for organizing this seminar focussing on the most crucial issues facing the North-East today.

The new Economic Policy enunciated by the Government of India in 1991 aims at liberalizing industrial and trading activities and giving the Indian economy a global linkage. Major changes have been effected since then in trade, credit and industrial policies. As a whole, the new policies have shown a strong preference for and reliance on the market for solving the problems of our economy. The new policy has received wide appreciation in the country and abroad. Still, some doubts have been raised in some quarters about its effects on employment, income disparities and poverty alleviation. In North-East India reservations about the new policy may also arise from what can be broadly described as an identity and compatibility crisis that has plagued the region for quite some time now. These and other issues will no doubt be discussed threadbare in the seminar to follow.

Since the second world war, the nature of competition between nation states has undergone a sea change. Control over world market share has become more important than control over territory. States like Japan and South Korea,

having small territorial boundaries are controlling a significant share of the world market. The success of a nation thus no longer depends so much on the size of its population or on the size of its territory as on the economic competitiveness of the people. It depends on how fast a people can change their orientation, how quickly they can respond to the opportunities arising out of scientific and technological changes and how accurately they can visualize the different dimensions of future change.

Since the launching of the programmes of liberalization, vast opportunities have been opened up before the people of our country. Spectacular achievements made in the fields of science, technology, industry, agriculture and other sectors of our economy during the era of planned development have empowered our people to compete with their global counterparts. The transition from state-led growth to market-led growth has created additional space for private initiative.

The North-Eastern Region is rich in natural resources and has a tremendous potential for growth. As global capital is gradually being attracted to India, there is every reason to believe that the North-East will also attract such capital. Indeed, given certain conditions, the North-East may prove to be a favourable destination for both Indian and foreign investors. The region is receiving increasing attention from the Centre. The Package announced by the then Prime Minister of India, Shri H.D. Deve Gowda in October, 1996, to accelerate the pace of development in this region aims at developing basic infrastructure and human resources in this part of the country. Congenial socio-political environment and investment-friendly atmosphere are, however, required for these initiatives to bear fruit.

For many historical reasons the North-East societies have lived in comparative isolation. Many of them have their own peculiar land tenure systems, under which acquisition of land by an outsider is not permitted. Some of the states of the region have restrictions on the entry of outsiders and on business and trade by them. Some of these isolatory mechanisms are inherent in the socio-cultural ethos of these societies while others were invented by the British to protect

them from exploitation. For a hundred years or more the smaller ethnic groups in this region have suffered from the fear of being submerged by other societies from outside. These fears and perceptions should not be made light of. They are real and deserve our serious attention. At the same time, it is also true that the new climate of liberalization and globalization will not enter the economic life of these societies unless they are able to come to terms with the new realities and face the future with courage and determination.

I recall the great economic depression of U.S.A. in 1920s and early thirties. America, then, was facing almost the same situation as we face today. Late President Roosevelt while assuming office, realized the mistake of the "isolationist policy" followed by the U.S. He opened up the U.S. to the world and the result was economic recovery and prosperity to Americans. So I want the people of the North-East to take lesson from history and work hard to catch up with the rest of India in development and progress.

The problems of economic development facing the North-East cannot be solved by economics alone—of whatever brand. A multi-disciplinary and multi-dimensional approach will have to be adopted to address the issues involved. Economists, Anthropologists, Sociologists and people's representatives have to work together to devise a reform package for the North-East which has validity, coherence and acceptability. There is no alternative to participatory and people centred approach to development. People want to be consulted, involved and taken into confidence. Without their participation and involvement no policy or package can succeed.

This brings me to the need for consensus on the new economic policy. It is heartening to note that already a broad consensus on liberalization has emerged, cutting across party lines and social groupings. Even so, much remains to be done. Doubts still persist on many counts some of which I have noted already. These doubts have to be removed by the process of give and take. Confrontation will hamper, not facilitate, development. People may be prepared to accept hardships and overcome fears as a price for prosperity and

well-being in the long run. However, they have to be convinced of the soundness of the programme and should be able to see, as one author puts it, "how long the long-run is going to be". For, as Keynes said somewhat whimsically, "in the long-run we are all dead. And in the world of the dead there is no crisis, economic or any other, it is only the curse of the living".

I do not intend my foregoing remarks to be in the nature of a dissertation on socio-economic theory of one kind or another. I have only tried to encapsulate some of the things that I have observed myself. If my remarks are of some relevance to the deliberations in this seminar, I shall feel pleased and gratified.

With these few remarks, I have great pleasure in inaugurating this seminar on 'Liberalization, Ethnic Identity and Economic Development in India's North-East'. I wish your deliberations all success.

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## Chapter 1

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# NEW WORLD DISORDER AND INDIA'S MARKET DRIVEN REFORMS

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—R.L. Walli

*Those who take the meat from the table  
Teach contentment  
Those for whom the taxes are destined  
Demand sacrifice  
Those who eat to their full speak to the hungry  
Of wonderful times to come  
Those who lead the country into abyss  
Call ruling too difficult  
For ordinary folk.*

—Bertolt Brecht

India's economic liberalization has to be seen against the background of the sweeping changes underway at the international level. The saracens of free market and profiteering had commenced their assault on the third world much before the conclusion of the Uruguay round of the GATT negotiations which created the new international trade regime under the World Trade Organization (WTO)\*, the successor to GATT.

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\* Agriculture and intellectual property rights have been brought under the ambit of the new international trading arrangements. Product and process patents make it more stringent. Bio-piracy (Genetic imperialism), however, has been given a free reign. It may be recalled that nineteenth century U.S. uninhibitedly pirated the inventions of Britain, the then technological leader.

Beginning with 1980s (Poland, 1980) more than 70 countries have been compelled to go in for the structural adjustment programme (SAP) under the now infamous conditionalities of the International Monetary Fund in conjunction with the World Bank. These global changes have been facilitated by the dismantling of the Soviet system and the eventual dissolution of the Soviet Union in December 1991, the on-going capitalist transformation in Russia, other former republics of the USSR, Eastern Europe, China and Vietnam. This has opened vast new areas to international capital.

## I

The post-war II structure of the international system was essentially designed by the U.S. which had emerged from the II World War with its economic and military power not only intact but far more prosperous and powerful. At a time when the Soviet Union, Europe and Japan were reeling under colossal human and material destruction of the World War II, the U.S. emerged as the only post-war world power.<sup>1</sup> Its industry working all the three shifts a day and with near full employment, the U.S. GNP had skyrocketed from \$91 billion to \$166 billion. This was a historic opportunity for Washington and President Truman could talk about twentieth century being the "American Century".

The U.S. shaped the Bretton Woods institutions and the U.N. system. Bretton Woods Conference of July 1944 set up the International Monetary Fund (IMF) whose responsibility was to maintain a fixed exchange rate system with provisions for dealing with temporary balance of payments problems of member nations, and the International Bank for Reconstruction and Development (IBRD), popularly known as World Bank (WB) to provide long term capital requirements. The two international agencies were set for the first time followed by a third, the General Agreement on Tariffs and Trade (GATT) which was established in 1948 to ensure "a freer and fairer trade" through reduction of tariffs and diminution of other barriers though enough exceptions were made, for instance, to keep agriculture entirely out of its purview at the instance of U.S. and European countries. The acceptance of the U.S.

Dollar as the international reserve currency was predicated on Dollar-gold convertibility which was snapped by President Nixon in August 1971 in the wake of pressure on Dollar caused by U.S. prosecution of the war in Vietnam. The differential weightage of the voting power in the IMF, WB and the veto power in the U.N. Security Council reflected the cruel reality that decision making power corresponds not to legal equality but to the actual distribution of power in the world.

Apart from the "Containment" policy towards the Soviet Union, the U.S. went in for the economic revival of Western Europe through the infusion of massive economic assistance of \$13 billion (about \$90 billion at the current rate) during five years from June 1947—something the U.S. has been reluctant to do for the impoverished World. Japanese revival was done under the Dodge Plan. The U.S. administration in Japan under Gen. McArthur began with radical land reforms—something India has failed to do during half century of its post-colonial existence.

The strategic Cold War compulsions of the U.S. persuaded it to help not only Japan but also South Korea and Taiwan to emerge as economic success stories. In the latter two countries, *inter-alia*, literacy was accorded a high priority (in contrast to India where the promise of universal compulsory primary education within ten years still remains a pipe dream and 100+ million bonded child labour force is a standing mockery of the various meaningful freedoms so thoughtfully consigned to the dustbin of non-enforceable section of Directive Principles of the Indian Constitution).

A policy mix of a high degree of State intervention, protectionism, and easy access for exports to U.S. and some other Northern markets ensured the speedy economic recovery of Japan, Taiwan and South Korea. This set of policies is diametrically opposite to the current IMF-WB policies in the Third World.

For nearly two decades till the end of the 1960s, the U.S. and other metropolitan States registered such a boom period that some ideologies of Capitalism (Daniel Bell *et al.*) came out with the short lived "end of Ideology" thesis in early late

fifties and early sixties.<sup>2</sup> But the inherent logic of Capitalist business cycle—its booms and busts—made its presence felt by the beginning of 1970s. The OPEC's oil price hike and drought in some parts of the world aggravated it.

By the beginning of the decade of 90's, three developments had taken place which have triggered an epochal change in the global politics and economy—the Soviet collapse, new technology and Multinational Corporations (MNC) as ever more powerful players.

The collapse of the Soviet Union has changed the global correlation of forces in economics, political and military spheres. The Third World states have lost the space available to them in the bi-polar world of the Soviet days. Non-Aligned Movement (NAM), the demand for a New International Economic Order (NIEO) and the Group of 77 (G-77) have withered away with the U.S. as the only super power. Incidentally, the strategic shift in India's negotiating position between 1987-89 at the Uruguay round of negotiations is explained by this development.

Among the member States of the OECD and its core group, the G-7, the United States is the lone hegemon in the post-Soviet era.\* This was made amply clear to the third world through the

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\* The imperial clout of the lone hegemony is evident from the fact that though practically whole world supported Bhutros Ghali for a second term as U.N. Secretary General, Washington not only blocked the move but had its own choice (Kofi Anan) appointed as his successor. The U.S. is dictating the reform plan for the U.N. including the making of Security Council broad based. The White House bypassed the U.N. in embattled Bosnia via NATO. It violated the U.N. arms embargo by allowing Saudi Arabia, Turkey, Iran, Pakistan, Malaysia and Brunie to supply arms to Bosnian Muslims. The War Crimes Tribunal at the Hague is packed up with U.S. selected judges, funded by Saudi Arabia, and witnesses are coached by Bosnian Muslim secret police. The U.S. overruled its European allies in deciding that presently only Poland, Hungary and Czech Republic be admitted to NATO for the present. It played the central role in designing the WTO and it is deciding the agenda for international relations.

Gulf War. The avoidable\* Gulf War demonstrated that the U.S. had lived down the "Vietnam War Syndrome", that it could wreck destruction on the third world through hi-tech warfare"

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\* As per official information leaked to a section of the national press, the CIA had advance information about Iraqi attack on Kuwait. But instead of taking steps to pre-empt it, a U.S. diplomat in Baghdad, April Price, encouraged Saddam Hussain to walk into the trap by assuring him that the U.S. would keep out of Iraq-Kuwait dispute. The U.S. wanted an opportunity to destroy Iraqi power base, the military component of which was, in the first place, built up through Western supplies when the West used Iraq against post-monarchical Iran during the 1980-88 first Gulf (Iran-Iraq) War. Washington does not want democratisation of Iraq because that will have "adverse" political demonstration effect on the populations of its medieval feudal aristocratic regimes in the Persian gulf whose oil wealth it is vastly profiting from. It merely desires the replacement of Saddam Hussain by a pro-U.S. dictator to use Iraq as a counterpose to Iran. While exploiting Kurdish political aspirations, the U.S. is against the grant of self determination to the Kurds in the North and the Shia population in Southern Iraq.

\*\* The International War Crimes Tribunal met in New York in 1991 to investigate nineteen separate charges against President Bush, civilian and military government officials, of crimes against peace and humanity in violation of U.N. Charter, the 1949 Geneva Convention and other International Laws. In a unanimous verdict on 22nd Feb 1992, the 22 member tribunal found the U.S. guilty of all the nineteen charges. The U.S. media blacked out this news. Ramsay Clark, a former U.S. Attorney General was also associated with this multinational probe. Amnesty International's silence on the U.S. crimes and Human Rights violation in Iraq is deafening. It may be recalled that the U.S. refused to accept the jurisdiction of the ICJ which held it guilty of subversion against the Sandinista Government of Nicaragua.

Beginning with the mid night of 16th January 1991, the U.S. led coalition had already bombed Iraq back into pre-industrial age. Yet the war with its savage bombing was continued for 42 days. Ninety three percent of the 88,000 tons of bombs (equivalent to seven Hiroshima type bombs) through 1,10,000 air sorties were directed at civilian targets killing one lakh to

(Cont...)

without U.S. casualties, and that it had hijacked the U.N.\*

Further, it is pre-mature to invoke Paul Kennedy (*Rise and Fall of Great Powers*) and dismiss the U.S. as a declining power in relation to European Union and Japan. It is outspending the rest of the world in basic R&D, has made up for the lag in electronics, and it is leading in the development of new ("Frontier") technologies. It is likely to remain the sole super power in the years to come as the world moves into the third millennia. Yet Francis Fukuyama's (a former State Deptt. and RAND Corporation official) celebration of the collapse of the Socialist world as the "End of History" is as slippery as the earlier "End of ideology" thesis. Fukuyama believes that the victory of capitalism is irreversible. Capitalism and competitive electoral system (Political Democracy) was the end stage of history.<sup>3</sup> "Minor" conflicts over such issues as ethnicity, identity, trade, or market share would go on but the great conflict would no longer be capitalism versus alternative. However, this is an unhistorical view. Issues like the struggle between the stranglehold of exploitative class power and its victims, between predatory market economy fundamentalism and survival rights of people, and between alternative visions of a wider social organization will continue in the long historical struggle for building a humane society.

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(Cont...) two and half lakh people. Destruction of such civilian targets as power plants disabling water treatment plants (which caused outbreak of epidemics of gastro-intestinal diseases), hospitals, fertilizer factories, poultry farms is sought to be masked as "collateral damage." The crippling economic blockade has cost the lives of half a million Iraqi children and one lakh others, thereby punishing the ruled and not the ruler.

\* Sanctions against Iraq are in violation of the U.N. charter which authorises collective security action for restoration of status quo ante, i.e., vacating of aggression and not for imposition of debilitating sanctions of reparations reminiscent of those imposed on Weimer Germany under the Versailles Treaty.

For Strategic implications of the U.S. intervention in the Gulf War, see *Pax Americana* (Review of this month), *Monthly Review* (New York), pp. 1-24.



The new technology is highly capital intensive. Though highly productive, the "job liquidation" technology gives "jobless growth". The leading sectors of capitalist economy like software and bio-technology require far fewer workers. The retrenchment of hundreds of thousands of workers ("Down-sizing"/"Re-structuring") all over the first world is taking place in the wake of employment of these "state of art" technologies. In many other cases, this firing of white and blue collar workers on mass scale is taking place in spite of high profits, e.g., Goldman Sachs, a private mega-corporation rewarded each of its partners with \$5 million bonus while freezing the salaries of the workers, and laying off many of them. While announcing the phased redundancy of over 30,000 workers, the ATT has given hefty salary increases to its top brass.

In U.S., millions of new jobs have been generated but these jobs are mostly low wage, insecure, or part-time jobs (euphemistically called "carry home work", "flexible working hours") like "work on call with McDonald's chain". Workers are hired on part-time basis to do full time job as was highlighted by the two week (August, 1997) strike of the United Parcel Service Workers. 75 percent of the company's two hundred thousand workforce is engaged as part-timers working 40 hour week shifts without leave, pension, and welfare benefits. Over 20 percent of the U.S. workers are part-timers. Labour movement is dampened with only one in eight workers is a member of any union. President Clinton's proposed fast track authority for NAFTA will inflict another blow on to labour. All this is happening at a time of zooming corporate profits and soaring payments to their Chief Executive officers. The real wages give them a standard of living which existed 10 to 15 years ago. More than one third of the work force has wages lower than the unemployment dole in Germany. In France, Germany, Italy and some other developed states "restructuring" is "shedding" thousands of jobs. The projected merger of two steel giants Krupps and Thyssen, in Germany will result in retrenchment of 9000 workers. The withdrawal of state subsidy to coal mines had to be put in abeyance in the face of workers' protest. The French automobile giant Renault, is closing down some of its

plants and shifting a few to low wage areas like Spain. Unemployment in Germany is largest (4.6 million) since the economic depression. Over 18 million are unemployed in the European Union.

In the developed world, there is a social welfare system for the unemployed to fall back upon. In the underdeveloped world, the jobless and the working poor do not have the advantage of such a social safety net. The use of the highly capital intensive technologies in the third world, already reeling under high levels of unemployment, will be a recipe for disaster.

Although, Multinational Corporations (MNCs) have been around for sometimes, they have emerged as powerful non-state actors on the international scene by the beginning of the 1990s. They are the key players in the international economic integration. They are the main instrument of on-going globalization as also its principal beneficiaries. According to United Nations Conference on Trade and Development's (UNCTAD) World Investment Report, 1995, there are 40,000 MNCs operating worldwide through a global network of 250,000 affiliates. But, it is the MNCs from the North which dominate. The revenue of the top 15 corporations exceeds the combined GDP of 120 under-developed countries (UDCs). Again, of the top 25 MNCs, 11 are from the U.S., 8 from Western Europe, and 6 from Japan. Further 100 largest are all from the developed world. Even a tiny state like Switzerland has eight. 172 of the 200 mega corporations are from the first world. This is reflective of the extent of inequality in the world. The top 200 corporations doubled their revenue from \$3 trillion to \$5.9 trillion from 1982 to 1992 when the world economy was in a down turn.

The ever expanding sweep of their activities spans transnationalization of manufacturing, capital movements, technology transfers, movement of goods and services, increasing penetration of agricultural sector, and lastly, fusion of transnational bank (Finance capital) and MNCs (industrial capital). 80% of patents in the world are concentrated in the MNCs which further enhances their monopoly power and profits. The collapse of the pre-conference Southern solidarity

at 1996 WTO Conference at Singapore in opposing the Northern move on investment liberalization (Trade Related Investment Measures-TRIM) will further enhance the colossal power of MNCs. One third of the world trade (\$1.6 trillion) is intra-firm (between the parent firm and its affiliates) and another one third is inter-firm, *i.e.*, between transnational companies. Thus, two thirds of world trade is done at rigged prices and not as per free market and free trade principles.

Third world states have weak safeguards and weak mechanism against the malpractices of transnationals. Even these are over-looked by the host governments in their scramble for attracting ("improving investment climate") foreign investments. In their single minded pursuit of quick and maximum profits, the transnationals find it easy to target the UDCs as victims of their notorious practice of transfer pricing which deprives the host state of foreign earnings and tax revenue. Just before it was abolished under U.S. pressure, the U.N. Centre for Transnational Corporations (UNCTNC), in its last analytical reports for an un-named African country, shows how the MNC outflows from the country far exceeding its national debt.<sup>4</sup> A U.S. Congressional Committee gave the indication of the extent of damage done by 36 MNCs which used transfer pricing to avoid paying \$100 billion in taxes during 1980s.<sup>5</sup>

Backed by the powerful Developed Countries (DC's), especially the G-7, in the imperialist fashion, the mega corporations have stalled all attempts, within and outside the U.N., to hammer out a mandatory code of conduct for the transnationals. The rules adopted by the U.N. General Assembly in 1980 to prevent, *inter-alia*, the practice of transfer pricing proved to be a non-starter for want of credible enforcement mechanism. They thwarted renewed attempts on this score at the 1996 WTO Conference at Singapore. No wonder, the MNCs have been given the sobriquet of "New Sovereigns"<sup>6</sup> and have been described as the unstoppable totalitarian monsters of corporate capitalism.<sup>7</sup> The environment protection laws and safety regulations in the DC's are stringent but in the UDCs these are practically non-existent. The world's worst industrial disaster of Union Carbide at

Bhopal in December 1984 is a grim reminder of this. Nearly 10,000 people were killed at the time of the occurrence and in its immediate aftermath, apart from hundreds of thousands having been affected subsequently.

## II

The surplus petro dollars generated by the hike in oil prices in early 70s were funneled into international, largely Western Banks, which, in turn, re-cycled these as loans to third world countries from mid seventies. This sparked off the debt crisis of 1980s (beginning with Poland in 1980 and Mexico in 1982) which the hangmen of the G-7, the IMF and the WB, used to restructure the indebted economies to subserve the economies of the North.

IMF loans are tough with harsh conditions which are painful. The IMF dictated reforms (conditionalities) together with those of the WB impose a heavy burden on the vast majority of the people in the unorganized sector. It involves a drive towards the establishment of a minimalist state. These reforms include reduction in the role of the state (deregulation, liberalization, reliance on market), drastic cut back in expenditure (including "reform of the social sector"), devaluation of currency, etc. The reforms encompass giving free play to market forces involves across the board increase in the prices of goods and services. Budgetary austerity with heavy cuts in government's social spending further restricts access to basic social services such as health, education, public transportation, water supply, electricity in the name of user-financing, or, privatization; declining wages and compression of incomes, spiraling food prices and mounting unemployment aggravated by job losses due to privatization of state enterprises, tax cuts for the rich which worsens income distribution. There is an increase in the casualisation of work. Employers employ part time workers to do full time job. Most of the new jobs come up in the service sector, particularly, in the tourism and hotel industries which, in the third world, thrive on large scale child prostitution as in Thailand, Cambodia, South Asia and some South American states. Asia is reported to have one million child prostitutes. Service sector jobs tend to be low wage and part time and the loss of public

sector jobs are not matched qualitatively and quantitatively, by job creation in private sector. There is a tendency towards internationalization ("Dollarisation") of the prices of goods and services.

Thus cheap labour (with depressed and declining real wages) is the main input in the third world exports in a cut throat race to stay competitive with exports targeted at mostly the same OECD markets. The MNCs playing off one low wage island against another by threatening to shift to other low wage countries, thus further accentuating domestic and international inequalities. Actually, these states have no control over bulk of their import-export trade because of "transfer pricing" by the MNCs. Of course, the MNCs aim at capturing the internal market albeit narrow of a large country like India.

Liberalization-Globalization gives priority to export markets and ignores internal markets. Further, in the name of promoting agricultural exports, agri-business diverts best land for exports to the detriment of domestic consumers who are hit hard by the price rise of staple foods. This is what happened in sub-Saharan Africa since early 1980s though it did not make sense that thousands of hectares of best land in Ghana, Senegal, Mali, Chad and Central African states continued to stay tied to export related production of cocoa, cotton, and groundnuts fetching ever declining prices while millions of Africans suffer food deprivation.

What is the track record of these reforms in the under developed world? The East Asian Tiger economies were being flaunted as economic success stories.\* However, these

\* The post-cold War problems of South Korean economy are underlined by the 1996 Christmas eve draconian anti-labour legislation which was pushed through in Parliament in just a few minutes time with opposition boycotting. The legislation deprives workers of job security, social security benefits and other rights. However, this legislation had to be put on hold in the face of workers strike and compulsions of OECD membership. The slow down in the economy and the \$6 billion Hambo Steel Company scandal are further signs of this. Double digit growth has declined to single digit, and export of electronics (dependent on imported technology) has fallen. Even otherwise, the "tiger" economies contribute no more than 3 percent of world's GDP and are confronted with economic downturn.

"dragons" under authoritarian regimes, pursued economic policies which are strikingly opposite to those being imposed on indebted countries by the IMF and the WB. The economic growth of these countries was characterized by land reforms, high spending on elementary education, protectionism, state intervention, and pivotal concessions (including market access) given by the U.S. out of Cold War compulsions.

Mexico is a prototype of third world countries. Fifty percent Mexicans are poor today compared to thirty percent 15 years ago when the reform process began. Distance between the rich and the poor is growing. Unequal division of spoils is paralleled by regions left behind and regions which have prospered. Today, Mexico has 22 billionaires against only three a few years ago. The Gini Coefficient (which measures income inequality) in Mexico increased from 0.43 in 1984, *i.e.*, before IMF-WB reforms, to 0.48 in 1992. It symbolizes the global economic crisis. The spurious U.S. projection of Mexico as the ideal reform country (from the time of its debt crisis of 1982)

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By November 1997, the South Korean economic crisis had spun out of control thereby forcing the world's eleventh largest economy to seek IMF bail out to escape bankruptcy. At the 18th nation APEC summit at Vancouver, the US secretary of state, Medelene Albright, voiced apprehension that the East Asian economic miracle may turn into an Asian melt down with knock on effect on global economy. While the US and other developed countries want to stem the tide of the crisis from overwhelming the East Asian economies (Thailand and Indonesia have already sought IMF rescue in the wake of crisis which has been building up since July 1997), they insist that even bilateral loans will be given with the usual tough IMF conditions.

One third of the US exports go to Asia. Washington is fearful that the ailing East Asian economies will not only affect its exports to Asia but may also flood the US market with still cheaper exports from that region.

The gut issue is that most of the 3 billion Asians have no spending power. It is a case of over investment, over capacity, and limited retail market. South Korea has been producing more micro-chips, video recorders, automobiles, etc. than can be absorbed by the world market, *i.e.*, a case of over production and under consumption. It is more a case of "zero sum game" than a "win-win" situation in global trade.

and as a role model for rest of the south, was ripped open by the December 1994 near collapse of the Mexican economy when the Peso nose dived losing 35 percent against the U.S. dollar. Mexico had proclaimed itself to have graduated out of the third world into the first world and had been admitted to the OECD. But the Zapatista rebellion close on the heels of the signing of the North American Free Trade Agreement (NAFTA) reminded the world of the continued impoverishment of the Mayan Indians in the southern state of Chiapos and the continued electoral fraud through which the ruling Institutional Revolutionary Party (PRI) had hijacked power for the past 68 years. Former Mexican President, Carlos Salinas, whom Washington had hailed as the wizard of the Mexican "economic miracle" and had supported his candidature for the prestigious post of the Secretary General of the newly created WTO, has fled to the U.S.\*

Mexican economic collapse would have discredited first world's sale of free market as something positive for the south, created a "Chernobyl" in the international financial markets, and sent shock waves across the world. President Clinton, bypassing the Congress, extended to Mexico a \$20 billion loan out of economic stabilization fund and the IMF decided in a record time of just a few hours on its biggest ever loan to Mexico. This bail out also rescued foreign investment and foreign creditors. But even the U.S. Congressional critics say that the day of reckoning has only been postponed and will again haunt and explode in the face of Washington.

In the ex-(bureaucratic) socialist states, people have lost the security of jobs and full employment, paid holidays, and social wages like free health care, education, subsidized housing albeit with a consumer technological base which was lagging behind that of the West. The leadership (Gorbachev) induced dismantling of Socialist economy ("perestroika") in the USSR and Yeltsin's dismemberment of the Soviet Union\*\*

\* Salinas is reported to have pocketed \$300 million through under priced sale of state assets under privatization programme, and parked the loot in Swiss Banks.

\*\* In a referendum held in 12 out of 15 republics in March 1991, an overwhelming majority voted for retention of the Soviet Union. However, three leaders—Yeltsin of Russia, Kravchuk of Ukraine and Saskovich of Belarus—decided to dissolve the Soviet Union in December 1991.

appropriately christened as the "Great Criminal Revolution" by a post-Soviet author—has brought about a precipitous fall in the living standards of the anti-commonist population. Mounting unemployment with millions of employees not getting paid for months on end, including miners and sections of the army, high inflation, destruction of basic social services such as health, education, low cost housing. Hunger, deprivation (in the face of abundant availability of imported but unaffordable consumer goods), and rising infant mortality rates, have stalked the land. Avoidable diseases unknown in the Soviet era, have reappeared on a large scale because of malnutrition and decaying public health care with declining population, a ten year decrease in male longevity, and increasing suicide rate. Corruption is massive and endemic. The only powerful and fast growing "industry" is the mafia—including the old nomenklatura and of which the proliferating juvenile criminal gangs are a part—in the on-going "third worldisation" of the former super power.

The outcome of economic liberalization in the third world has been grim. The economic growth achieved remains confined to the elites and the top docile of the middle class. Though quality of utilities like telephone and electricity services improves, majority cannot afford access to these. The poor majority loses out in the "free" market with no share and stake in the economic growth. The structural adjustment programme (SAP) results in further mounting debts, declining terms of trade and high social cost which are very painful for the masses. This leads to social unrest and political explosion which invites state repression and "state terrorism" as happened in Peru under Alberto Fujimori, Tunis in January 1984, Bolivia in August 1985, Caracas in February 1989 when 2000 demonstrators were gunned down by the government, and Nigeria in May 1989. Thus these economic reforms are subversive of democracy and human rights.

No wonder, IMF's own study of the impact of its policies in the third world is a damning indictment of their counter productive nature :

*Although there have been a number of studies on the subject over the past decade, one cannot say with certainty whether programmes have "worked" or not... on the basis of existing studies one certainly cannot say whether the adoption of*



*programmes supported by the fund led to an improvement in inflation and growth performance. In fact, it is often found that programmes are associated with a rise in inflation and a fall in the growth rate.*<sup>8</sup>

Commenting on the socially explosive nature of IMF conditionalities, Sally Shelton, a former U.S. ambassador to the Caribbeans, observes :

*This years' crisis will develop because, not in spite of, the conclusion of IMF agreements by the major debtor countries; because, not in spite of, the difficult transition to democracy in several Latin American Countries. The dilemma is how to reconcile the stiff austerity programmes required by the IMF with rising popular demands for relief from negative economic growth and wide spread distress. The austerity programmes have had high social costs: double digit unemployment, reduced public spending and an absolute decline in per capita income in countries with virtually no social safety net. The harsh adjustments required by the IMF and foreign bankers have hit all social classes and called into question the ability of even the new democratic regimes to avoid pressure for extremist solutions.*<sup>9</sup>

The chasm of global inequality is getting widened. In 1800, the share of world's poor was 44 percent. Today, this has slumped to one fifth. According to the 1997 Human Development Report, of the \$23 trillion global GDP in 1993, \$18 trillion was in the industrialized countries. Only \$5 trillion was in the developing countries with 80 percent of world's population. According to the report, global growth in income has spread quite unequally during the past 30 years and this inequality is deepening . Between 1960 and 1991, the share of the richest 20 percent has gone up from 70 percent of world's income to 85 percent while that of the poorest fell from 2.3 percent to 1.4 percent. The ratio of the shares of the affluent and the poorest soared from 30:1 to 61:1. The income share of all but the richest quartile fell so that by 1991, 85 percent of the global population received only 15 percent of income. Currently, the net worth of 358 richest people (Dollar Billionaires) equals the combined income of 45 percent of the world's population of 2.3 billion people. The inequality between states are super-imposed on gross inequalities within states. The report notes that international or national increase

in income inequalities is a major constraint to sustaining both economic growth and human development. According to the UNDP HDI report of 1991, 20 percent of population in the UDCs consume 60 percent of the national income and at least well over 100 million live below the poverty line in the first world. Globally top 20 percent earns 70 times that of bottom 20 percent of population.

Paradoxically, it is the impoverished population of the periphery who are financing the affluence of the people of the north. The third world is the net exporter of capital to the first world, *e.g.*, between 1984 and 1988, there has been a net economic reverse out flow of \$41 billions per annum on account of debt related payments from the indebted south to the industrialized north.<sup>10</sup> This excludes the loss to the former on account of deteriorating terms of trade, "transfer pricing" and other back door methods of repatriation of capital by foreign investors. The above said annual debt related payments is equivalent, in real terms, to two Marshall plans. There was negative lending by the IMF between 1986-88.

From early 80s, Africa has been net exporter of capital to the West. Since 1984, African states have paid nearly \$150 billion to creditors abroad and the IMF itself has been a major recipient of this perverse flow. In 1993, African governments have paid \$300 million more to the IMF than they received from it. The nutritional, health, and educational needs of impoverished Africans are being ignored to pave the way for debt repayment. In 1995, for example, Uganda spent \$2.60 per person on health but \$30 per person on debt service.<sup>11</sup>

The first world is also squeezing the UDCs by providing safe heaven to fugitive capital accumulated by third world elites through rampant corruption, tax evasion, and infraction of currency laws. The southern elites can keep the loot in numbered accounts as anonymous depositors.

According to the estimates of some Swiss NGOs, one fourth of this fugitive capital, amounting to \$160 billion, is in Swiss banks. The rest is stashed away in Panama, Cayman Islands, Luxemburg, and Bahamas. In case of some third world states, the external debt approximates the money parked abroad by their elites. India's foreign debt of \$90 billion is slightly less than the IMF estimate of capital flight of at least

\$100 billion from India. This unofficial estimate by the IMF has been substantiated by findings of a research study by three U.S. economists. They have concluded that capital flight from India to the U.S. alone in 1994 and 1995 ranged from a maximum of \$11,300 million to a minimum of \$3875 million due to over-invoicing and under-invoicing of imports from and exports to that country respectively. India's trade with the U.S. was \$7598 million in 1994 and \$9032 million in 1995. Considering that U.S. accounts for 20 percent of India's foreign trade and with other hard currency areas accounting for another 35 percent, this implies that India's trade gap is artificially deficit. Had India's exports earnings been correctly reported, India would be enjoying trade surplus and not a trade deficit.<sup>12</sup> As per another earlier (1990) conservative estimate, the outgo of fugitive capital from India between 1971-86 was of the order of \$21.2 to \$28.6 billion.<sup>13</sup> The recently (mid 1997) ousted dictator of impoverished but mineral rich Zaire (Democratic Republic of Congo), Mobutu (who was installed in power by the United States Central Intelligence Agency after the assassination of Patrice Lumumba and whose 30 year authoritarian and corrupt rule was backed by Washington and other Western powers)<sup>14</sup> is said to have \$5 to \$6 billion in foreign banks which is higher than that country's foreign debt. Similarly, Marcos family's \$5 billion cash kept abroad equals the foreign debt of the Philippines. Argentina and some other states fall in this category. This practice of the Western Banks to play host to the third world's fugitive capital is nothing short of subversion of third world economies. This problem is not being addressed by the north, whereas the problem of drug use inside the U.S. has been imposed as a global problem on the world and all countries are being pressurised to stop its cultivation and also its being carried through their territories. Interestingly, Washington is reluctant to combat the demand for drugs within the U.S. for that will involve facing uncomfortable issues of poverty, racial discrimination and alienation. Further, the U.S. forced Switzerland to disclose details of drug money being laundered through its banks.

### III

This reverse capital flow represents the transfer of real resources from the south, which are often stagnant and

shrinking economies, to the developed countries through the painful readjustment and other policies of the north. Today, overall the third world is said to be losing \$500 billion to the first world. This is a continuation of the historical process of the last five centuries of imperialism ("expansion of the West" as some westerners prefer to call it) which began with the discovery (conquest) of America by Columbus in 1492." As Samir Amin observes :

*If I were to pick a date to mark the modern world, I should choose 1492, the year in which Europeans began their conquest of the planet—military, economic, political and in certain sense, ethnic. But the world in question is also the world of capitalism, a new social and economic system qualitatively different from all previous systems in Europe and elsewhere.<sup>15</sup>*

This 500 years old process has undergone change in form but not in substance, namely, the extraction of surplus from the south. This process spans the settler colonialism in America involving the slaughter, rather, the outright genocide of American (Red) Indians and decimation of some of the superior civilizations like that of the Mayans and the Incas, plunder of gold and silver, piracy\*\*\* and loss in the guise of trade—all these constituted an essential part of the primitive accumulation in capital formation—down through colonialism to the present day market colonialism.

*The discovery of gold and silver in America, the extirpation, enslavement and entombment in mines of the aboriginal*

- \* See, for example, L. Blussé, H.L. Wasseling, G.D. Winius, eds., *History of underdevelopment: Essays on European Expansion in Asia and Africa* (Leiden: Leiden University Press, 1980).
- \*\* A few years ago, the fifth anniversary of the "discovery" of America was celebrated in the U.S. and other places where Columbus was hailed as a "courageous discoverer." Significantly, however, when the last Duvalier fled Haiti in 1980s, crowds pulled down the statue of Columbus and threw it into sea after denouncing him as a Satan perpetrated barbaric atrocities on their ancestors.
- \*\*\* In 1761, Henry Morgan, who pirated Spanish colonies in Latin America, was appointed Governor of Jamaica by the British. This was in contravention to their public assurances to try him for piracy.

*population, the beginning of the conquest and looting of the East Indies, the turning of Africa into a warren for the commercial hunting of black-skins signaled the raw dawn of the era of capitalist production.*<sup>16</sup>

Thus the glib talk about globalization and global village is a thinly veiled pillage of the underdeveloped countries under the leadership of the U.S. which in the post-Soviet world with impunity. Today, globally mobile capital is driving down the wages and intensely exploiting natural resources in its push for accumulation and expansion. Economic policies cannot be seen in isolation for it involves issues of conflict and power. The current changes are a re-definition of the place of the third world in the restructuring of the international economy. The world economy can no longer be understood merely through the terms of trade. There is a discernible trend towards location of non-material industries based on services and high technology communication in the north and the material production in the south. Income from the material production in the third world will be (re)invested in the non-material industries in the first world. It is not productivity, important as it is, but appropriation of the income from the material production in the south by the north through commodity pricing and patents and royalty charges. Trade Related Intellectual Property Rights (TRIPS) under the WTO will have sweeping and universal application. Technology (like internet, information super highway and the like) is going to further divide the super class (those who control it and who have access to it) from the under class.

In the absence of level playing field, the merger of the fragile economies with those of the first world leads to the former giving up nation's protectionism without their being able to compete. Globalization will deprive the UDCs of the capacity to manage their economies autonomously. It makes these economies increasingly vulnerable to external shocks. Loss of control over transnational movement of capital will exacerbate this. The trading in Western currency markets with an astronomical \$1.4 trillion being switched across currency frontiers daily—for speculative reasons in "Las Vegas" style operations—threatens even the Exchange Rate Mechanism (ERM) of the European Union, necessitating occasional withdrawal from it by members as happened to Britain a few

years ago. Its impact on southern economies will be destabilizing after they go in for free convertibility of their currencies in a world of border—less money markets where democratic institutions and democratic controls have been undermined. The August-Sept. 1997 turbulence in the Southeast Asian currency markets, engineered by the U.S. backed Hungarian born billionaire George Soros, was partly meant to punish the ASEAN for granting membership to Burma. The Malaysian Prime Minister, Mahater Mohamed, helplessly lamented that their decades of economic progress was grappling with economic war by currency speculators. The intervention by the Sultan of Brunei (world's richest man) did not help much. The basic fact remains that if a country accepts market mechanism for its upper-siders it has to live with its downside as well.

Ironically, globalization is based on water tight compartmentation between the national labour markets to, *inter-alia*, ensure competing low wages are pitted against each other for high corporate profitability. While international standards are being hammered out to protect the interests of the MNCs, all attempts to have an enforceable code of conduct for the latter have been thwarted by the north. There are increasing attacks on non-white workers in countries like Germany, France, Italy and some other western states. Germany is welcoming people of German extraction from the former socialist states but finds the presence of a lesser number of workers economically burdensome.

Globalization will catalyse and the dual process of homogenisation of the third world markets (and cultures) along with the fragmentation\* of these countries. It will create unified and largely homogenized markets as, for example, by changing foods consumptions habits of communities which depend on local food resources, thereby destroying their food security. This is done through high pressure advertisements and activities of MNCs like sale promotion of baby food in violation of norms prescribed by the World Health Organiza-

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\* For a U.S. view of this, see Leslie H. Gelb, "Quelling the Teacup Wars: The New World's Constant Challenge", *Foreign Affairs*, Nov-Dec. 1994, pp. 2-6. See also Samuel P. Huntington, "The Clash of Civilisations and the Remaking of the World" (New Delhi: Viking, 1996). Huntington believes that clash of civilizations will be the main conflict in future.

tion. But international economic integration will also promote the fragmentation of the countries in the periphery. The U.S. interest in ethnic and other conflicts and Pentagon's continued arms build-up (elusive "peace dividend") is part of U.S. post Cold War strategy for its domination of the south. The economic reforms will push the people further to the margins of the society. Poverty, unemployment, inequalities and unequal regional development will worsen. The UDCs are already fractured along multiple fault lines. The economic reforms will make them far too fractured and undergo implosion as is happening to former Yugoslavia and in many former republics of Soviet Union. In Italy, the 'Northern League' is clamouring for independent state in the developed northern part of Italy in order to get rid of the "deadweight" of the poor southern part of the country.

In the poor states, the backlash of the people who will take the hit of the reforms—growing unrest, protest, riots, and deprivation induced increase in crime rate—will be met with governmental repression. Even for the DCs. Paul Kennedy's prognosis is none too happy<sup>17</sup> as industries are relocated in low wage states and mounting (structural) unemployment because of continued corporate down sizing under pressure of competition. This may lead to the breakdown of the international trading system and trade conflicts. In some European democracies, post 1945 social compact will breakdown. Disillusioned population will swing to nationalism and fundamentalism. Extreme brands of political activities will rise in a bid for political control.

Thus "Globalization" is a smoke-screen for a world under the economic and political domination of the lone hegemon, the U.S., and also of other members of G-7. It seeks to camouflage the "Americanization of the world" and the fact that power is not de-centered but is much more concentrated today in the post cold war period than at any time in contemporary period.

The fundamental problem is that the development paradigm is inherently flawed as it is unsustainable both ecologically and in terms of its resource base. Western consumerism—unlimited production for un-ending consumption and rapid obsolescence—makes the very idea of the third

world "catching up" with the West self defeating. According to a 1992 World Watch Institute Study (*How Much is Enough: Consumerism and the Future of the Earth*) the post-1950 world has used as many resources as all pre-1950 generations put together. One fifth of humanity, mostly Northerners but also including the affluent minority of the peripheralised South, indulge in consumerism which cannot be sustained by earth. With world's 5% population, the U.S. consumes about 40% of world's non-renewable resources which is why it is called the "waste economy". 15% of global population appropriates 80% of the resources. The existing development model is elitist and resource destructive and not people centered and resource regenerative.

Apart from the rapid depletion of non-renewable resources, this development model involves an unstoppable march towards ecological suicide through the destruction of life support systems.

The emission of green house gases will eventually cause flooding of low lying populated lands and islands. The chloro-fluro-carbon (CFC) are corroding earth's protective ozone layer, and toxic wastes are poisoning air, land, water and marine life. There has been no progress on Rio Earth Summit (1992) promise of cutting down green house gases, protecting tropical forests, and transferring eco-friendly technologies to the third world. North is keen on making profit on this score as TRIPS will make third world's access to such technologies

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\* Even otherwise, the thesis of 'catching up' with late capitalism is ahistorical. It ignores the differences in initial conditions in comparing today's UDCs with 18th and early 19th century Western states. Today's UDCs are not undeveloped but underdeveloped. Colonialism distorted their economic structures. When the West started development, the whole world was open to them. They had small populations, having shifted one fifth of their population (60 million) to America and Australia during 1860 to 1920. Colonialism gave them cheap raw materials and captive markets for selling manufactured goods. The West established international economic system which operates to their advantage and to the detriment of third world. For a detailed discussion, see A.G. Frank, *Latin America: Underdevelopment or Revolution* (New York, 1969).



more difficult. With mere 1 percent of budget going to foreign aid, mostly to its strategic allies like Israel and Egypt, the U.S. is talking about its aid "weariness". Of course, the way Southern countries are organized, increased foreign aid will not reach their masses. Even the Rio plus 5 Conference (June, 1997) has failed. The U.S. refused to give any firm commitment on carbon gas emissions because powerful domestic political and industrial lobbies fear that drastic cut back in energy consumption will harm economy. The U.S. emits 20% green house gases.

The industrial world is trying to duck the issue by shifting to the third world such high pollution breeding plants such as Petro-chemicals and steel plants, and outright dumping of toxic wastes with the consent of self-serving third world elites. The WB is also used for this purpose. In a subsequently leaked memo to his superiors, the then Chief Economist of the World bank, Lawrence Summers, wrote ; "Between you and me should not the Bank be encouraging the migration of dirty industries to the LDCs on grounds that the LDCs are less polluted, life expectancy is low and infant mortality is high".<sup>18</sup> MNCs privatise profits (made in part by unsustainable exploitation of resources) and socialise the costs by passing on the burden of environmental destruction to the masses. The policy of "Rape and Leave" is best exemplified by export oriented shrimp farming in India's costal areas where the companies leave for new virgin sites after destroying the local eco-system.

Mega projects which are the hub of this development model annually displace 10 million people world wide. Even self-sufficient communities are driven away from livelihood on land to become poverty statistics in megalopolises. This overwhelmingly poor people ("Project Affected People") lose their ancestral dwellings and agricultural lands which has been the only source of subsistence for them for generations. In spite of promises of resettlement, these victims of development are often left to fend for themselves in a state of destitution as is happening in the case of Narmada project. Although such projects are sought to be justified in the name of development as an economic necessity, the beneficiaries

are the elites—industrialists, rich farmers growing export crops, the well off urban dwellers—and vested interests like politicians, contractors, and suppliers involved in the project construction.

The development paradigm is thus anti-thetical to human welfare, environmentally destructive and unsustainable. However, the collapse of the bi-polar world has cleared the decks for the U.S. to roll the free market juggernaut over the third world in an uninhibited fashion.

The structural logic of capitalism—unemployment, intensive polarization between the top and the bottom of the social ladder, alienation and marginalisation of the underclass—is taken for granted as “natural” as are capitalist business cycles.\* The post-depression Keynesian capitalist development has run out of steam.

The late capitalist societies are beset with intractable problem of growing unemployment which is compounded by determined steps to roll back the welfare state and workers rights which had been instituted in the first place after tortuous, bloody and costly struggles of workers stretching over decades. The U.S. is the only first war economy to have generated millions of jobs in the last few years but these jobs have severe limitations which have been described earlier. No wonder only one in seven U.S. workers is a member of a trade union. Unemployment benefits are being reduced and minimum wage regulations are being knocked out. This is happening at a time when the marginalisation of the minority of poor, blacks, Hispanics, and American Indians is increasing. Referring to the deprivation in many U.S. cities, Amartya Sen points out that survival chances in Harlem in New York are less than those in Bangladesh.<sup>19</sup> U.S. is a spectacle of liberalism in an illiberal state.

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\* There have been 40 recessions since the beginning of industrial revolution around 1800. Of these, four recessions have happened since the present economic crisis in mid 1960s. Between 1973 and 1983, almost entire first world experienced the worst recession in post-war II period. Then followed a seven year boom, trumpeted as a victory for Reagan and Thatcher, before the U.S., and U.K. slipped into a deep recession.

Reaganomics and Thatcherism swelled the numbers of their respective "card board" people, *i.e.*, homeless poor in the U.S. and Britain who sleep on streets in cardboard packing crates. According to President Clinton, 42 percent of people do not have access to health care in the U.S. Inequalities have intensified both in the U.S. and Britain. Ralph Nader of U.S. Green party says that one percent of population has wealth equal to bottom 90 percent of the population. According to Paris based OECD, bottom 10 percent of British population lost 50 percent of income while top 10 percent increased its by 60 percent as a result of Thatcherism during the 1980s. In France, Germany, Italy, and Belgium there have been public protests against cutbacks in social spending underway to qualify for the European Monetary Union through 3 percent deficit criterion by early 1998.

Historically, Adam Smith's invisible hand of the market was acceptable as long as the winners compensated the losers—the unemployed, the marginalised, the poor, the old. Their hardships were mitigated by measures such as unemployment allowance, old age pension, subsidized housing, health care, education. Thus a part of the social surplus is being used in late capitalist societies as a social safety. But this is not available in the third world and, even in the first world, it is sought to be rolled back.

The global Summit (4-11 March, 1995) in Copenhagen on social development and poverty eradication, full employment, and social integration drew a blank because of the lack of commitment of resources by both the developed and the developing world for realizing these goals. The first world and the ruling elites of the third world alike are unwilling to do anything substantive for eliminating deprivation and, thereby, ensuring social cohesion.

1.3 billion people out of world's 6 billion under privileged are so destitute as not to afford adequate food intake in a world where aggregate food production till a few years ago was 1 kg per capita per day.\* Significantly, the U.S. opposed

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\* For a genesis of this aspect, see **Teressa Hayter**, *The Creation of World Poverty*, (London: Pluto Press, 1981).

right to food as a basic human right at the Nov.96 World Food Summit at Rome. 2 billion people use sticks and dung for their energy needs. 1 billion are without clean water while 1.7 billion are without sanitation. According to a World Bank report of August 1997, Asia alone has 900 million poor including those in the tiger economies of South Korea, Taiwan, and Singapore with yawning gap between rural-urban and skilled-unskilled people. Globally, very large number of people are without access to means of earning livelihood, housing, health care, education, water, sanitation and other such basic needs. The International Labour Organisation reports that the world is facing the worst unemployment crisis since the world economic depression of 1929. Branding this as morally unacceptable, economically irrational, and socially catastrophic. It says that 30 percent of world's labour force is unemployed or under employed. This is all the more traumatic in the UDCs where, in the absence of social safety net, a job means difference between starvation and subsistence.

Each day, \$1.4 trillion are switched across various currencies in money markets. Less than 10 percent of it is for productive economic activities, rest of this staggering sum is for speculative operations. But the proposed Tobin tax of 0.5 percent on this speculative capital, which would have generated about 1500 billion dollars annually for anti-poverty fund, was rejected by the North at the Copenhagen summit. Barring a few Nordic states and Netherlands, no first world country has raised its Official Development Assistance (ODA) to 0.7% of its GNP. Under the 20:20 proposal at the Copenhagen summit, the UDCs were to allocate 20 percent of their national budgets for social development and 20 percent of ODA was to be targeted at the same through small (not large) project assistance. But no such binding commitment was undertaken at the Summit. Neither did the governing groups in the UDCs accept suggestion for reduction in military spending to release resources for fighting poverty and unemployment. These states spend \$125 billion annually on arms. During the last twenty years, India and Pakistan are reported to have spent more than \$20 billion on arms which is higher than that of Saudi Arabia. Yet India and Pakistan, with largest number of poverty stricken people, are reticent

to cut down military expenditure for poverty alleviation. India spends \$10 per capita on defence and Pakistan \$26. On health and education, India spends \$14 per person and Pakistan \$10. What is appalling is the cynical hypocrisy of the U.S. and other permanent members of the Security Council in selling arms to the UDCs. In August 1997, President Clinton lifted the embargo on the U.S. arms sale to Latin America. U.S. "merchants of death" have fixed their sight on arms purchases by new members of NATO who are required to upgrade their armed forces in line with those of the military alliance.

It is futile to discuss elimination of poverty and provision for full employment without discussing who will pay for it in an unequal world. The financing of \$237 billion needed to lift world's over 1 billion abysmally poor to a level where their basic needs can be met in the next five years, did not figure up in the final declaration, nor did the creation of jobs for world's grossly underestimated number of jobless.

Poverty cannot be alleviated, let alone eliminated, amidst growing inequalities in incomes and wealth. However, there was a determined silence on the causes of poverty at the Copenhagen Summit. Social development can not take place within the free play of market forces. It was left to Fidel Castro to point out that the savage and blind forces of market cannot eradicate poverty, provide full employment and combat social disintegration. He aptly remarked that there cannot be any human rights where there is no humanity.

The HDI report (1997) estimates the cost of eradicating poverty to be 1 percent of world economy of \$25 trillion and no more than 2 to 3 percent of the national income of all but the poorest countries. There is room in most countries to restructure spending and reduce waste. The report says that the greatest potential in generating additional resources lies in generating pro-poor growth.

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\* For figures of social cost of military spending by Islamabad bases Human Development Centre, see TOI, 10 April 1997. Also see, TOI, 28 March 1996.

The additional cost of providing minimum basic services to all in developing countries is put at about \$40 billion a year over 10 years to 2005. Less than 0.2 percent of World's income, this sum is about 1 percent of developing countries income—or half the GNP share that the United States transferred each year to Europe during the 1948-52 period as part of the Marshall plan for post-war reconstruction. Most of the resources can come from restructuring existing budgets. The report further says that for universal basic social services about 20 billion could come from national budgets and perhaps \$10 billion from aid. The 20:20 guideline endorsed at Copenhagen and first proposed in the HDI report can achieve this.

But there is no political will to do this and predatory free market economic globalization is anti-thetical to poverty eradication.

#### IV

Such is the state of the international economy into which the Indian economy is being integrated through the reform process initiated in June 1991.

At the time of their independence, many third world states had declared that they would follow an independent path of development—"the third way"/"delinking from the north"—but failed to produce a real alternative and ended up following the dominant model of capitalist development. India, like some other third world countries, pursued an import-substituting industrialization within a highly regulated regime.

Ostensibly, state intervention in economy was justified for ensuring control of the "commanding heights of the economy" for realizing the objective of social justice. However, in reality, the rationale for it was to help the weak Indian bourgeoisie which had itself called for establishment of an interventionist state in the 1944 Bombay (Tata-Birla) plan. The State stepped in to provide core sector where investments are unprofitable or with long gestation period. State intervention was designed to provide the Indian bourgeoisie with highly subsidized infrastructural facilities, inputs, resources (cheap

credit and subsidies), and an assured domestic market through protectionism.

Like other third world countries, the Indian political and economic elites were Janus-faced. Fearful of lower class insurgent movements, they cooperated with the anti-communist campaigns of Washington. But partly from a desire to gain popular legitimacy and outmanoeuvre the left, some southern elites took increasingly bold moves to gain more control over their economies and a greater share of the surplus being extracted therefrom in 1960s and 1970s. The state became a surrogate for private enterprise without challenging entrenched interest. Indeed, it protected them.

The plethora of regulations in India were said to be necessary for channelising investments into socially desirable areas. But the "license-permit-quota raj" turned out to be a source of distribution of patronage ("crony capitalism"/ "Statism") which yielded neither social justice nor economic growth. The elites used it to rake in huge unearned incomes which spawned massive corruption. According to Transparency International, India was ninth most corrupt country in 1996 but had deteriorated to the position of eighth most corrupt state by 1997. Foreign aid was used to cushion the life style of the top decile of population.

After four decades of planning, nearly half (officially 40 percent in 1997) the Indian population is below poverty line defined as food intake of less than 2400 calories per head per day in rural areas and 2100 calories in urban areas. The post liberalization steep hike in the prices of cereals has pushed many more millions into the ranks of semi-starving in world's largest democracy. Presently, those earning upto Rupees six per head per day are considered to be below poverty line. This is a cynical mockery of the tens of millions who, on paper, stand left out of the ranks of the destitutes. If these victims of economic genocide were to have purchasing power to afford adequate food, India's much publicized fraudulent "Buffer stocks of food" would disappear and India would emerge as food deficit. Around 5000 people in India die each day of malnutrition related diseases. In a report circulated at the 1995 social summit, the Indian External Affairs Ministry

admits that for many Indians, employment does not mean much because the low wages do not ensure even a subsistence living.<sup>20</sup> In 1997, a report by WB has underlined India's poor record of poverty alleviation. With 52 percent literacy, India is not only way behind the dynamic economies of Southeast Asia, but is also trailing behind such disaster economies of Africa as Zambia, Uganda and Kenya. Malaysia spends 30 percent on education, but India spends about as much on defence and far too little on education. Only 30 percent Indians have access to modern medicine with these people vulnerable to death due to preventable diseases. If one were to take into account the availability of means to meet basic needs, the number of poor in India constitutes overwhelming majority—the economically disfranchised mass.

India has the largest child labour and bonded (slave) labour force who enter bondage to avoid starvation. Since, many of them work in the informal sector, their count is extremely difficult. India together with 100 countries has ratified the U.N. Convention on Rights of Child (1988) which bans child labour that violates right of child to education, or cause physical abuse. Article 24 of the Indian Constitution lays down that "no child below the age of 15 years shall be employed to work in any factory, mine, or engaged in any other hazardous employment". But like all other survival rights, Article 24, 39 and 45—which ban hazardous child labour and provide for free compulsory universal primary education—have been consigned to the dustbin of non-justiciable Directive Principles of the Constitution. In its report to the social development summit, the Indian government had given the number of child labourers in India as 10 million with two million in hazardous work like mine quarrying, match and fire works factories, carpet weaving and wool cleaning. According to an all India survey sponsored by the Union Labour Ministry in 1980s, there were 44 million child labourers out of an estimated 300 million in the world. According to some Non-Governmental Organizations (NGOs), the size of the child labour force is around 100 million depending on how one defines child labour. The NGOs put the figure of children in hazardous work at five million. Child labour engaged in cotton clothes industry in Tamil Nadu,



which account for 80 percent of country's cotton garment exports, is made to work for 17 hours a day.

Child labour is docile and easy to abuse and exploit. They do not unionize, have no fixed working hours, are cheap and paid less than half the adult wages. Significantly, not even a single child labour employer has so far been jailed for any offense.

No wonder, the UNDP's Human Development Index (HDI), which takes into consideration purchasing power parity (PPP), adjusted GDP per capita, life expectancy at birth, and educational attainments, ranks India 134th among 173 countries. In its recent "World Development Indicators" report, the WB says that India has fared poorly as compared to several of its South Asian Counterparts judged by its performance in the social sector. Nearly 63 percent of Indian Children are malnourished and underweight.

A highly skewed income distribution has distorted the structure of production with resources being deployed primarily to cater to the wants of the elites\* than for meeting even the basic needs of the vast majority. India's super class has adopted the life style of its Western counterparts, at the expense of the vast underclass through import of luxury consumer goods. They maintained their life style through long term and short term external borrowings. India's foreign debt soared from \$16 billion to \$64 billion while Rajiv Gandhi was in power. A disaggregation of its expenditure shows that a large part of it was spent on military (including the infamous Bofors deal) and luxury goods in semi-knocked down (SKD) and completely knocked down (CKD) condition. Ironically, it

\* In a first study of its kind in India, the National Council of Applied Economic Research (NCAER) has exploded the myth of a large Indian middle class hungry for global brand name goods. It classifies the middle class into five categories in a highly price sensitive market. At the top are six million persons (one million households). Japanese electronic company, Sony sold 20,000 colour TVs in a market estimated at one million units. Forty million households buy such durable consumer goods as B & W TVs while 90 million households buy most consumer durables. TOI, 30 May 1996.

is the masses who have to bear the brunt of re-payment of \$92 billion debt through the painful and costly SAP and export of those basic foods which are already in short supply domestically. Evidently, it is the elites who are living beyond means. The masses, in fact, are living below means, including the semi-starvation of half the population.

The economic crisis in India is the making of the elites. Day in day out since independence, the masses have been called upon to make sacrifices in the interest of national development. The elites are not only anti-national but outrightly criminal like crime syndicate/mafia group enjoying virtual legal immunity. As stated earlier, \$100 billion—more than India's external debt—has been salted away from India. Further, Rs 1,50,000 crores is said to have been lost in tax revenue by the government since 1960s due to tax evasion on concealed income (black money). This is in spite of periodic governmental schemes for legalization of black money and hefty tax cuts for the super rich and steep decrease in direct taxes against swelling indirect taxes. Clearly the affluent minority has dealt a calamitous blow to economy and is holding the nation to ransom.

Thus the profligacy of the upper classes led to the balance of payment crisis by November 1991\* which forced India to go in for IMF bail out in return for macro-economic and SAP which, as detailed out earlier, are restrictive and destructive of people earning a livelihood and access to basic entitlements though Western rhetoric on human rights excludes from its purview basic economic rights. Equally importantly, Indians will become retailers and sub-contractors concerns of Western multinationals. Indian economy will become a satellite economy and no such country can emerge as an autonomous power in international politics.

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\* On learning about an internal WB study underlining need for devaluation of Indian currency, NRIs withdrew about \$ 1.8 billion from India between 1990-1991. GOI's current confidence about \$22 billion in FOREX is misplaced for this "footloose" capital outside governmental control. This transient capital mostly of portfolio nature (in shares, debentures and the like) and can be withdrawn by NRIs and FFIs at any time.

"Freedom begins where necessity ends", wrote Karl Marx. An individual can devote himself to the full development of his potentialities only if he is freed from the struggle for meeting his basic needs which he shares in common with animals. Today, technological advance has given the possibility to human kind to graduate out of the "realm of necessity" into the "realm of freedom" for realizing the "essential humanity" of man. Given a humane social order, technology can give enough leisure to people for this.

The on-going economic restructuring in India presages a gathering storm which will stoke the fires of disintegration through the denial of even basic needs (which are the basis of human existence and dignity) and other disruptive social costs. When people feel overwhelmed by economic and social forces, they invoke their community, race or whatever.

Despite squabbles within the political class in most of the third world, there is an underlying consensus or at least a tacit acceptance of the current international economic orthodoxy. The political process has become irrelevant to the needs and concerns of masses. The theology of free market is a throwback to the philosophy of crass individualism of pre-welfare days which rationalizes the enrichment of a minority at the expense of deprived majority. This perspective is anchored in Social Darwinism which implies contempt for the poor, the deprived, and the disabled. It is based on the conviction that those who can not make it economically have no rights of any kind. Darwinism applied to human population raises profound ethical and moral issues.

The old basis of legitimacy—divine origin, religion, and the like—is no longer acceptable. New notions of legitimacy have to be forged in which each social group in society is part of social compact which ensures their participation in economic, political and social life. Until there is economic and political justice, there are going to be unhappy groups which feel left out. Democracy needs an economically empowered citizenry. But there are impoverished masses in the developing world which dampens enthusiasm for democracy and breeds public apathy. Democratic structures exist but there is precious little democracy. Mere ritual of

periodic voting does not constitute a genuine functioning democracy. Political democracy has to be embedded in collective social security system which ensures economic enfranchisement and empowerment for all.

India is a land of continental diversity and is already faced with violence (e.g. private armies, "Senas", in Bihar), separatist movements, and insurgency in various parts of the land. Within India, the victims of "global pillage" will far outnumber its beneficiaries. The on-going economic liberalization will further widen the unequal regional development and intensify the divide between the super class and the under class. Social unrest will increase and implode the polity with ethno-nationalism and blood letting as is happening in some parts of the world. The mounting unrest will find variegated expression like chauvinism, fundamentalism\* and crime. Hopefully, it will also find creative expression directed at systemic change for establishment of a humane society.

The growing unrest will be met with state repression with the full support of the media barons and of strategic constituencies like the FICCI, CII, and other segments of the power elite. Significantly, public posturing to the contrary notwithstanding, there is an informal consensus across the entire spectrum of political parties on the acceptance of the on-going market reforms. Protests will get articulated outside the legislative forum and, indeed, outside the boundaries of

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\* Islamic fundamentalism is, to a large extent, the product of the failure of the product of development and neglect of the under privileged majority even in such oil possessing states as Iran under the Shah and Algeria. The U.S. planted fundamentalism in Afghanistan has had a spill over effect on Egypt, Algeria, and elsewhere but the overflow is being exaggerated by these regimes to cover up their own failure. The phony U.S. concern for democracy is eloquently silent on Algerian military junta having pre-empted the electoral victory of the Islamic Salvation Front. The wide spread poverty and unemployment in Egypt provides a fertile ground for fundamentalism inspite of the Mubarak regime, a U.S. outpost in West Asia being the second largest recipient of U.S. foreign aid.

electoral politics.\* The road—to human liberation, establishment of an alternate society, a humane society—is a long and bumpy one. It involves a long haul but there is no other way. As Eldredge Cleaver puts it, one is either part of the problem or part of the solution.<sup>21</sup>

Post colonial India's neglect of the northeast, a region with severe economic disabilities, further alienated the people of this area. Many parts of the northeast wrested statehood from a reluctant central government only after insurgencies, bloody struggles and agitations. Sino-Indian border dispute prodded the centre to pay attention to the region. This necessitated a large measure of direct governmental role in the economic development of this area and grant various concessions including special category status to ensure concessional transfer of resources from the centre to the northeast.

Despite the limitations of this strategy and notwithstanding the rampant corruption involving large scale loot of public funds by the elites, northeast did benefit as a result of this economic policy. India's march towards globalization and liberalization will shrink the role of the state in the development of the northeast while private capital is not likely to find this area attractive for investment. In all probability, this will further accentuate the economically disadvantageous position of this area while aggravating the unequal regional development across the country. This will add to the politically explosive situation in India's far east in the intensification of economic warfare within and between nations.

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\* Ritualistic manifesto declarations apart, political parties have given up the agenda of economic justice in favour of the economic liberalization. It began from 1970s but became more pronounced around 1990. Political parties now drum up support on chauvinistic/parochial plank like religion and caste, *e.g.* all parties mobilise votes by stirring up communalism and in the name of caste, *e.g.* even the leftist parties whip up communalism to mobilise votes in the name of fighting communalism.

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19. TOI, 4 July 1993. The 1997 UNICEF report refers to the prevalence of child labour in the U.S. and some other parts of the developed world. U.S. is a deeply divided society with the blacks in ghetto, the Hispanics in inner cities, and native Americans in reservations. It was not any democratic institution—the Congress, the executive, or the judiciary—that gave civil rights to blacks in 1965 but the civil rights movement of Martin Luther King Jr.  
Voter apathy is reflected by the fact that only 30 percent voted in Nov. 1994 Congressional elections and only a record high of 50 percent voted in Clinton's first Presidential election, and nearly 30 percent of those eligible have not bothered to register to vote because, according to them, their conditions does not change with elections since the Republicans and Democrats are carbon copies of each other.
20. TOI, 10 March 1995.
21. Eldridge Cleaver, *Soul on Ice*, (New York, McGraw Hill, 1968, p. 9).

## Chapter 8

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# LIBERALIZATION AND INTERNAL PERIPHERY : UNDERSTANDING THE IMPLICATIONS FOR INDIA'S NORTH-EAST

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*Gurudas Das*

To talk about the implications of liberalization for north-eastern region (NER), which has been aimed at here, is to assess the local impact of a global event. It is extremely difficult to assess the local impact without a stock taking of various dimensions of the global event and their consequent implications for the national situation.

As there is little scope to elaborate upon the factors responsible for launching the twin projects of 'globalization' and 'democracy promotion' by the world's core under U.S. leadership, how they are going to establish a new world order under the metropolitan hegemony, what impact they already have upon the world's peripheries and what may be likely consequences for India's attempt to go global, our analysis is based upon the following premises:

1. As the laws of capitalist development form the building blocks of the globalization project, the problem of uneven development between the core and peripheries will not only continue to persist—it may rather attain an altoge-



ther new heights—at both national as well as international levels.

2. Any successful transition from state capitalism to market capitalism following the neo-classical grammar of liberalization necessitates the existence of mature capitalism at home having acquired the strength of global competitiveness. At the local or regional level, the presence of a competitive entrepreneurial class is a prerequisite for any benefit to accrue to the region out of liberalization of the national economy.
3. Globalization project is certainly to reduce the direct role of the national government in productive activities. National governments particularly of the developing nations, instead of acting as entrepreneur, will assume the role of sales manager in the global capital market in their bid to attract the resources of Multinational Corporations and International Financial institutions. In post-liberalized India, as the central government does not influence the industrial location any more, the competition between the state governments in attracting private investment has intensified many fold. Hence, the local/regional benefits from liberalization largely depends on the relative strength of the states and efficiency of the state managers.

## II

### THE POLITICAL ECONOMY OF DEVELOPMENT OF NORTH-EASTERN REGION(NER) UNDER STATE CAPITALISM

As the effects of globalization project on a particular country largely depends on its historical contextuality, the impact of liberalization on a particular region of a country much the same way primarily depends on the state of historical development of the area and the people therein. As a result, it is important to analyze the basic nature of development of NER in pre-liberalized era before making any attempt to assess the implications.

### **The Indian State and NER : The Peripheral Syndrome**

That the NER became a periphery of the Indian state following the partition of the country in 1947 and whatever state sponsored economic development carried out here exhibits certain peripheral syndrome have already been discussed elsewhere (Das : 1994). As the periphery being an area depended on the core/centre, the peripheral economic structure develops as a complimentary to the core, not competitive and hence remains exposed to exploitation (Das; 1996b). In the era of state capitalism, the region received very less investment in public sector and that too in extractive industries. Whatever private investments were made that too remained confined only in plantation and wood processing. The colonial structure of production was allowed to continue which has led some scholars to formulate a case for internal colonial syndrome particularly in Assam (Pardesi : 1980; Misra: 1980; Borgohain : 1995).

The working of the peripheral processes in the region is only evident from the pattern of resource exploitation and consequent production structure which has largely been evolved in response to the needs of the growing national economy. Although the exploitation of resources like oil, coal, limestone, timber, tea and hydro-power potential has increased many fold, since independence, under the active initiative of both the state and private capital, the surplus generated from these extractive activities has largely moved out of the region. This has resulted into a wide gap between resource exploitation in, and production structure of the region. Production structure remained, by and large, stagnant in spite of large scale exploitation of resources and thereby weakened the linkage between primary and secondary sectors in the local economy. The region, as a whole, is still a supplier of raw materials and importer of manufactured consumer goods.

The working of the peripheral processes becomes more evident from the different forms of extraction of surplus from the region to core areas. Some of the insights of the world-system analysis (Geschwender : 1982) may also be gainfully used in identifying the underlying mechanism of surplus extraction from NER to the core areas.

The surplus generated from extractive activities in the region is being extracted by core capital in a variety of forms. In some cases, *e.g.*, tea and plywood industries in Assam, core capital directly extracts the surplus from local labour. Whereas in case of trade in timbers (particularly in the hills where forests are owned privately) and agricultural products, local merchant class directly extracts the surplus from local producers through unequal exchange. These merchants then lose the major portion of the surplus so extracted to core capital through unequal exchange. Again, in the privately owned coal mines in the hills, local merchants extract the surplus from non-indigenous labour and then lose a substantial part of it to core capital through unequal exchange. Whatever may be the forms of surplus extraction, the net result is that it is no longer available to fuel the development of the region.

However, unlike core private capital, the extraction of surplus from the region by the state capital through central agencies like Oil India Corporation, Coal India Ltd. etc. has not been unilateral. Besides royalties on raw materials extracted by these agencies, transfer of resources from the center to the states through planning and other development agencies more than compensates the loss incurred by the region on this count. In fact, the states of NER, being the special category states, get much more from the federal exchequer in proportion to their contribution to it. This has made the internal-colonial thesis, advocated by some secessionist organizations and scholars in north-east, superfluous and illusory.

It may be noted, by way of digression, that the peripheries, in the context of world-system, have been colonized by the cores at different points in the history of world capitalist development. This, then, has made the peripheral process an integral part of colonial system. But after de-colonization, the peripheral process continues to operate in the newly independent countries. De-colonization by itself did not bring an end to the working of the peripheral process. Thus, the term periphery does not directly refer to any areas but to a particular process which structures the space (Taylor : 1985).

This process, as part of the world capitalist development, was in operation even before the advent of the colonial phase and continues to operate in the post-colonial era. In fact, both core and periphery processes exhibit two sides of a larger process of uneven capitalist development. The peripheral spatial structure may, at times, resemble to that of colonial structure particularly in relation to production, trade and distribution. Or the latter may, at times, continue to co-exist, at different degrees, even in the post-colonial era. This, then, often leads to misconstrue a peripheral syndrome as colonial one particularly in the context of a region internal to a sovereign multi-ethnic political unit.

Although much effort has not been made to apply the core-periphery model of the world-system variety to parts internal to a country, and much of the conceptual confusions involve in this area yet to be clarified, the broad features of internal periphery outlined here for our reference region, are, of course, subject to further modification and refinement.

However, the working of the peripheral process in NER is further evident from the degree of its dependence on the core areas for necessities. Whatever central fund is made available to the states of NER, the lion's share of it goes out to buy goods and services from the core areas adding little to the local productive capacity.

Be that as it may, the Indian state has failed to protect its North-Eastern peripheries from backwash effects. Resources, skill and capital from the region continued to move out all along the era of state capitalism. The incentives offered by the central government for the development of the industrial sector were too insignificant to overcome the market impediments. In spite of being rich in natural resources, the NER remained one of the most industrially backward region in the country perhaps owing to its locational disadvantage.

The Indian state, indeed, did very little to counteract this backwash effects that resulted from the operation of market forces through public investment in NER. All these have created a condition which resembles Hirschman's case for "economic arguments for separatism" (Hirschman : 1958).

Both the politics of regionalism as well as the politics of secessionism that have rooted deep into some of the societies of NER get their sustenance from this spatial inequality that grew under state capitalism.

How far the transition of the Indian economy from state capitalism to market capitalism will be able to address the problems of under development of the peripheral areas, like NER, will be taken up in the next section.

### **Emergence of Local/Regional Bourgeoisie**

Besides this peripheral syndrome, the process of integration of the NER through state sponsored development programmes has created a space for rent seeking activities for the local political elites and bureaucrats. That the non agricultural sectors of the colonial Assam were in the hands of the non Assamese and hence capital accumulation could not take place in the hands of the local people which, in turn, stood on the way of growth of indigenous entrepreneurial class had been discussed elsewhere (Das : 1996a). A small band of Assamese entrepreneurs emerged particularly in plantation and timber trade in colonial Assam (Guha : 1977; Baruah : 1995) were no match to that of the comprador merchant capital in the hands of the Marwaris (Timberg : 1978; Robinson : 1975; Guha : 1969). With the departure of the British, this merchant capital transformed itself into industrial capital and thereby bridged the gap between these two forms of capital by consolidating both the functions largely in the hands of the Marwaris, the strongest partner of Indian bourgeoisie (Das : 1996a).

That on independence, the Assamese elites, occupied the political space and a section of a power elites made a good fortune out of their position in the power structure in amassing huge money capital by way of commissions on allotment of licenses, contracts, government orders and other public privileges has been discussed elsewhere (Das : *ibid.*). This rent seeking behaviour of the power elites has led to the emergence of a nouveau riche class. In fact, before the emergence of this nouveau riche class, the power elites had little control over the economy of Assam. And, on the contrary, the economic elites hardly had any control over the political power. The

emergence of this class, to certain extent, helped to bridge the gap and thereby gave birth to Assamese bourgeoisie (Das : *ibid.*).

While locating bourgeois elements in Assamese society Pardesi observed : "there are about a dozen Assamese planters and a few medium scale industrialists; the rest of the Assamese bourgeoisie consists of contractors, transporters, professionals, bureaucrats and petty traders" (Pardesi : 1980). By way of digression, some corroborative information may be presented in this connection. As per Assam directory and Tea areas handbook 1990-1991, more than 150 tea estates are owned by the 130 Assamese companies only in the Assam valley (Baruah: 1995). Baruah and Associates, the largest Assamese tea company, has an annual turnover of about Rs. 50 crores (Baruah : *ibid.*). There are many non-registered small tea growers which are not counted while arriving at the directory figure. According to an unofficial estimate there were more than 500 small tea growers in Assam in 1994 and more than 80 percent of them are Assamese (Baruah : *ibid.*).

Besides the categories mentioned by Pardesi, Assamese entrepreneurs can commonly be found in thriving hotel industry, real estate business, LPG distribution as well as timber business in Assam. The overwhelming presence of the Assamese entrepreneurs in printing and publishing business in Assam only indicates their monopoly over the cultural resources of the state. Apart from these, a significant section of the *nouveau riche* class earn substantial amount of rent acting as sleeping partner in business run by the non Assamese in Assam. What all this indicate is that the size of the Assamese bourgeoisie is not as insignificant as it is often thought of.

That the process of integration through state sponsored development programmes in post-independent Assam not only intensified economic inequality within the Assamese community but also widened the social inequality between the communities, *i.e.*, between Assamese and tribal communities, leading to the reorganization of Assam has been elaborately dealt upon elsewhere (Das : 1997). What is important here is that the "contractocracy" played a more dominant role behind the emergence of the *nouveau riche* class

in the newly formed hill states. The role of political power in enhancing economic position in these states, by and large, resembles the Arunachal Pradesh experience as has been cited elsewhere (Das : 1995a).

Besides public rent seeking activities, large scale exploitation of natural resources particularly of timber and coal in collaboration with the merchants from outside enabled another section of tribals to amass huge money with no time. The fact that the daily transaction of timber exports in Meghalaya is of the tune of Rs. 20 lakhs (The Shillong Times: 16-04-1997), the entire trade being in the hands of the local tribals, provides a clue as to how they have made a quick fortune.

How far this *nouveau riche* class is capable of utilizing the opportunities arising out of liberalization will be taken up in the next section.

### **State Strength and the North-Eastern States**

That the role of the non-economic—particularly political—institutions are vital in the economic development of the society (Gerschenkron : 1965) as well as in the development of modern market economy (Polanyi : 1964) is well established in economic literature. Although the mainstream literature in this area refers to the role of the nation states, the same for the constituent states in a federal system in developing their respective territorial space cannot be ignored. Perhaps the neo-statist aphorism that “strong economies require strong states” (Weiss and Hobson : 1995) is also applicable, to a large extent, in case of constituent states in a federal system as for the union. As a result, it is important to analyze the relative strength of the states, of which, in turn, largely determines the implications of liberalization for, NER.

Out of the seven states in NER, while Assam, Manipur and Tripura emerged from historical continuity, the states of Nagaland, Mizoram, Meghalaya and Arunachal Pradesh were created much later to accommodate the aspirations of the tribal elites in the hills. On reorganization of NER in the early 70's, political expediency prevailed over the criterion of

economic viability. In fact, none of the states in NER is economically viable.

The share of the central grant-in-aid to total revenue receipts in Meghalaya during 1990-1995 ranged between 55 to 61 percent (Report of CAG, Meghalaya : 1995). The same for Arunachal Pradesh during 1991-1996 ranged between 64 to 71 percent (Report of CAG, Arunachal Pradesh : 1996). For Mizoram grants constituted 58 to 72 percent of the total revenue receipts during 1991-1996 (Report of CAG, Mizoram: 1996). Needless to mention that similar is the experience for Tripura, Manipur and Nagaland. A seminar on the problems of development of Nagaland, organized by the Nagaland Thinker's Forum, Kohima, on May 26, 1982, observed that out of every rupee earned by a Naga, as much as 87 paise comes from the center in the form of cash, dole, subsidy and other form of grants (Goswami : 1985). However, Assam's dependence on the central grants is much lesser compared to the hill states. The share of central grants to total revenue receipts in Assam ranged between 33 to 40 percent during 1989-1991 (Report of CAG, Assam : 1991). As the relative strength of a state is usually measured in terms of its "extractive capacity" or the amount of revenue it can extract, the states of NER are, indeed, very weak. Perhaps this is why they utterly failed to generate any growth impulse even under state capitalism.

One of the reasons of their abysmal performance in mobilizing resources is, perhaps, their insignificant "penetrative power". 'Penetrative power entails the ability of a state to reach into and directly interact with the population' (Wiess and Hobson : 1995). As, unlike other states of Indian union, Assam, Meghalaya, Mizoram and Tripura come under the purview of the sixth schedule of the constitution, district councils having constitutional power operate as a parallel political institution occupying much of the space between the state and people.

A study on the political system of Meghalaya has shown that both the state and the district councils operate parallelly with overlapping legislative power in relation to land and people within a single, socio-political field. As the sixth



schedule has empowered the district councils to regulate and supervise the traditional political institutions at the village level, the state exercises its authority without having much direct linkage with the grass root level (Das: 1995b).

Even in the states like Arunachal Pradesh, Manipur and Nagaland, where there is no district councils, the penetrative power is no better. In fact, there is no effective uniform legal code in relation to land and people on these states as the different tribes and sub tribes, occupying the territorial space, are in fact governed by their respective traditions and customs.

Thus, because of their pitifully weak penetrative power, the states of NER hardly have any significant command over the resources available within their respective territorial boundary. This effective 'isolation' of the states has made them incapable to convert their wishes into practice. What role they could play in post-liberalized era in promoting economic development will be taken up in the next section.

### III

## IMPLICATIONS OF LIBERALIZATION

### Market Competition Vs Regional Imbalance

That the nature of competition between countries in the international system has undergone a sea change, *i.e.*, from 'control over territory' to 'control over market share in the world economy' and hence industrial and trade policies are now more important than defense (Strange : 1995)—these observations need no repetition. The severe competition between the developing countries in attracting foreign direct investment (FDI) has resulted into a war of incentives where every national government is offering lucrative incentive package in order to be competitive in the race as well as to encourage the home industries in mobilizing additional investment fund.

The declining corporate tax, tax on royalty payment, abolition of surcharge on corporate income as well as tax on company dividend in post-liberalized regime in India is surely to reduce the share of direct tax to the total national revenue.

In order to compensate this loss, central government, in view of the narrow tax base, has to increase the level of indirect taxes on goods and services, reduce or phase out the volume of subsidies, cut the expenditure on social sector leading to a general rise in the price level. Needless to say that both developed and under developed regions have to bear the burden arising out of inter-country competition for FDIs.

Similarly, the states in Indian union are also engaged in an intense competition in attracting private investment in their respective territories. With the withdrawal of industrial licensing, the central government could hardly play any role in regard to industrial location. As a result, the role of states in attracting private investment has become very crucial. In this race, the developed states having better infrastructural facilities and more lucrative incentive packages are already far ahead than their underdeveloped counterparts who hardly have any competitive terms to offer. This inter-state competition for private investment has further aggravated regional imbalances in post-liberalized regime (Bhambhri : 1996). As the programmes of liberalization are designed to achieve higher growth rather than to lower inequalities (Das and Barua : 1996)—both interpersonal as well as inter-regional—withdrawal of federal intervention in favour of market mechanism is likely to widen the inter-regional disparity manifold in future. Thus, while the India's north-east, being one of the under developed regions, has to bear the pains of liberalization, the gains are going elsewhere. The peripheral syndrome of NER will not only persist rather it seems to become more prominent in post-liberalized regime.

### **Private Initiative : Its Nature and Strength**

The new economic policy, putting succinctly, viewed economic growth to be the responsibility of those who have the resources, the major task of state policy is to remove the state control that had been imposed under state capitalism (Kurien: 1994). Whether India could gain in terms of growth or experience further deceleration in post-liberalized regime largely depends on the comparative strength of the Indian bourgeoisie particularly of industrial bourgeoisie *vis-a-vis* foreign multinationals (Patnaik : 1985).

Likewise, in spite of market impediments, the strength of the regional/local bourgeoisie will largely determine as to whether the NER will be benefited or not. As it has already been pointed out in the previous section that the regional bourgeoisie, except a small group in Assam, have primarily emerged out of their rent seeking activities, neither they have any industrial background nor any business acumen. Another section of them emerged through large scale exploitation of natural resources, *e.g.*, forest, coal, limestone, etc., acting as agents of national bourgeoisie. They are, indeed, capitalist without factory. This lumpen bourgeoisie, hardly having any link to the process of socio-economic reconstruction of their respective societies, have little commitment to the development of the region.

A significant part of the money that they have amassed, besides their lavish expenditure, is going out of the region through banking institution. Perhaps, this is one of the major causes as to why NER is having low credit-deposit ratio (CDR) that has been a concern for both the development agencies and politicians alike. As capital can not remain idle, in absence of any taker, it is only natural that it will move to areas wherever it is profitable. Thus, the low CDR not only exhibits the under developed nature of the regional economy, it also simultaneously indicates the risk averse nature of the regional bourgeoisie. Moreover, the steady decline in NER's CDR from 49.5% in 1990 to 45% in 1991, 41.98% in 1993 and then to 37.71% in 1994 (Basic Statistics : 1995) may be indicative of negative effects of liberalization. As the industrial entrepreneurial class could not mature under state capitalism, there is hardly any private initiative to utilize the opportunities arising out of liberalization.

### **Protective Rent Seeking and the States' Capability**

The role of the state governments, in absence of any private initiative, in attracting outside investors has become very crucial. But how capable are they for this task? A few words are in order.

The industrial policies of some of the states of NER do not allow the outside investors to run their business without

local participation. In some cases, like Arunachal Pradesh, certain areas of manufacturing activities, besides small scale sector, are exclusively reserved for the local people (Industrial Policy of Arunachal Pradesh : 1994). In Assam, for a new medium or large scale unit to run, 90 percent of the managerial and 100 percent of the non-managerial cadres need to be recruited from the local people (Industrial Policy of Assam : 1986). The land tenure system in the hill states hardly allow outside investors to procure land. While industrial licensing has been withdrawn at the national level, the same still continues to exist in some form or other particularly in the hill states—only to be used for public rent seeking activities.

Besides public rent seeking activities, what is shaking the confidence of the private investors is the "protective rent seeking activities" by the socio-political forces operating in one form or other, in all the states of NER.

By protective rent seeking activities we mean the rent that is collected by the various socio-political organizations in general and insurgent groups in particular from the traders, entrepreneurs, professionals and even from the white collar employees against so called protection of the interest of the later in the respective areas of influence of the former. In Nagaland and Manipur, this protective rent seeking activities are so well organized that even the cobblers and barbers have to pay 25 percent of their earnings (The Telegraph : 08-04-1997). Unlike Nagaland and Manipur, collection of protection money in other states has not yet been institutionalized. In the tea belt of Assam, this protection money runs into crores in case of big gardens managed by the big business houses.

This protective rent seeking activities have tremendous impact on the economy of NER. Firstly, the huge money collected in this way is going out of the country to buy arms and ammunitions from foreign markets which could have otherwise been used for productive purposes. Secondly, the traders and producers who are paying the protection money, in turn, charges a much higher price for the goods and services that they sell and produce. This, in turn, eats up further the competitiveness of local production where production cost is already much higher than the rest of the country. As a result,

trading is more profitable than production, which only helps in the making of a dependent economy. Thirdly, many entrepreneurs, like the Kannadiga hotel owner of Thoubal district of Manipur (The Telegraph : 08-04-1997), who do not comply with the demands of the militant groups have to quit their business leading to a migration of entrepreneurs from the region. Fourthly, this rent seeking activities act as disincentive to additional investment, particularly in fixed assets, in existing business. The entrepreneurs keep their infrastructure as minimum as possible so that, if required, they can move out at short notice without incurring much loss. Fifthly, because of the socio-political uncertainties arising out of this protective rent seeking activities, many entrepreneurs are diverting their business to safer areas leading to a further flight of resources from the region. The general attitude of business is to invest as minimum as possible and earn as maximum as possible within short time. This attitude of business, instead of industrialization, only can lead to deindustrialization of the region as there will be hardly any long term investment in the productive sector.

The socio-political disincentives are far stronger than the economic incentives provided by the states of the region. Because of their weak "penetrative power" and relative "isolation" from the society, these states are handicapped in establishing rule of law without which the confidence lost cannot be regained. The business confidence in this region, as it is today, will make way for further flight of resources instead of bringing them in in post liberalized regime.

#### IV

### CONCLUDING OBSERVATIONS

Besides this loss of confidence of the business, the problem of unemployment in NER will assume a new heights in post liberalized regime. As the absorption capacity of the state will reduce sharply, reservation of jobs for the scheduled tribes, the major population group in the hill states, will largely loose its relevance. Because there will hardly be any job in the public sector. Whatever job opportunities are being created in the private sector elsewhere, are, basically, skill based and

highly competitive for which the unemployed youths of the region are not well equipped. As the states of NER, having much higher rate of growth of population than the national average, have little option to tackle this unemployment problem, the social tensions and conflicts are only to escalate in the days to come.

These circumstances are leading to a loss of authority of those who govern and have created a situation what Habermans, in the context of nation state, calls a double crisis of "rationality", where the state cannot protect its citizens in ways they have been used to expect, and a crisis of "legitimization" where the state cannot any longer rely on the loyalty of its citizens (Cable ; 1995).

Unless the penetrative power of the states of NER is strengthened, no amount of sweeteners, in the form of economic aid, from the center could make the region investment friendly. However, it does not mean that economic aid is not important, but without political and social aids it is unlikely to bring desired results. A shift from the policy of "social control from above" to "social control from below" may go a long way in extending the penetrative power of the states of NER.

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## Chapter 9

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# LIBERALIZATION AND DEVELOPMENT OF INDIA'S NORTH-EAST : LEARNING FROM EXPERIENCE

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—H. Srikanth

The Congress Party at one time convinced the Indian citizens that its avowed goal of socialistic pattern of society would ensure economic growth and at the same time eliminate poverty, unemployment, and inequalities in the society. After having experimented the so-called mixed economy model for more than three decades, of late, the Congress leaders seem to have realized that it is the command-style economy which has arrested the economic development all these years and hence, started prescribing liberalization as the panacea for all economic problems confronting the nation today. It is said that the withdrawal of state controls, free play of market forces, freedom for private capital, entry of foreign multinationals, privatization of public sector units and production for external markets would encourage competition, facilitate free flow of capital and bring about all round development of economy. Although it was again the Congress party, the most dependable ally of the Indian big bourgeoisie, which initiated the policy of liberalization, today all parliamentarian parties, starting from BJP to CPI(M), Janata Dal to Akali Dal, AGP to TDP, all of them are bowing their heads in respect of their new found religion and singing in praise of economic reforms aimed at liberalization and globalization.

### **What and Why of Liberalization ?**

Before accepting or admonishing the process of liberalization, it is essential to keep in mind that in all class divided societies, the economic policies are pursued basically in the interest of the ruling classes. Just as there was nothing socialist in the socialistic pattern of society, there is hardly anything liberal in the liberalization pursued today. Apparently contradictory, yet both planned economy and liberalization are advocated and implemented only to pursue capitalist path of development. At one time planning, development of public sector, regulation of private sector and foreign capital were seen by the bourgeoisie themselves as means to consolidation and strengthening of the capitalist base in India. So long as the national bourgeoisie were weak, they accepted the leading role of the state. After having developed to its full strength under the umbrella of the state capitalism, masquerading itself as socialism, the monopoly faction of the Indian bourgeoisie has started looking for new avenues of growth within and outside the country. It is basically for the unrestricted development of this section of the Indian bourgeoisie, which is becoming more and more cosmopolitan in character, that the Indian state has initiated structural reforms in Indian economy. The globalization process aiming at integrating the national economy with the world capitalist economy, is a logical culmination of the liberalization process. Although the Indian state has been citing the problems of foreign exchange crisis, fiscal deficits, balance of payments problem, non-performance of the public sector, increasing foreign debts etc., as the causes compelling it to liberalize the economy, it should be clear to all that these problems are basically the problems of crisis-ridden capitalist path and they have nothing to do with socialism. By projecting the option open to the Indian monopolies in the given national and international context, as the only option available to the whole nation, the Indian state is successfully selling the policy of liberalization with the help of mass-media and political parties, even to those who gain little or no benefit out of this policy. Expectations that many scholars and people in Northeast India have of liberalization and globalization only show the marketing ability of the Indian monopolies to sell their products.

### **Impact of Structural Adjustment Programmes in Select Developing Countries**

Liberalization, whether implemented at the behest of external compulsions or due to internal drives, would have similar effects on economy and society. In the name of Structural Adjustment Programmes, the IMF and the World Bank have been prescribing liberalization policies as anti-dote to underdevelopment. The experiences of some of the developing countries which pursued liberalization policies indicate that their problems got complicated after following the Structural Adjustment Programme. For example, Ethiopia, once a fertile land with rich forests and diligent people, have now become a symbol of world hunger. The process started with accepting the 'generous' World Bank assistance to build up huge dams aimed at generating power and providing irrigation facilities for the development of agriculture. For facilitating the construction of dams, the government destroyed the forests, cleared the pasture lands and drowned the cultivable lands, and made lakhs of people homeless. The use of fertilizers and insecticides supplied by the imperialist countries led to the decline of fertility of the soil. Production of cash crops like cotton and sugar canes for export deepened the food crisis and led to perpetual famines, forcing Ethiopia to beg for food. Similarly, Morocco which started producing citras and other cash crops for exports to the western countries, is compelled to import millions of tons of wheat from USA. To put in other words, Morocco does not produce that she eats and does not eat what she produces. Because of such wrong policies, foreign debts increased, forcing Morocco to accept the IMF prescribed structural adjustment policies, which subsequently led to retrenchment, migration of rural labourers to the cities, proliferation of slums and increase of riots and anti-social activities. Ghana another African country which implemented the structural adjustment programmes to overcome what the IMF and the World Bank had characterized as the fiscal mismanagement, also had to pay heavy social costs. Slashing of subsidies in education and medical care resulted in increase of school dropouts and rise in different kinds of diseases. The devaluation of currency affected the local fishing industry and the emphasis on cash crops like cocoa benefited only a

section of the rich farmers. Likewise, the futility of expecting the MNCs and foreign capital to generate growth and all round development of the indigenous people, become evident from the experience of many developing countries, like Bolivia, Zambia, Cyprus etc.

### **Capitalist Development and Indigenous People : A Study of Jharkhand**

Modernization, industrialization and technological advancement need not necessarily ensure improvement in the living standards of the indigenous people. A study of the experience of economic development of Jharkhand region, comprising the tribal areas of Orissa, West Bengal and Bihar states, clearly indicates what is there in store for the tribals and dalits elsewhere during the liberalization phase becomes clear. In Jharkhand region industrialisation began during the British period itself. After independence many Indian private monopolies and public sector industries, like Coal India Limited (CIL), TISCO, DVC, NMDC, Hindustan Copper Ltd. etc., started their business ventures in the region. Many industries sprang up in and around Jamshedpur, Rourkela, Ranchi, Bokaro, Dhanbad and Ramgarh. Different hydel projects and thermal power generating units came into being. Urbanization which was less than 2 per cent at the beginning of the century reached 21.25 per cent in 1991. The number of urban inhabitations increased. In Dhanbad district, for example, number of towns increased from 3 in 1951 to 40 in 1991. But all these developments, instead of improving the living standards of the indigenous people, *i.e.*, the tribals and the dalits, made their lives worse than before. The indigenous ethnic groups were systematically and methodically dispossessed of the ownership of the means of production and thereby their very means of human existence. They were alienated from their lands and forced to work as contract workers or bonded labourers. In many cases, compensation offered to them was unjust and inequitable and failed to give them alternative means of livelihood. Urbanization led to immigration of people from the plain areas, making the indigenous inhabitant minorities in their own land. Because of illiteracy and lack of skills, the tribals could not avail better

opportunities thrown open to them by industries, and had to confine themselves to the position of wage labourers. Most of the employers coming from outside the region, transferred their profits elsewhere, instead of diversifying production within Jharkhand. As a result, although urban centres could develop as enclaves of prosperity, the peripheral villages continued to thrive in poverty without minimum basic facilities. Agricultural lands and rich forests belonging to the indigenous people have been laid waste. The destruction of flora and fauna, soil erosion, silting of water courses and subsidence of land have made land unsafe for habitation, agriculture and grazing. Acid-mine drainage, liquid effluents and radio active chemicals have polluted even the drinking water sources also. As such, the capitalist development initiated in the name of national interests, reduced majority of indigenous people to destitution, destroyed their sources of livelihood, perpetuated poverty for the benefit of a few and brought the whole region to the brink of ecological disaster. Jharkhand is not an isolated case in India. Whether it is the construction of Narmada dam, or commercialization of forest resources in Dandakaranya or transition to formal sector in Orissa, the first sacrificial lambs were the indigenous people, the tribals.

### **Specificity of Northeast India**

These experiences of the underdeveloped countries and backward regions within India should not be overlooked in determining the path of development for the Northeast India. At the same time the ethnic groups in the Northeast India should not be mechanically equated with the tribals in the mainland India. Because of the innerline regulations and the autonomous district councils, the ethnic groups could escape colonial and capitalist plunder to a considerable extent. Their xenophobia and ethnic philistinism, no doubt, prevented them from taking advantage of the fruits of modernization, but they also helped in avoiding, to some extent the sense of alienation, deprivation and dehumanization to which indigenous people of other regions in India are subjected to. While condemning the tribal militancy, to the extent their acts are self-destructive or directed against

innocent human beings—whether tribals or non-tribals, it should be recognized that their militancy helped them gain better bargaining position *vis-a-vis* the government of India. Despite poverty and economic backwardness, status of the tribals in the Northeast are better off than their counterparts in other regions in terms of human indicators like literacy rate, health standards, economic status and organizational strength.

### **Strategy for Economic Development of the Northeast**

While taking note of these specificities, we should, however, avoid romanticizing economic backwardness and narrow ethnic identities. The Northeast lags behind the rest of the country in terms of economic indicators, like industrial growth, urbanization, power supply, fertilizer consumption, credit flow, communication facilities, transport network etc. The people of this region, therefore, have every right to demand development of necessary infrastructural facilities, establishment of basic industries and modernization of agriculture. It is true that what the state governments and North-Eastern Council (NEC) could accomplish during the earlier plan periods falls short of the expectations of the people. The critics are right in pointing out that crores of rupees pumped into these states by the central government are being spent mostly on unproductive purposes, benefitting a handful of politicians and bureaucrats. But as has been pointed out earlier, mere development of infrastructure, industrial growth, modernisation of agriculture, exploitation of forest and mineral resources need not necessarily ensure improvement of the living standards of the indigenous people. If economic development has to be meaningful, it has to meet the specific needs of the region. In case of the Northeast, priority should be given to increase agricultural production and achieve self sufficiency in the production of food grains and other agrarian products. There is a need for developing an indigenous entrepreneurial class capable of utilizing the local resources and managing the firms profitably. Basic industries like iron and steel, cement, chemicals etc. should be established in different regions in the Northeast. Import of goods from outside should be discouraged in areas where the local

industries are competent, by giving preferential treatment to the local entrepreneurs in terms of duties, bank credits and market incentives. Flight of capital needs to be checked and central government funds should be utilized for productive purposes. Efforts should be made to generate internal resources, without depending parasitically on the grants and special assistance from the Government of India.

### **Likely Impact of Liberalization in the Northeast**

Had the central and state governments taken appropriate measures in the directions mentioned above, the Northeast could have achieved better results. The desire to catch up with the rest of India would, however, remain a distant dream. As long as India follows the capitalist path of development, it is not possible to overcome uneven and sporadic development. Certain regions are bound to develop at the cost of others. Although it is not possible to bridge the gap within the given structure of economy, centralized planning, to some extent promotes the development of the backward regions. But liberalization is a negation of planned and state controlled development. In essence, liberalization is an unrestrained capitalist growth. It calls for unrestricted play of market forces and free flow of capital. The policy expects the state to relieve itself of all its commitments to balanced regional development and delegate the responsibility of economic development to the omnipotent and omnipresent monopoly capital. What would happen, if such liberalization becomes the guiding force of future development in the Northeast? At the first instance, the government will have to invest crores of rupees for creating those infrastructural facilities necessary for attracting capital. The government has to take tough measures to ensure law and order in the region. As no Indian monopolies or foreign monopolies would enter the region unless they are assured of maximum profits, the Northeast should have to change its priorities to suit their interests. Agricultural growth should be tuned to the needs of external markets, which means giving priority to cash crops instead of food grain production. Forest and mineral wealth should be allowed to be exploited for the benefits of the greedy investors. Once the capital intensive industries which have

very little ability to absorb the jobless, are permitted, they will destroy even the existing small-scale and medium industries.

All these developments will have serious repercussions on the already volatile social and political situation in the Northeast. A section of the elites closely associated with the liberalization process no doubt gets some benefits. But majority of the indigenous people will be exposed to the problems of land alienation, displacement, proletarianisation and unemployment. Due to lack of social commitment, the private capital mercilessly plunders the natural wealth and creates serious ecological problems in the region. Further, liberalization will widen the regional imbalances even within the Northeast, benefitting certain regions and groups at the cost of others. Industrialisation and modernisation will accentuate class differentiation within the society. Sooner or later class formation in the tribal societies is unavoidable. But in the absence of class based all India parties capable of uniting the oppressed and exploited masses of all nationalities and ethnic groups in the region, the people's anger and frustration with the process of change are likely to ventilate in the intensification of self-destructive ethnic movements demanding secession from the Indian Union.

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