Imperialist globalisation and the political economy of South Asia

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I. Imperialism and the global economy at the start of the 21st century

Two features of the capitalist world economy in the early years of the new century must be noted at the outset. The first is the continuing, indeed overwhelming, significance of imperialism as the defining feature of global economic relations, with imperialism broadly defined as the struggle by large capital over control over economic territory of various types. The second is that this current imperialism is different in several crucial ways from that described by Lenin nearly a century ago as the monopoly stage of capitalism. To some extent the differences are simply the result of history, the evolution of both the institutions and processes of capitalism. But they are also the result of the effects of the recent processes of deregulation of trade and capital markets as well as other forms of economic liberalisation (constituting the essence of what is typically called “globalisation”), which have given the new imperialism its cutting edge.

In terms of the current world economy, therefore, a number of important differences from the imperialist globalisation of the late 19th century can be identified. These include:

- the implications of accentuated internationalisation and concentration of both production and finance;
- the greater domination and changed nature of finance capital;
- the effects on inter-imperialist rivalry (or the lack of it);
• the use of multilateral institutions and rule-based regimes to further the aims that in earlier periods of history were resolved through more direct militaristic or political means;
• the changed nature of the systemic instability of global capitalism;
• the new forms of economic territory that are currently being contested;
• technological changes that have furthered the process of global corporate dominance as well as allowed for the possibility of confronting it at an international level; and the implications of the global spread, privatisation and concentration of media industries.

It is obvious that the processes of concentration and centralisation of capital, as well as the internationalisation of production, have gone much further, with some important implications. The recent phase of globalisation has been marked by some of the strongest and most sweeping waves of concentration of economic activity that we have known historically. In terms of multinational firms’ activities, the possibility of vertical disintegration of production, which has allowed parts of the production process to be relocated and geographically separated, has been associated with greater vertical integration of the control (and ownership) of production internationally. In addition, the past decade in particular has witnessed a wave of cross-border mergers and acquisitions across not only major manufacturing industries but even in the services sector and in utility provision. The increased concentration of economic activity in general could reflect the recession and slump in recent years: concentration is always more marked in the downswing phase of economic cycles. But the process is also evident in some of the more “dynamic” sectors, such as telecom, the media and entertainment industries, and even during the expansionary phases of such sectors. This process should not however be misinterpreted to imply that the links between multinational conglomerates and their home governments have disappeared: they may appear to be more tenuous, but nevertheless still exist and continue to influence geo-political and economic strategies of the major capitalist powers.

Internationalisation is, of course, most marked for finance. The domination of financial flows in cross-border transactions, as well as the greater role played by speculative elements and the separation (and to some
extent supremacy) of finance capital over productive capital, are too well known to require further discussion. However, some of the more significant implications of these processes may be noted. They include:

- the enhanced differentials in speeds of adjustment between capital markets and the markets for goods and services, implying both more rapid changes in terms of financial variables and more accentuated effects on real economies;
- the destabilising role played by speculative capital flows, leading to more volatility of relative prices in general and periodic crises of varying intensity in particular economies;
- the constraints on, and deflationary impetus imparted to, national economic policy making, especially fiscal and monetary policies in almost all countries, and the heightened inability of states (independent of political persuasion) to ensure basic needs and minimum socio-economic rights to all citizens;
- the necessity on the part of finance for constantly (if temporarily) discovering new avenues (or emerging markets) for investment, which ensures that deflation is not a uniform process across the world economy, but is always accompanied by a few pockets of capital-inflow-led boom.

The domination of finance capital has had effects on the nature of inter-imperialist rivalry as well. The point is essentially as follows: when finance capital, independent of national origin, seeks to ensure the stability of its investments, then it will be especially concerned about the some degree of stability at the capitalist core, notably in US government and private securities. This means that (notwithstanding the recent and continuing decline of US stock markets, the revulsion away from US financial assets and the associated decline of the US dollar in world currency markets) there will be attempts to maintain some degree of stability in terms of the most important financial assets available, and therefore to reinforce the geopolitical arrangements which underlie such stability. This requirement creates a different source of pressure from that determined solely by US military domination. It means that in crucial political and economic areas, the important capitalist powers tend to act together or at least implicitly endorse the positions taken by the US, whether in the WTO negotiations, or in the use of the IMF to determine country policies to directly or indirectly benefit US-based capital, or in the
“war on terror”, and treatment of so-called “rogue states”, and so on. It also means that US unilateralism in economic and political matters tends to be accepted (if not condoned), whether in terms of allowing the continued use of unilateral protectionist measures such as Super 301 etc., or the US Farm Bill, or in terms of pushing for greater enforcement of multilateral liberalisation in precisely those sectors in which the US economy is perceived to have competitive advantage, or in terms of military engagements with what it chooses to define as “rogue states”.

It is worth noting that the new imperialism, in addition to utilising new institutions and international rules and protocols to its own end, is also about the struggle to control newer forms of economic territory. This is not to deny the continuing significance of economic territory as traditionally conceived, that is natural resources, markets and labour. Indeed, control over natural resources – particularly energy and oil resources – remains central to imperialist preoccupation. This is demonstrated by a number of recent and current events: the significance of the proposed (and soon to be constructed) oil pipeline in Afghanistan to the US military intervention and ongoing geopolitics of the region; the (failed) attempt to instigate and support a military coup in Venezuela against a President elected by a huge popular margin; the US administration’s continuing obsession with forcibly instituting regime change in Iraq using whatever means possible. While these are in fact the most blatant political expressions of imperialism today, it is in the area of developing new markets that the economic implications are most pronounced.

These new markets are sought to be developed and made accessible in two ways. The first is the opening up of existing markets in developing and formerly socialist countries through the processes of trade and investment liberalisation, using the agencies of conditional lending by the IMF and World Bank and more recently, the rules and dispute settlement procedures of the WTO. Such opening up, especially if it involves the relative deindustrialisation of the newly liberalised economies, contributes new markets for manufactured goods and services for the core capitalist countries. It is surely not an accident that, despite fears of manufacturing jobs being “exported” from North to South, in fact the manufacturing trade balance of the South with the North remains negative and indeed the deficit has been growing. Associated with this is the lowering of world prices of
Southern exports, which stems from the fallacy of composition problem, as more and more developing countries are forced to increase export volumes either to repay debt, or to pay for more imports, or simply because they have been told that it is good for them to do so. This is turn provides the related advantage of cheaper imports to the core countries, not only of raw materials and tropical agricultural commodities, but also of the manufactured goods which developing countries have been encouraged to specialise in and which are now characterised by massive over-capacity internationally.

The more innovative form of finding new markets in the recent past has been that of creating markets where none previously existed, that is, by encouraging and furthering the commercialisation of activities that were earlier not perceived as commercial, or were defined in the public domain, or were only enabled by social intervention. The push towards commercialisation and then privatisation of a range of public services - such as power, telecommunication, and now water and sanitation - is the most obvious expression of this. The proliferation of new forms of commerce has never been so rampant. Knowledge and what is defined as intellectual property, rights to energy use, pollution control certificates, all are now subject to trading; and even the via media for trade have expanded to include e-commerce and the like. The forced commercialisation of a wide range of services therefore provides the newest and most promising hinterland for capitalist expansion.

One aspect of this is also that information and entertainment have themselves become not just commercialised but have emerged as major industries; indeed, they are now the fastest growing segments of the global economy. They are also among the most concentrated and centralised of all sectors. The multimedia boom has spawned large multimedia companies who can now be counted among the largest multinational corporations. This is really a phenomenon of the last decade, or most the last fifteen or so years, as giant media firms have sought "synergy" through not just vertical integration but by effectively "acquiring control of every step in the mass media process, from creation of content to its delivery in the home." (Bagdikian, 1997) The 1990s witnessed an unprecedented wave of mergers
and acquisitions among global media giants. ¹ Many of these firms have explicitly rejected national identities and posited themselves as global or internationally based corporations. Nevertheless, and despite the attempts to programme according to local sensibilities, the bulk of the content, the forms of expression as well as the structures of ownership and management, reflect the domination of the core capitalist countries, especially the US.

In sheer quantitative terms, the most important new markets are of course the financial ones, and the explosion of financial activity reflects the ability of capitalism to create and enlarge the spheres of economic activity even where material production is flagging. In addition, financial services such as banking and insurance - an area in which companies based in the core capitalist countries clearly have competitive advantage - have been among the fastest growing areas of world trade. The huge cross-border and intra-border flow of financial resources often reflects trade in commodities which are purely notional, such as derivatives trading. That huge profits can be made from this pyramiding of financial assets reflects the ingenuity of capitalism, but it also marks speculative bubbles, which do have to burst eventually.

In addition, the new imperialism seeks to make use of particularly the skilled labour to be found in some developing countries. This has meant greatly enhanced labour mobility of a small section of highly skilled and professional workers, even as other labour finds it much more difficult to move, and aggregate rates of labour migration are lower than they have been in the history of capitalism. This in turn has contributed in no small measure to the enthusiasm for the process of global integration among such groups of skilled workers in developing countries. In fact, it can be argued that one important reason for the success of imperialist globalisation has been its ability to draw local elites and middle classes across the world into its own ranks, to offer part inclusion into a privileged international space within which the travails of the local working poor can be forgotten, even while their crucial role in generating productive surplus is sustained.

¹ As a result, the top six multinational conglomerates - News Corporation, Time Warner, Disney, Bertelsmann, Viacom and TCI - now effectively own and control huge swathes of the media, publishing and commercial entertainment activities across the world.
Despite the appearance of complete domination by a single and determined superpower, which has been a requirement for period of stable world capitalism in the past, the current world economy is an unstable one, which is prone to systemic instability and constant possibility of crisis. This emerges from the following factors:

- First, the US is not currently fulfilling its role (in the Kindleberger sense) of leader in the world economy to maintain stability. Such a role requires the fulfilment of three functions at a minimum: discounting in crisis; countercyclical lending to countries affected by private investors' decisions; and providing a market for net exports of the rest of the world, especially those countries requiring it to repay debt. The absence of discounting in crisis is not universal; there are countries that have received large bailouts orchestrated by the US Treasury and the IMF. But the spectacular collapse of Argentina, the bleeding of Sub-Saharan Africa despite impending large-scale famine, and the indifference to implosions in Eastern Europe and elsewhere, bear witness to the fact that the US administration does not see its responsibility to discount in crisis in terms of salvaging the larger system. Similarly, countercyclical lending has been discouraged, as private finance (including portfolio capital) has been associated with creating sharp boom-and-bust cycles rather than mitigating them, and US policy has been geared towards protecting such behaviour rather than repressing it. Finally, while the US did play a crucial role as engine of world trade by running very large external trade deficits in the 1990s, that role has been much diminished after 2000. Indeed, even before then, the import surplus in the US reflected private investment-savings deficits, as the government's budgetary role became more contractionary.

- Second, partly because of this inadequately accepted role of the leader, and partly because of the deflationary impulse provided by the greater mobility of finance capital, aggregate growth in the world capitalist system has been far below expectations in the recent phase of globalisation. It is now clear that the period has been associated with a deceleration of economic activity in much of the developed world, a continuing implosion in vast areas of the developing world including the continent of Africa, and a dramatic downslide in what had hitherto been the most dynamic segment of the world economy - East and Southeast Asia.  

\[2\] Global output growth, which averaged 3 per cent in the period 1990-97, was less than half that rate in 1998-2000, and even worse subsequently. Nearly 40 developing countries have experienced declines in per capita income since 1990.
These processes are reflected in rates of growth of world trade (in value terms) which have decelerated despite the enforced liberalisation of trade in most countries, as well as in declining rates of greenfield investment across the world.

• Third, the recent process of imperialist globalisation has been marked by greatly increased disparities, both within countries and between countries. While there is - inevitably - a debate over this, most careful studies find increased inequality within and across regions (Cornia, 2001; Milanovic 2002, etc.) as well as a stubborn persistence of poverty, and a marked absence of the “convergence” predicted by apologists of the system. In addition, the bulk of the people across the world find themselves in more fragile and vulnerable economic circumstances, in which many of the earlier welfare state provisions have been reduced or removed, public services have been privatised or made more expensive and therefore less accessible, and employment conditions have become much more insecure and volatile.

• Fourth, these features in themselves have led to a major crisis of legitimisation for the system. Not only are the basic tenets of the neoliberal argument (which forms the theoretical support for the current pattern of imperialist globalisation) under question, but increasingly the institutions which serve to uphold it (the IMF, the WTO and so on) lack popular support and legitimacy. The anti-globalisation umbrella movement is one expression of such growing dissent in local and national contexts. One important - and new - feature, is that the process of integrating elites from developing countries, and rewarding them materially for their active co-operation in furthering corporate globalisation, has slowed down. As argued above, the complicity and participation of local elites has been a potent force in ensuring the success of global capitalist integration - but as the world recession bites and rewards become more scarce, such complicity can no longer be taken for granted. Since the political economy of resistance movements everywhere requires the involvement of at least some middle

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3 The gap in per capita income between industrial and developing worlds has more than tripled between the 1960 and 1990. Between 1960 and 1991, the income share of the richest 20 per cent of the world’s population rose from 70 per cent to 85 per cent, while the income share of the poorest 20 per cent of population fell from 2.3 per cent to 1.4 per cent. In fact, the income shares of more than 85 per cent of the world’s population actually fell over this period. The ratio of shares of the richest to the poorest groups doubled from 30:1 to 60:1. Subsequent data indicate a marked worsening of such disparities.
class and professional elements and often some local elites as well, this may prove to be a critical development.

- Fifth, imperialism has an increasingly ambiguous relationship with various backward looking, revanchist and reactionary tendencies in different parts of the world. At different times and places, such tendencies have been encouraged and allowed to spread, but increasingly many of them are now seen as threats to the system, to be rooted out and destroyed. All of those currently seen as enemies of the US and therefore as the objects of attrition in the current “war against terror” – Osama bin Laden, Al Qaeda and the Taliban, Saddam Hussein – have been at one time or the other overt or covert darlings of the US administration, used against other perceived enemies or simply to destabilise regions. Even now, in clientelist regimes such as that in Saudi Arabia, reactionary forces have been allowed to grow. Elsewhere, US imperialism has turned a blind eye or even implicitly encouraged the growth of semi-fascist movements (such as the Hindutva tendencies in India) as well as separatist forces, which encourage the disintegration of large nations. However, many of these movements now threaten to spin out of control and to destabilise the system itself, even if only partially. The terrorist attacks of September 2001 mark a watershed only insofar as they forced a realisation of this tendency towards destabilisation; they do not mark any major changes in basic organisation of the system itself, which is still run as cynically as before.

- Finally, one important contradiction looks likely to become more significant in the near future. This is the requirement of deflation, which predatory finance capital imposes on the system as a whole even while it encourages differential rates of deflation in different areas so as to maximise its own profits. A sustainable prey-predator relation requires the continued existence of the prey, but widespread deflation makes this less likely. The current downslide in the major equity markets, and especially in the US, suggests that while finance can be separated from real economic trends for extended periods, and can even profit by such separation, it cannot do so indefinitely.

All this means that, while the world capitalist system may not yet be in full-fledged crisis (even though parts of it clearly are) there are systemic instabilities, which suggest that the current pattern cannot continue without some changes or even substantial overhaul in the medium term.
II. South Asia in the era of globalisation

As background, it is worth noting the significance of the South Asian region (broadly interpreted to include Afghanistan to Myanmar) for the imperialist core, and in particular the United States. While the economic significance may appear to be less than is the case for other regions, in terms of both markets and resources, this is not completely the case. The Indian economy was viewed as a major market for a range of consumer goods, and even the limits of that market given the prevailing income distribution have not completely diminished expectations. In addition, there are large possibilities in terms of introducing commercialisation and the possibility of private profit generation into activities which have not previously been treated as commercial in India, either because of lack of development or because of the role played by the public sector. There are other sources of interest. Geopolitically, the region is viewed both in terms of its capacity (especially that of India) to assist in the containment of the potential power of China, and as a means of providing access to the oil and mineral resources of Central Asia and the Bay of Bengal area. The region is also the location for struggle for control over other, newer forms of economic territory, such as certain types of skilled labour.

The economies of South Asia - and especially India - are often portrayed in comparative discussion as among the “success stories” of the developing world in the period since the early 1990s. The sense that the Indian economy performed relatively well during this period may simply reflect the much more depressing or chaotic experiences in the rest of the developing world, with the spectacular financial crises in several of the most important and hitherto dynamic late industrialisers in East Asia and Latin America, and the continuing stagnation or even decline in much of the rest of the South. Compared to this, the Indian economy, and indeed those of most of the smaller economies in the region, was largely stable and has been spared the type of extreme crisis that became almost a typical feature of emerging markets elsewhere. But the picture of improved performance is a misleading one at many levels, since in fact both India and the entire South Asian region as a whole experienced economic growth which was less impressive than the preceding decade. Further, across the region this growth pattern was marked by low employment generation, greater income
inequality and the persistence of poverty. In other words, despite some very apparent successes in certain sectors or pockets, on the whole the process of global economic integration did little to cause a dramatic improvement in the material conditions of most of the population, and added to the greater vulnerability and insecurity of the economies in the region.

In India, the rate of growth of aggregate GDP in constant prices was between 5.5 per cent and 5.8 per cent in each five-year period since 1980, and the process of accelerated liberalisation of trade and capital markets did not lead to any change from this overall pattern. Further, while investment ratios increased (as share of GDP) this reflected the long-term secular trend, and in fact the rate of increase decelerated compared to earlier periods. More significantly, the period since 1990 has been marked by very low rates of employment generation. Rural employment in the period 1993-94 to 1999-2000 grew at the very low annual rate of less than 0.6 per cent per annum, lower than any previous period in post-Independence history, and well below (only one-third) the rate of growth of rural population. Urban employment growth, at 2.3 per cent per annum, was also well below that of earlier periods, and employment in the formal sector stagnated. 4 Other indicators point to disturbing changes in patterns of consumption. Thus, per capita foodgrain consumption declined from 476 grams per day in 1990 to only 418 grams per day in 2001. 5 The National Sample Survey data also suggest that even aggregate calorific consumption per capita declined from just over 2200 calories per day in 1987-88 to around 2150 in 1999-2000. Given the aggregate growth rates and the evidence of improved lifestyles among a minority, this points to substantially worsening income distribution, which is also confirmed by the survey data. While the evidence on poverty has been muddied by changes in the

4 The only positive feature in employment patterns was the decline in educated unemployment, largely related to the expansion of IT-enabled services in metropolitan and other urban areas. However, while this feature, along with that of software development, has received much international attention, it is still too insignificant in the aggregate economy to make much of a dent.

5 Of course, it has been argued that this can represent a positive diversification of consumption away from foodgrain that is associated with higher living standards. But it is usually the case that aggregate foodgrain consumption does not decline because of indirect consumption of grain (for example, through meat and poultry products that require feed). In any case, the overall decline in calorific consumption (covering all food products) suggests that the optimistic conclusion may not be valid.
procedure of data collection, which have made the recent survey data non-comparable with earlier estimates, overall indicators suggest that while the incidence of head-count poverty had been declining from the mid-1970s to 1990, subsequently that decline has been slowed or halted. (Abhijit Sen, 2002.) Meanwhile, declining capital expenditure by the government has been associated with more infrastructural bottlenecks and worsening provision of basic public services.

The major positive feature which is frequently cited, that of the overall stability of the growth process compared to the boom-and-bust cycles in other emerging markets, reflects the relatively limited extent of capital account liberalisation over much of the period, and the fact that the Indian economy was never really chosen as a favourite of international financial markets over this period. In other words, because it did not receive large inflows of speculative capital, it did not suffer from large outflows either. Meanwhile, stability to the balance of payments was imparted by the substantial inflows of workers' remittances from temporary migrant workers in the Gulf and other regions.

In other countries of the region, the economic growth experience subsequent to liberalisation has been even less impressive in most cases. In Pakistan, average annual growth rates plummeted in the 1990s compared to the earlier decade, by about one-third. Industrial growth rates almost halved from 8.2 per cent to 4.8 per cent per annum. The earlier success at reducing poverty was reversed in the 1990s, as the per cent of households living in absolute poverty increased from 21.4 per cent in 1990-91 to 32.6 per cent in 1998-99. Unemployment rose, real wages fell and income distribution worsened. All this occurred within much greater macroeconomic instability than in the past.

In Bangladesh, while aggregate growth rates over the 1990s were marginally higher than in the earlier decade, the overall incidence of poverty (at around 45 per cent of the population) has been stubbornly resistant to change. Indeed, the rate of poverty reduction slowed down after 1994-95, because of both lower growth of production and lower employment generation. Industrial growth was positively affected by the expansion of the export-oriented textile sector (taking advantage of previously unutilised MFA quotas) but other than textiles and garments, most manufacturing
sectors have stagnated or declined. All the productive sectors have been adversely affected by trade liberalisation in India, given the porous border, which allows for the possibility of substantial smuggling. Thus import penetration has adversely affected production and employment in both agriculture and most manufacturing, and even sectors of rural economic diversification such as livestock and poultry rearing. Income distribution worsened over the 1990s. The economy of Nepal has been similarly affected by Indian trade liberalisation because of its open border with India. Growth in the productive sectors has been weak, especially in agriculture where the removal of subsidies was not accompanied by public investment in rural infrastructure. In Sri Lanka, relatively low growth in the 1990s (especially in the agricultural sector) was associated with high macroeconomic imbalances, high trade deficits and reduced employment generation. Domestic political strife and the state of war in the North were only partly responsible for this; an important role was played by the decline in value of agricultural exports, the mainstay of Sri Lanka’s economy.

Throughout the region, therefore, the process of increased integration with the global economy was not associated with higher GDP growth or more productive employment generation, or improved performance in terms of poverty reduction. Rather, employment possibilities became more fragile and there were clear income distributional shifts towards increased inequality. In all the countries, the combination of attempts to impose “fiscal discipline” by cutting public expenditure resulted in adverse consequences for producers as well as reduced quality and quantity (in per capita terms) of physical infrastructure and basic public services. The loss of revenues from import tariffs, the associated necessary declines in domestic duties, and the need to provide incentives to capital through tax concessions, all led to declines in tax-GDP ratios across the region, further reducing the spending capacity of the states.

If such have been the consequences of the process of global integration, adversely affecting the material circumstances of the large bulk of citizenry in the region, the question may be asked as to what has influenced government policy in all these countries to make the neo-liberal economic strategy so inevitable nonetheless? In other words, what was the domestic political and social support for the process of liberalisation, which made it fit so neatly into the requirements imposed by international
imperialism? Obviously, the political economy processes involved are complex and vary from country to country. But some idea may be had from a more detailed consideration of the Indian experience in particular.

One of the interesting features of the political economy of the Indian strategy of liberalising economic reform, has been the first conditional and subsequently more unqualified support extended to it by various elements of the large capitalist class and other social groups which have substantial political voice, such as middle class and professional groups. To some extent this can be explained by the proliferation and diversification of the Indian capitalist class that took place during the years of import-substituting growth and later. There were three factors that led to this. 6 The first was related to the process of introduction of new products and markets. In India over time there were a number of areas outside the traditional bases of existing monopolistic groups, such as trade, services of various kinds and operations abroad by Non-Resident Indian groups, which served as sites for primary accumulation of capital. A typical example is trade, which saw the growth and proliferation of relatively independent capitalist groups, some of which on occasion made relatively successful forays into industrial production. 7 Another example was finance. While the ability of domestic capital to use the financial sector as a site for accumulation was earlier contained by the presence of a large public sector in banking, matters changed substantially from the 1980s, especially when the stock market came into its own. The subsequent periods of speculative boom in the stock market allowed some insiders within the erstwhile financial community to accumulate substantial sums of capital, most often at the expense of the small middle class investor.

Over time, groups which had accumulated capital in this fashion sought to diversify into manufacturing, not only by entering new niche markets, but also by investing in large capacities in industries characterised by economies of scale. This created a direct challenge for several of the traditional business groups. These traditional monopolies had in the past been protected by the barriers to entry created by the government's

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6 This argument is elaborated in Chandrasekhar and Ghosh (2002).
7 This has been particularly true of groups operating in areas (like steel, tyres and cement), which for one reason or another have been through periods of shortage, a burgeoning black market and extremely high margins from trade.
industrial and trade policies, which involved not just import substitution but also substantial regulation of capacity creation and production. They had therefore been able to hedge against risk by investing small sums embodied in uneconomic plants in each individual industry, given the narrow domestic market base for most manufactured goods. This meant that they were unable to compete successfully with the new entrants, who because of newer technology were also less averse to import competition.

Established big capital, insofar as it could not enter into certain spaces and was not able to take full advantage of the entry of new products, found its relative position worsening in the economy over time. To reverse this decline, it looked for new avenues, including expansion abroad. It is necessary to distinguish here between two different types of expansion abroad. One is simply expanding activities abroad, which requires little export of capital from the domestic economy since it is largely locally financed. The other involves the export of capital through the non-repatriation of exchange earnings which, at the very least, involves the acquisition of rentier status, but may help the expansion of activities as well. The non-repatriation of exchange earnings, for a given level of domestic activity being maintained, has to be financed for the economy as a whole through larger international borrowing.

The second avenue open to established big business was to move into the space occupied by the public sector or smaller capitalists; and hence they also demanded an opening up of space through industrial deregulation. This was achieved by the elimination of anti-monopoly legislation, the removal of licensing requirements, the removal of legislation "reserving" certain sectors for small capitalists, a regime of high interest rates that squeezed small capitalists, the privatisation of a number of profitable public sector units, and the delinking of the public sector from budgetary support of any kind. In short, even the established big businesses which were, to start with, the beneficiary of state controls of various kinds, began to chafe against these controls at a certain stage. Hence large capital extended at least qualified support to the neoliberal "liberalisation" programme, no matter how uneasy it may have felt about some other aspects of the programme, such as import liberalisation.

Among certain other sections such as the agricultural capitalists the regime change met with qualified approval, though parts of it were objected
to. Agricultural capitalists, while being hostile to the withdrawal of subsidised inputs and directed credit, favourably anticipated the prospect of exporting at favourable prices in the international market. In the event, a substantial section of domestic capital was willing to make compromises with metropolitan capital on the terms that the latter demanded. It was therefore all for allowing metropolitan capital to capture a share of the Indian market even at the expense of the entrenched capitalists, not to mention the public sector, in the hope of being able to better its own prospects as a junior partner, both in the domestic as well as in the international market. It was thus in favour of import liberalisation, a full retreat from state interventionism, and accepting the kind of regime that metropolitan capital generally, and the World Bank and the International Monetary Fund as its chief spokesmen, had been demanding. 8

Support for liberalisation was growing not just among a section of industrial and agricultural capital. A whole new category of an altogether different kind of businessman was coming up, containing those who were more in the nature of upstarts, international racketeers, fixers, middlemen, often of "non-resident Indian" origin or having NRI links, often linked to smuggling and the arms trade. Such private agents in any case did not have much of a production base, and their parasitic intermediary status as well as the international value of their operations naturally inclined them towards an "open economy". And finally, one should not exclude a section of the top bureaucracy itself, which had close links with the Fund and the World Bank, either as ex-employees who might return any time to Washington D.C., or through being engaged in dollar projects of various kinds, or as hopeful aspirants for a lucrative berth in Washington D.C.; the weight of this section in the top bureaucracy had been growing rapidly, and its inclination naturally was in the direction of the Washington Consensus-style policy regime. Thus, quite apart from the growing leverage exercised by the international agencies in their capacity as "donors", the internal contradictions of the

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8 It is true that the more powerful and the more entrenched monopoly houses were more circumspect. They would not have minded import liberalisation in areas other than their own, including in areas dominated by the public sector; they would not mind collaborating with foreign capital to add to their empires and hence a degree of relaxation of controls to further facilitate such collaboration; but they would not like encroachments by metropolitan capital upon their own empires. Their attitude towards neoliberal economic liberalisation therefore was more ambiguous.
earlier economic policy regime generated increasing support within the powerful and affluent sections of society for changing this regime in the manner desired by these agencies.

Besides this support from large corporate capital, the large and politically powerful urban middle classes, along with more prosperous rural farming groups, whose real incomes increased in the consumption-led boom of the 1980s, actively began to desire access to international goods and gave potency to the demands for trade liberalisation. And of course the technological and media revolutions, especially the growing importance of satellite television, imparted a significant impetus to the international demonstration effect, which further fuelled liberalising and consumerist demands.

One important social change, which was arguably influential in creating pressures for the shift in macroeconomic strategy, was the accelerated globalisation of a section of Indian society. Apart from the media, one major instrument of this was the postwar Indian diaspora. The “NRI phenomenon”, by means of which a qualitatively significant number of people from the Indian elites and middle classes actually became resident abroad, contributed in no small measure to consumerist demands for opening up the economy. The important of Non-Resident Indians was not only because they were viewed as potentially important sources of capital inflow, but also because of their close links with (which in many cases made them almost indistinguishable from) dominant groups within the domestically resident society. It should be remembered that while the liberalising reforms failed in the aggregative sense and also in terms of delivering better conditions for most of the Indian population, there was anticipated and achieved a definite improvement in material conditions for a substantial section of the upper and middle classes. Since these groups had a political voice that was far greater than their share of population, they were able to influence economic strategy to their own material advantage. It is in this sense that local elites and middle classes were not only complicit in the process of integration with the global economy, but active proponents of the process.

While the neoliberal economic reform programme entailed a changed relationship of government interaction with economy and polity, it was not a “withdrawal of the state” so much as a change in the character of the
association. Thus, while the state effectively reneged on many of its basic obligations in terms of providing its citizens access to minimum food, housing, health and education, state actions remained crucial to the way in which markets functioned and the ability of capital to pursue its different goals. Government and bureaucracy remained crucial to economic functioning at the end of the decade of reforms; in fact the overall context was one of greater centralisation of economic and financial power. Many had believed that a "retreat of the state" and the exposure of the economy to the discipline of the market would cut out arbitrariness of decision-making and the corruption that is inevitably associated with it. It would streamline the functioning of the economy by making it a "rule-governed system", though admittedly the rules of the market. What happened instead in the Indian economy during this period of neoliberal structural adjustment was an increase in the level of corruption, cronyism, and arbitrariness to unprecedented levels. The privatisation exercise became another vehicle or primitive accumulation by private capital as it acquired public assets cheaply. Precious natural resources, hitherto kept inside the public sector, were handed over for a pittance (and alleged "kickbacks") to private firms with dubious objectives. With the wider corruption that increasingly pervaded the system, the "discipline of the market" proved to be a chimera.

Across the South Asian region, indeed, and not confined only to India, the period has witnessed an increase not only in levels of open corruption but also in a decline in substantive democracy and acceptance of basic socio-economic rights of citizens. While the formal denial of democracy has been more limited (as in Pakistan) across the region, the states have in effect become more centralising and more authoritarian in certain ways, even as their ability to control events and processes becomes more tenuous.

It could be argued that the centralised, centralising and increasingly authoritarian state is in fact a necessary requirement for this type of liberalisation which is based more on external legitimisation (from foreign financiers and the perceived discipline of international markets) rather than on internal legitimacy derived from the support of the majority of its citizens. Such a change in the nature of the state may therefore be a fallout of the substantially increased income inequalities associated with liberalisation and the social and political processes that they unleash. These inequalities have accentuated certain longer-term structural features of
South Asian societies, whereby more privileged groups have sought to perpetuate and increase their control over limited resources and channels of income generation in the economy. This in turn has involved the effective economic disenfranchisement of large numbers of people, including those who occupied particular physical spaces in rural areas, or were urban slum dwellers who constituted both the reserve army of labour for industrialisation and the most fertile source of labour supply for extra-legal activities. The basic disregard for “rule of law” which has characterised economic functioning in most parts of South Asia over several decades, became even more pronounced in this period, with both economic and other lawlessness becoming accepted features pervading all aspect of civil society, and allowed everything – even the rights of citizens – to become marketable and negotiable. Meanwhile ordinary citizens tended to experience reduced civil liberties and security along with worsening socio-economic rights, which may even have been necessary to allow the more centralised state to direct particular forms of lawlessness to the benefit of powerful agents and groups.

These concomitant trends of greater economic and financial centralisation and increased income inequality in turn operated to aggravate the various regional, fissiparous and community-based tensions that have become such a defining feature of South Asian societies and polities. One of the features of the region as a whole has been an increase in the degree of instability and the growing absence of security. It has been reflected not only in greater cross-border tension, as between India and Pakistan, but also in civil and communally inspired clashes within national boundaries. These conflicts both emerge from the prevailing material contradictions and contribute to them. They also serve the very important political economy use (for the states concerned) of distracting people from the real and pressing issues resulting from the governments’ denial of basic economic responsibility, and serve to direct anger in other less potentially threatening directions.

Obviously, not all such tension has had a direct and monocausal material underpinning. Nevertheless, it is true that the combination of greater material insecurity in terms of both lower real incomes and more precarious employment opportunities for a very large section of the population, with the explosion of conspicuous consumption on the part of a relatively small but highly visible minority, can have very adverse social and
political consequences. The frustration that may arise because of the gap between aspiration and reality for growing numbers of people in the system can be only too easily directed towards any apparent or potential competitor in such a system, or even to those who are not in competition but simply represent a group that can be attacked with relative ease. The streak of venom that has been periodically directed towards various minority groups across the region can be seen as one expression of this trend. The inability to confront those who are responsible for the system, or actually benefiting from it, or even the lack of desire to confront these much more powerful elements, given that they still have the power to distribute some amount of material largesse, has meant that they could not become the direct objects of any aggressive vent for frustration. Rather, the outlet was increasingly found in terms of growing antagonism, increasingly finding violent expression, towards other categories of people who are nearer home, closer in terms of lifestyle and more susceptible to such attack. It is worth noting that often these groups are already the most disadvantaged and materially weak sections of society.

There is a broader international context to this, which is particularly reflective of this phase of imperialist globalisation. Across the world, in both developed and developing countries, there is a greater tendency on the part of the rulers, and those who are privileged in society, to ignore the interests of the majority and to blatantly push for those policies that will only benefit a small minority. The rise of finance capital and the hugely powerful role played by speculative capital in determining the fortunes of even large industrial countries has made this even sharper. Increasingly, governments point to the threat of capital flight as the reason why they cannot undertake basic measures for the welfare of most of the citizens, since anything that involves more expenditure for the people is inherently viewed with disfavour by international capital. Of course, this international tendency then has its counterpart in each national economy, as particular groups that actually benefit from the process seek to establish that "there is no alternative". Which is why we have the spectacle of local elites and governments not just advocating, but also able to continue to push through, policies that are likely to be to the detriment of most of the people. The situation is neither inevitable nor permanent, however, and the contradictions in the global system that were outlined earlier in this paper
mean that even in particular regions, forces that will instigate change are likely to surface.